



# Crowdfunding Regimes and Regulations in Europe

Master of Science in Finance  
Capstone Project Summary

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## **Objectives and desired outcomes**

The main objective of the assigned project is to summarize and compare the crowdfunding regulations of European countries on the example of such countries as Lithuania and Finland, and the EU's upcoming uniform regulation (European Crowdfunding Service Providers or shortly ECSP). Identify the main points and see what are the similarities and the differences between the regulations.

The final goal would be to create a document with a comparison table, including all three regulations and the records (the rows) should be specific aspects covered in the regulations.

## **Background**

Crowdfunding can be explained as a rapidly developing form of funding that links together debtors, lenders, investors and philanthropies. Together they organize a chain of money to fund specific projects. This form of funding contains organization of the online financing of particular projects or ideas.

Tőkeportál Zrt. is the first investment-based (equity) crowdfunding platform in Hungary, which allows companies in need of raising capital, to present their campaigns in online regime to potential crowd investors (they could be institutional investors or private individuals). In other words, it is a market place, where demand and supply meets in one place. One of the main features of the platform is that it complies to all applicable legislation and it provides all needed information professionally.

Equity-based or an investment-based crowdfunding platform model supports to early-phase small and medium-sized companies to raise capital proficiently before coming to the stage of business development into brand awareness and profit generating. Usually such businesses require capital in the range of ten thousand euros to one million. Usually online crowdfunding campaigns last for 45-60 days and they are rated as a successful, if their raising capital target is reached. In exchange for the invested money investors receive stake of shares of the business. As per statistics shown by the best practices all over the world, usually the most successful campaigns belong to the platform operators who are already in the market, who already has developed strong online audience. It should be noted that both type of investors, e.g. institutional investors or private individuals can be equally successful crowd funders.

Nevertheless, crowdfunding market in Europe, compare to the same world economies, considered as underdeveloped. One of the main reasons is that crowdfunding platforms face with the biggest challenge which is an absence of the uniform regulation in the EU region. The lack of common rules across the Member States of the Union increases operational costs and compliance and stops crowdfunding businesses from expanding. Therefore, many platform operators are limited in market expansion within the region and do not use all growth potential.

Being one of the priorities for approval, in March 2018 the European Commission proposed a uniform regulation for crowdfunding platform operators who operates in EU region. As soon as it will be approved by the European Parliament and come into the force, this uniform framework will allow crowdfunding operators to get an EU passport on a one uniform set of rules. This will allow to platform operators expand their businesses across the Europe.

Since the Commission has not approved this regulation yet, Hungarian authorities are in process of development regulation for crowdfunding platforms in Hungary. Tőkeportál Zrt. is one of the key stakeholders who is taking an active participation in development of the regulation for Hungarian crowdfunding market. Therefore, Tőkeportál Zrt. needed to make this research in order to analyze the best practices and make a valuable proposal to the Government.

## Analysis of Crowdfunding Regimes and Regulations in Europe on the example of Lithuania and Finland

European Union put considerable efforts in achieving the goal to put a foundation for a well-organized Capital Market Union existence in the region. The uniform Regulation on crowdfunding platform operators is expected to be approved by the European Parliament since 2018. During this expectance, some countries already developed and put into operation national frameworks on regulation of crowdfunding market locally in the country. Particularly, these regulations are a set of rules which manages business operation of crowdfunding platform operators and requires them to inform potential crowd investors about potential risks can be caused within their investment decisions.

Some of the Member States started to learn best practices in legislative aspects of regulation of the crowdfunding markets in other countries of the region. The main reason is to avoid legal issues which can be caused with the development of this alternative form of financial market. Therefore, for this purpose, the following Table provides comparative analysis of the current crowdfunding regulatory frameworks existent in some European countries as Lithuania and Finland.

	Lithuania	Finland
<b>Regulation</b>	Law on Crowdfunding Republic of Lithuania (Consolidated version from 13-07-2017). The Law published in the RLA, 15-11-2016, ID code 2016-26828. 7 chapters; 28 articles	Crowdfunding Act (734/2016), Legally binding only in Finnish and Swedish Ministry of Finance, Finland. 5 chapters; 23 sections
<b>Scope</b>	Debt and equity based platform operators	Debt and equity based platform operators
<b>Registration</b>	Should be included into a Public List governed by the National bank of Lithuania	Before approval of a new Act it was required to get and Investment firm license from the Finnish Financial Supervisory Authority (FIN FSA) After approval of a new Act – Registration at the FIN FSA
<b>Minimum Capital Requirement for PO</b>	min EUR 40,000	min EUR 50,000
<b>Financial Instruments</b>	(a) loan agreements; (b) issuing of debt securities (e.g. bonds); (c) issuing of equity securities (e.g. shares); or (d) assignment of claim rights deriving from already concluded agreements	(a) loan agreements; (b) issuing of debt securities (e.g. bonds); (c) issuing of equity securities (e.g. shares); or (d) assignment of claim rights deriving from already concluded agreements
<b>Prospectus requirements</b>	Offerings above EUR 5 mln in a twelve month period	Offerings above EUR 5 mln in a twelve month period
<b>Market supervision</b>	Ministry of Finance with support by the National bank of Lithuania	Financial Supervisory Authority with support by the Finnish Ministry of Finance

## **Analysis of the Proposed Uniform Regulation for European Crowdfunding Service Providers**

As it was mentioned above, since the absence of one uniform regulation in the European region causes many difficulties in expanding of the alternative financial market, the European Commission proposed for further approval a Regulation on European Crowdfunding Service Providers (ECSP), as a consequence it comes to an amendment of the existent MiFID II in order to dismiss ECSPs from its governance.

This set of rules will allow to increase access to this type of funding for start-ups, small and medium sized businesses, as well as it gives more investment opportunities for potential investors. Potential crowd investors will get more guarantees and risk awareness, since the following principles are going to be introduced within approval of the Regulation:

- set of requirements to be set for investment projects and platforms operators about disclosure of the information
- set of requirements on management and risk awareness
- clear methodology of the supervision

It should be noted, that the forthcoming uniform regulation will be applicable to the crowdfunding business models as debt-based and equity-based.

European Parliament's negotiating team and the Council of ECSCM came into agreement in terms of helping on approval of the proposed uniform Regulation in December 2019. Thus, it will allow crowdfunding for business (debt and equity based) be regulated under a uniform harmonized regulation, since it will come into the force the following aspects:

- A single set of rules, which will apply to crowdfunding services in the EU, up to EUR 5 mln
- Strong protection of the investors from potential risks (e.g. introduction of KIIS)
- Member states will be obliged to authorize and supervise platform operators (e.g. NCA – national competent authorities)

As soon as all related works will be done on editing of the Regulation's text, it will be presented for further approval to the European Parliament. Approval is expecting in 2020.

## **Conclusion**

As it was shown in above sections, current regulatory framework in Europe for alternative financial market, like crowdfunding, is rather dissimilar. Some countries have settled explicit regulatory system for different crowdfunding business models, which allows platform operators to work on further business development. However, there are countries which are still working on the regulatory regimes, since market growth requires more involvement and cooperation between regulators and business.

Therefore, based on the conducted research we can come to the conclusion that as soon as the European Parliament approves the uniform Regulation of crowdfunding platform operators for business, this market will also contribute to establishment of sustainable Capital Market Union in the region.

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