

FESE Position Paper on Crowdfunding

Introduction

The Federation of European Securities Exchanges (FESE) welcomes the opportunity to provide input to the European Commission on its recently published Proposal for a Regulation on European Crowdfunding Service Providers (ECSP) for Business.

We fully support the Commission's objective of increasing the harmonisation of crowdfunding activity and reviewing potential barriers to cross-border transactions, both initiatives which could help to bolster an important source of capital for early-stage companies. Following the **funding escalator rationale**, companies need access to different types of funding at different stages of their development; e.g. crowdfunding, business angels, venture capital, private placement, IPO on Growth & Main Markets as well as secondary capital raisings.

Crowdfunding can be a positive element for enterprise funding in general and for reviving public corporate financing, especially since it can help:

- Grow the pipeline of companies preparing for an IPO;
- Build a stronger equity culture in Europe, which would eventually have a positive impact on the participation of retail investors in public equity markets, which is positively correlated with better access of SMEs to IPOs; and,
- Revive the local ecosystems necessary for IPOs of smaller companies.

Although the contribution of crowdfunding platforms to total equity financing is still relatively small and concentrated in certain EU Member States, volumes are growing rapidly. FESE Members support the Commission's intent to create pan-European standards which would ensure the proper functioning and growth of these platforms in a safe manner whilst providing a new means of source of financing for companies. This will also promote cross-border activity and safeguard investors' interests.

The challenges and concerns for crowdfunding

Notwithstanding these benefits, crowdfunding is not a substitute for IPOs. Public markets offer an easy access to companies wanting to raise capital and to all investors, retail and institutional, wishing to diversify their portfolios. However, in terms of scale, even if crowdfunding continues to grow at a very high speed, the amount of funds that can be raised individually and collectively through crowdfunding cannot be expected to meet the financing gap faced by European enterprises over the coming decades.

The capital pooled by crowdfunding platforms remains limited when compared to the capital raised on public markets. In particular, the companies that have the biggest impact on job growth are those at the high end of the funding escalator scale, which means that, even if crowdfunding growth trends continue, this may have only a modest impact on new jobs created in Europe. Furthermore, the visibility ensured by raising capital via crowdfunding is still quite limited and this reflects on the ability of companies to then be able to recruit high profile employees.

To fully meet the needs of European companies, with a focus on those that have the highest contribution to job growth, the EU needs to continue working on a comprehensive strategy on how to boost equity financing at all stages of the funding escalator.

Interaction with existing EU & national regulatory frameworks

FESE members support the development of a well-calibrated European framework for crowdfunding that is consistent with the principles of EU regulation of financial markets. In our view, the EU legislative framework governing capital raising is generally appropriate. These laws have clear objectives, with

which we agree, and were conceived with a focus on the objectives of investor protection, transparency, market integrity, open competition with a level playing field, and proper regulatory oversight.

Should crowdfunding be allowed to operate with vastly different levels of regulation across the EU, there is risk of the Single Market being undermined. We therefore welcome the Commission's proposal to introduce a common threshold for each crowdfunding transaction at 1 000 000 EUR. We believe that this threshold is in line with the principles that guided the recent review of the EU Prospectus Framework and the overall work of the European Commission to facilitate smaller companies' access to alternative source of financing.

Furthermore, we believe that a 1 000 000 EUR threshold is consistent with the proposal to exempt crowdfunding platforms from the application of other sectorial legislation, i.e. MiFID/R II trading rules. However, should this threshold be increased during the negotiations, we would call on policymakers to apply the full range of EU trading and listing rules to crowdfunding in order to maintain the principle of an equal level playing field.

Finally, FESE members welcome the introduction in the proposal of measures to safeguard investor protection. Such moves are important to guard against the loss of public confidence in crowdfunding and capital markets in general which would result from issues arising from a lack of investor protection and appropriate regulation of crowdfunding platforms.