



MINISTRY OF FINANCE



MINISTÈRE DE L'EMPLOI ET DE L'ÉCONOMIE  
MINISTERIUM FÜR ARBEIT UND WIRTSCHAFT  
MINISTRY OF EMPLOYMENT AND THE ECONOMY

# Report on Crowdfunding Survey

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## What is crowdfunding?

Crowdfunding is a method of raising funds for the projects of individuals and organisations and the activities of companies. The funding is collected from a group of individuals, most commonly via Internet service platforms. The idea is to reach the targeted amount by collecting relatively small sums from a large group of people.

Crowdfunding is not a new way to collect funds, but wider use of the Internet has enabled its utilisation in a far more broad-based way. According to the European Commission, in 2012 crowdfunding was used to collect a total of EUR 735 million for a variety of targets. The growth from 2011 was 65 per cent. The growth of the sector is expected to accelerate further, but even today its size is significant compared to the shrinking venture capital market of European start-ups, which in the whole of 2012 amounted to approximately EUR 3 billion. Conversely, the share of crowdfunding as a form of financing for companies remains modest compared to, for example, the initial public offering (IPO) market, the value of which in 2012 was approximately EUR 16.5 billion.

The value of the Finnish crowdfunding market in 2013 is estimated at EUR 2 million. The value of the global crowdfunding market in 2012 has been estimated at USD 2.7 billion. Growth in the sector is expected to be fast, and it has been estimated that in the United States, the value of equity-based crowdfunding alone in 2013 would have reached USD 3 billion. For the moment the US and Europe make up the frontline of the phenomenon, but its popularity is increasing rapidly on the global scale. So far, companies offering crowdfunding services have emerged in approximately 45 countries. In Finland, the growth of the sector has been relatively fast, considering the size of the market, even though so far, the amounts raised have been moderate.

The rapid increase in the popularity of crowdfunding has raised a number of questions concerning legislative measures both in Europe and on a global scale. On the EU-level, a central problem is that no separate or specific regulations exist for the sector, but provisions concerning the sector can be found in a number of different directives and regulations. As a result of this, national-level regulatory projects accounting for the special characteristics of crowdfunding have been launched and completed in a variety of different forms in countries such as Italy, the United Kingdom, Germany and France. Overall, regulation in the sector is undergoing significant differentiation between EU member states, a factor to be taken into account when assessing the functionality of the single market and the competitiveness of national operators.

Elsewhere, too, crowdfunding has drawn the attention of legislators. In the US, the Jumpstart Our Business Startups Act (the JOBS Act) aiming at a significant improvement of the operating environment for crowdfunding is about to enter into force, and in Australia the Australian Securities and Investment Commission (ASIC) published a free-form guideline entitled '*Guidance on Crowd Funding*'. ASIC has also drawn the attention of consumer-investors to crowdfunding and the risks associated with it by publishing a guide to crowdfunding on its website.

Crowdfunding is an umbrella term for several forms of funding that differ from one another in terms how they operate and financial characteristics. The list is not exhaustive, but is intended to describe forms of crowdfunding currently available on the market.

	Form of funding	Form of refund	Motivation for funding	Examples of service providers	Domestic legislation
Donation-based crowd-funding	Donation	No refund	Social	-	Money Collection Act
Reward-based crowdfunding	Donation, pre-purchase	Reward, product	Social, but also reward-based	Mesenaatti.me (FI) Kickstarter (US) Indiegogo (US)	Money Collection Act; Consumer Protection Act; Sale of Goods Act (incl. supplementary decrees)
Peer-to-peer lending	Loan	Loan with interest, but social lending generally without interest	Economical, social	Lainaja.fi (FI) Fixura (FI) Kiva (US)	Legislation on financial markets (e.g. AIFML, AML, LLL, SIPAL, MLL) <sup>1</sup>
Equity-based crowdfunding	Investment (often in shares)	Appreciation of the investment if the company is successful and/or dividend	Economic, social	Invesdor Oy (FI) Venture Bonsai (FI) Kansalaisrahoitus Oy (FI) FundedByMe (SE)	Legislation on financial markets (e.g. AIFML, AML, LLL, SIPAL, MLL)

<sup>1</sup> Significance of the abbreviations: **AIFML**: Act on Alternative Investment Fund Managers (162/2014), **AML**: Securities Markets Act (746/2012), **LLL**: Act on Credit Institutions (121/2007, thorough reform under preparation), **SIPAL**: Act on Investment Services (747/2012) and **MLL**: Payment Institutions Act (297/2010)

## Introduction

A survey conducted by the Ministry of Employment and the Economy and the Ministry of Finance was used to explore the current status of crowdfunding in Finland and to obtain a broader perspective to support the policies to be adopted. In its structural policy programme published at the end of 2013, the Finnish Government decided to chart the needs to develop crowdfunding activities in the form of peer-to-peer lending and equity-based crowdfunding and to assess the need to specify national-level regulation particularly as concerns efficient functioning of markets and investor protection. The survey was sent to a wide variety of operators and authorities associated with the market.

A total of 36 responses were received for the survey conducted in December 2013. The majority of organisations operating in the Finnish financial markets from both private and public sectors were represented in the survey. The respondents were mainly directors or high-level experts. The respondents included representatives of companies offering crowdfunding services, government authorities, interest groups and other companies operating in the sector. The majority (N=27) of the respondents' organisations were directly involved with crowdfunding. Despite the relatively low number of respondents, the coverage of the survey can be considered good.

Responses to the survey were also used as a foundation for contributions by the Ministry of Employment and the Economy and the Ministry of Finance to a public consultation on the topic of crowdfunding organised by the European Commission at the end of 2013, the results of which will be published in early 2014. The results from the survey will also be utilised more broadly in the national statement of views to be presented to the European Commission, in case the European Commission decides to initiate an EU-level regulatory project on this form of funding. The European Commission has given a preliminary announcement that it will issue a communication on crowdfunding before the European parliamentary elections in 2014. The communication will be based on the above-mentioned public consultation on crowdfunding.

To gain as objective a picture as possible on the views of the respondents, with the exception of the summary, all responses to the survey are discussed in this report in a manner that will not allow readers to associate them to a specific organisation or person. Yet, to clarify the interests of respondents, a division into four groups according to the respondent's background organisation has been made in the summary of the report. (i) government authorities (incl. ministries, government agencies acting in different roles and other government-led institutions and units under public administration), (ii) interest groups, (iii) providers of crowdfunding services (iv) others (incl. legal firms, investment companies and other private actors).





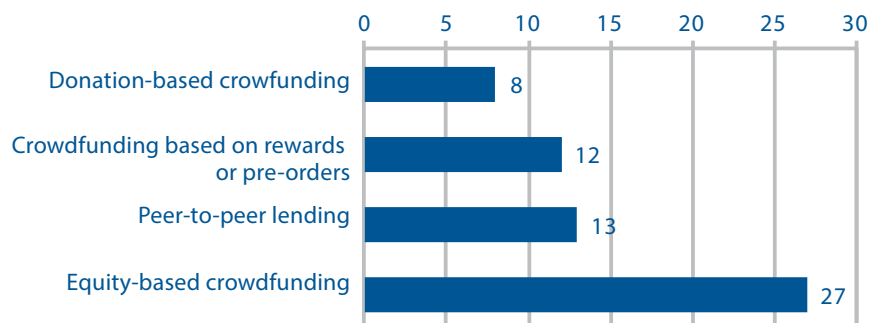
# 1 Opportunities of crowdfunding

Crowdfunding has increased its popularity at a rapid pace. Reasons for the rapid growth of the sector have been identified in the 2008 crisis of the financial markets, one of the consequences of which was the tightening of requirements on the solvency and liquidity of the credit institutions. Tighter regulation has increased banks' requirements concerning solvency and increased the costs of fund raising, thereby reducing the opportunities of credit institutions to respond to the funding needs of companies operating on the market. Moreover, the poor and insecure financial situation that has now endured for a significant period of time has increased the risk of credit losses and reduced banks' willingness to take risks. The situation has had a particular impact on small and medium-sized companies that due to the circumstances have been forced to seek alternatives to financing provided by banks.

Crowdfunding takes several different forms, and, as a field, it is not yet fully stabilised. Crowdfunding has been used to collect funds for private persons, artists, athletes as well as high-tech companies via lending, donations and investments. Crowdfunding has been estimated to possess particular potential as a form of funding for startups and, as a result, it has been considered to hold a particular role in the creation of new jobs.

For the survey respondents and their background organisations, equity-based crowdfunding was the most central of the forms discussed. Equity-based crowdfunding has been perceived as the least developed form of crowdfunding so far. At the same time, it has also been considered to possess the greatest potential to grow into a significant form of financing. Peer-to-peer lending has been conducted in Finland for a long time already, considering the relative newness of the sector. This form of crowdfunding, however, was not highlighted in the responses provided by the organisations in any significant way.

**FIGURE 1. Which form of crowdfunding has been central from the viewpoint of your organization (you may choose more than one option)?**



The respondents generally perceived investing and lending performed by a larger group of individuals or communities in a manner that so far has been available only to the few as the most central opportunity provided by crowdfunding. Greater popularity of crowdfunding was expected to lead to a faster pace of collecting the funds and an increase in the amount of financing available. In particular, the form of funding was hoped to activate 'lazy money' sitting in bank accounts. The willingness of individuals to support projects important to them or to invest in young Finnish companies directly appeared to be there, and crowdfunding was considered to provide a new instrument for this. Partly for this reason, crowdfunding was considered to provide opportunities for more efficient utilisation of capital compared to other forms of funding. Crowdfunding encourages people to engage in investment activities, while simultaneously providing an opportunity to be part of social development in a manner undefined by traditional institutions.

Crowdfunding was also seen to possess an opportunity to impact business life in Finland on a broad spectrum. In particular, participation by large groups of people, specific to this method of funding, was perceived to create an opportunity to develop and expand the operations of companies in a new way. The international aspect of crowdfunding also emerged as an important perspective. The form of funding provides Finnish companies an opportunity to obtain customers from outside of Finland and to advertise their products in a new way already at an early stage in a low-risk and cost-efficient manner. Crowdfunding was also seen as a form of funding that supplements the financial markets. It was also considered to act as a factor increasing competition between forms of financing and, in this way, to reduce the price of funding needed for investments on a more general level. There are many good business ideas and businesses on the market that may find it difficult to obtain funding from traditional sources. At the same time, a number of investors might be interested in investing in a business in its early or growth stage, but cannot find a functional channel for this. Crowdfunding was also perceived to provide a new means of financing a company's research and development activities, in a manner that also promotes the company's efforts at internationalisation.

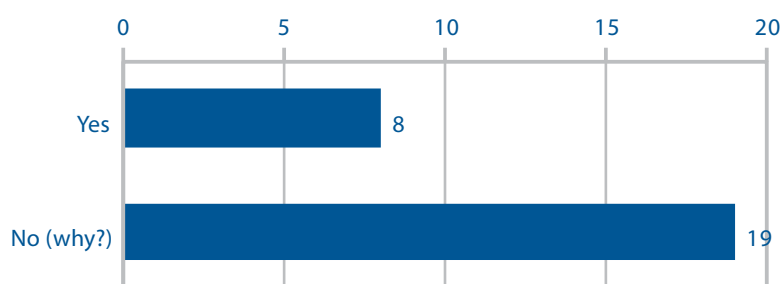
For professional investors, crowdfunding was perceived to offer a new method of diversifying investments. Based on the survey, cooperation between professional investors and crowdfunding platforms was perceived more as a factor to benefit both parties rather than one that might pose a threat to the other side. Crowdfunding was seen to provide investors with new, transparent and easily understandable ways to invest in unlisted companies in a responsible manner in this way supporting employment in Finland. Due to the large group of investors involved, crowdfunding was also considered to provide the business with an opportunity to benefit from broader knowledge and expertise compared to those offered by a more limited group of investors. At the same time, the method of funding was also seen to allow businesses to benefit from the expertise of professional investors in a new way.

Peer-to-peer lending, in particular, was perceived to answer to a specific need. It was considered to increase opportunities for assistance between people taking place on social grounds, both in Finland and abroad. For organisations, crowdfunding was deemed to provide a new opportunity for fund raising and involving a new brand of supporters in their activities. Conversely, crowdfunding was seen to enable projects also for companies and individuals that are not within the reach of traditional funding channels and to increase the vitality of cultural and social life and to strengthen independent activities by citizens. Crowdfunding was also seen as a new opportunity for activities in the form of a cooperative.

Even though the respondents represented broad range of different organisations from the public and the private sector, and only a few of them were directly involved in investment activities, the responses still showed an interest in investing in companies through the means offered by crowdfunding. From the perspective of professional investors, the current options

and opportunities for the making of investments were deemed sufficient, so an actual need for the new channel of investment was not perceived. Moreover, rather than using service platforms, professional investors may be more interested in investing directly in corporations seeking funding. They may also prefer operating through a familiar group of investors. Investments via crowdfunding may not necessarily offer an opportunity for such active cooperation with the company that may be the goal of qualified private investors.

**FIGURE 2. Would the organisation you represent be interested in investing in companies soliciting funding via service platforms offering crowdfunding? (N=27)**



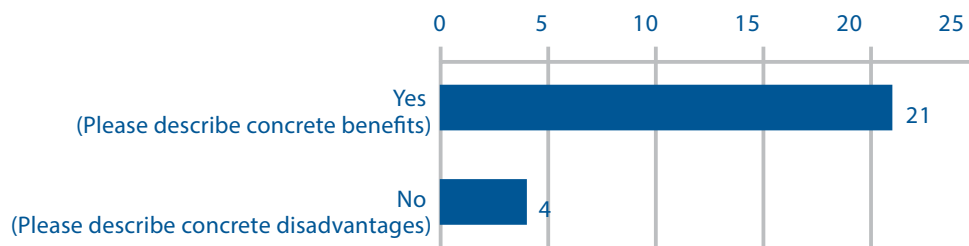
Based on responses to the survey, the attitude of professional investors towards crowdfunding was cautious. Based on the responses, it was clear that in crowdfunding professional investors do not constitute the main target group from whom funding is sought. This means that the nature of the investment is different compared to traditional investment activities. Yet, crowdfunding does not exclude professional investment activities and may, in certain cases even provide a useful tool also for professional investors. The novel investment channel is, however, still finding its form, and, as a result, attitudes towards it vary. Even though service platforms are not a prerequisite for crowdfunding, it is likely that investors in the sector will be expected to deal with them. The utilisation of service platforms may be practical for a company, as they facilitate the paperwork necessary when seeking funding, but for qualified investors, they may appear as an undesired factor.

When the respondents were asked about the most central factor affecting investment decisions in crowdfunding, the responses resembled the conditions placed for traditional investments: individuals experienced as competent behind the company, a good idea or a good product, the availability of good-quality and reliable information on the company and expected return of a sufficient level. Some of the respondents stressed that crowdfunding is not about charity, but its purpose is to generate profit for investors. However, some of the respondents stressed the ethical nature of the activities, the significance of participation and involvement and the purpose behind the activities of the companies, with possible profit as a secondary motivation. Also the benefits granted to the investor through the investment were seen as a possible factor affecting the investment decision. One respondent had divided the motivations for investments made via crowdfunding into three categories: 1) profit seeking, 2) status seeking (increasing personal status e.g. as a co-owner of a pub that brews its own beer), and 3) investments based on personal values (investments to promote activities such as recycling or supporting a local company).

As concerns equity-based crowdfunding, the majority of respondents perceived it as positive if one professional investor contributes to a given crowdfunding round with a significant amount of money. This was considered to promote the reliability of the round of investments in the eyes of non-professional investors, as in a case like this, one party would be likely to have carried out a more thorough due diligence check on the company and viability for invest-

ment. In a more evolved scenario, the more significant investor could act as a spokesperson and a supervisor of interests for the more passive investors, in this way improving the position of the smaller investors in the process. This so-called anchor investor could also attract more persons to invest in the company and thus help the company reach its funding target. On the other hand, emphasis on the role of the anchor investor was feared to diminish the responsibilities of the others and lead to unequal treatment of investors.

**FIGURE 3. Would you consider it useful if at least one larger actor would contribute to an investment target in crowdfunding in the role of an 'anchor investor' (with a share of 5 to 10 per cent, for example)? (N=25)**



One of the corner stones of the development of equity-based crowdfunding has been considered to be the existence of a functional secondary market where shares received in exchange for investments made via crowdfunding could be openly traded in. The opportunity for trade was also considered to enhance investor protection, e.g. through the price formation enabled by the market, and to increase interest in the activities in general. Private actors can be expected to establish secondary markets for crowdfunding in the near future. Transparency and operations similar to the market for listed companies were considered of particular importance as concerns the functioning and credibility of the market. However, several issues yet to be resolved were perceived as obstacles for the establishment of the market: how to maintain a register containing information on the group of shareholders, how to ensure the value formation of the investments, how to account for the international nature of the activities in cases where crowdfunding takes place over national boundaries and how should regulation and supervision be carried out. Issues related to taxation must also be taken into account. The requirement of being able to trade in shares issued via crowdfunding on a secondary market was feared to lead to additional costs in the early stages of crowd-financed companies. The relationship of the bond market envisioned for small and medium-sized companies recently discussed on the Finnish national level to the secondary market for crowdfunding must also be taken into account.

It should also be noted that some of the respondents did not perceive the lack of a functioning secondary market as an obstacle for the development of crowdfunding. The alternatives proposed included the temporary nature of investments, e.g. by adopting terms for the reacquisition or redemption of shares for limited company shares issued via crowdfunding.

## 2 Problems associated with crowdfunding

Based on the survey, a number of problems are currently associated with crowdfunding. Problems were perceived, for example, in relation to the Money Collection Act and questions pertaining to investor protection and regulation associated with the sector. Problems associated with taxation did not emerge in the survey in any significant way. In general, the respondents' attitudes to crowdfunding were positive, and issues identified as problems were often associated with a concern for the development of the form of funding in Finland and its potential misuse.

The most central cause for concern was related to the amount of information available as concerns companies offering crowdfunding services, companies collecting funds as well as the investors contributing to the process. This was also related to a concern for a low level of supervision by the authorities, which is largely due to the diversity of the field, its not-yet-stabilised status and positioning in an area where, in terms of regulation, instead of the applicability of a single statute, it is necessary to consider each crowdfunding service on a case-by-case basis from the perspective of several statutes that may potentially apply to it. These two concerns, the amount of information and the low level of supervision are combined in the obligation to provide information, in investor protection as well as in issues pertaining to potential misconduct. One central problem for the development of crowdfunding was perceived to be its relative unfamiliarity to the general public.

In the survey, the risk of misconduct emerged as one of the most common causes of concern associated with crowdfunding. The respondents found the current criminal and tort liability legislation an insufficient deterrent to prevent misconduct associated with crowdfunding. Money laundering and raising funds for criminal activities via crowdfunding also emerged as risks to be taken into account in the development of the sector. To enable efficient prevention of money laundering, the respondents hoped for clearer instructions from authorities. Also the technological solutions used in crowdfunding were perceived to involve risks. As, by definition, crowdfunding constitutes fund raising taking place via the Internet, the threat of a security breach is a valid one. The service providers were expected to acknowledge these risks and to protect themselves against them.

### Regulation

One of the most important motivations for the implementation of the survey in the ministries was the need to determine the relevance and comprehensiveness of regulation on crowdfunding. Questions pertaining to regulation elicited especially active responses. A cer-

tain duality could be detected in the responses. The majority of respondents hoped that possible regulation would be as light as possible to ensure favourable development of the sector, but at the same time sufficiently extensive to prevent misconduct particularly in the field of consumer protection and money laundering. Further, the respondents also hoped for the abolishment of unnecessary regulation that functions to prevent development in the sector.

Crowdfunding in its different forms has links to several different areas of legislation. A number of open questions were identified in the interpretation of these laws. Different authorities and judicial advisers were said to offer conflicting views as concerns the details of provisions related to the area in question. Defining the roles and responsibilities of the parties offering crowdfunding services and guaranteeing investor protection of sufficient level to parties contributing to crowdfunding rounds was seen as one of the main tasks of government authorities. The adoption of a penalty for the violation of possible rules and the content of this penalty were proposed for consideration. In this vein, a wish to restrict possible legislation to the prevention of misconduct in the context of the form of funding only was also expressed.

Regulation for the purpose of ensuring investor protection was deemed to be of particular importance. One of the respondents perceived regulation to hold central importance also as an element to secure equal prerequisites for competition. It was also stated that regulation always generates costs, and one of the concerns to emerge was that parties offering crowdfunding services largely uncovered by regulation on the financial markets may obtain a better competitive position compared to the parties covered by current legislation. Moreover, investors - usually small investors - contributing to crowdfunding rounds should enjoy protection of a level comparable to that offered by other forms of investment available on the market. The respondents found it important that the investors should be able to make investment decisions based on sufficiently extensive and correct information to avoid the underestimation, and the resulting underpricing, of risks. Other problems in investment activities related to the unregulated status of the sector were perceived in the availability of information after the share issue and in the use of sales organisations in the marketing and collection of investments.

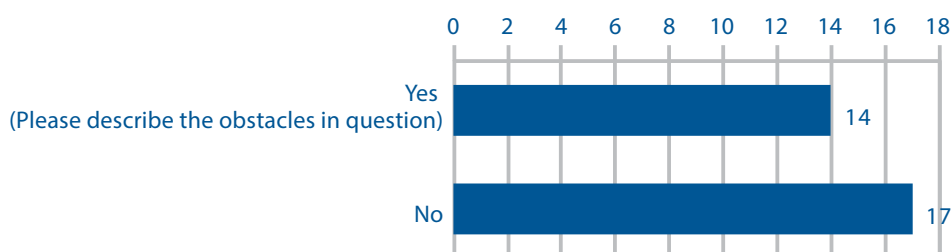
The international nature of crowdfunding was perceived as an opportunity, but it was also considered to pose hindrances for supervision in the sector. Crowdfunding is not limited by national borders, and the taxation and authorisation practices of different countries vary greatly. This is problematic particularly from the perspective of the growth of the business of service providers and the development of the EU's single market. The role of the European Union was perceived as central in the issue of regulation. Any final framework conditions for regulation and supervision in the sector were thought to come from the EU level.

Finland was considered to have kept abreast with the general development of the sector relatively well. However, awareness of the activities remains at a low level particularly in the ranks of potential investors, and the danger is that parties seeking funding will go directly to international operators, which would not contribute to the growth of the sector in Finland.

Some of the respondents perceived regulation concerning the sector to be sufficient as it is, but it was hoped to cover the different forms of crowdfunding in a more effective manner. The current legislation was considered mainly to guarantee sufficient protection for consumers and investors and ex post supervision by authorities. Conversely, some respondents felt that the current situation where companies offering crowdfunding services are not obliged to seek, for example, authorisation for investment firms, weakens the credible development of the sector. From the perspective of companies soliciting funding, the potential dispersion of securities to a large number of investors was deemed problematic. The chances of obtaining further funding may be greatly hindered by a situation where, for example, the ownership of a company has been divided between a large number of people and even the identity of the owners may be unknown.

The respondents are clearly divided over the issue of obstacles caused by regulation. The most significant problem was perceived in the fact that collecting money without compensation remains illegal unless the necessary permit is obtained from the National Police Board or, in local cases, granted by the local police department. Despite the reform of the Money Collection Act, from the perspective of crowdfunding, it is still perceived to contain the same problems as before. At the same time, the respondents stated in the open-ended responses that stronger regulation of crowdfunding would also bring credibility and clarity to the form of funding. Some respondents specified that good regulation supports the activities regulated. Also, the need for common rules in the sector was brought up.

**FIGURE 4. Does the organisation you represent perceive regulatory obstacles that should be abolished in order for you to be able to utilise crowdfunding or to allow the sector to grow in a credible manner? (N=31)**

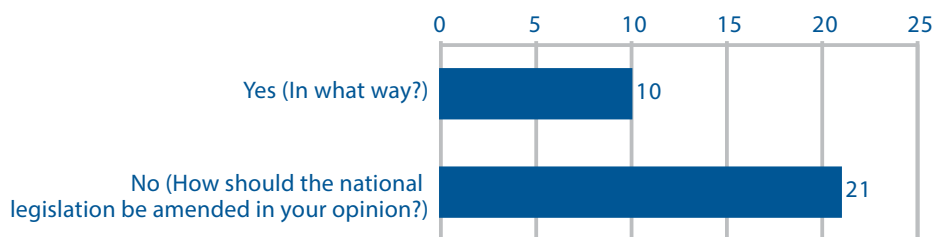


The majority of respondents found that the current regulation of the financial markets does not account for the different forms of crowdfunding to a sufficient degree. Some of the respondents demanded the clarification of regulation concerning crowdfunding, while others perceived that the current regulation could act as a foundation for the definition of rules for the different forms of crowdfunding. Lack of regulation concerning the different forms of crowdfunding was also seen to pose a threat to the development of the form of funding as a whole. The respondents feared that the method of funding cannot increase its popularity as long as regulation remains fragmented and unclear. This was seen as a particular concern for small investors. Some of the respondents found it important that possible new regulation account for the diverse objectives of the different forms of crowdfunding. On the other hand, the creation of uniform operating models to cover all activities within crowdfunding was considered recommendable. Also in matters concerning regulation, equity-based crowd-funding emerged as a central topic. For example, the boundary between crowdfunding and investment services as well as the one between operators offering crowdfunding services and investment firms was perceived to be vague in parts, and a more specific definition of the boundary would be necessary from the perspective of investor protection, for example.

Slightly less than a third of all respondents were of the opinion that current regulation accounts for the different forms of crowdfunding to a sufficient degree. In this group, a single set of instructions for businesses and consumers and a coherent interpretation of existing legislation were seen as sufficient tools for the regulation of the different forms of crowdfunding. Among the perspectives that emerged in the survey was the future role of EU-level regulation.



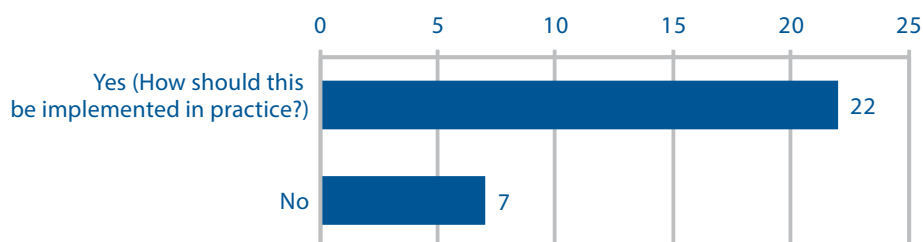
**FIGURE 5. Does the existing regulation of the financial markets in Finland account for the different forms of crowdfunding in a sufficient manner? (N=31)**



The self-regulation of operators offering crowdfunding services has been seen as a central part of development in the sector. Among the respondents, too, the self-regulation of the sector and instructions provided by authorities were seen as a good way to develop the sector through light regulation. The role of the Financial Supervisory Authority was widely considered as important, however, despite the fact that self-regulation created by operators in the sector could be used to provide an effective framework for the activities. The role of the Financial Supervisory Authority is also based on its statutory task to educate citizens towards the end of promoting compliance with good practices in the financial markets and enhancing public knowledge concerning the financial markets. Yet, the majority of the respondents perceived the benefits of self-regulation as undeniable irrespective of the situation. In addition to credibility and more stable development, it was also seen to promote the organisation of the sector. A small minority of respondents perceived self-regulation alone as insufficient, particularly as the sector is still young and the number of operators within it low.

The responses also included a suggestion that operators in the field join forces and themselves produce guidelines for the sector. One practical level suggestion was that actors in the field could standardise central investment documents, requirements for collecting and providing information and prepare a plan for the equal treatment of investors. According to the respondents, the production of guidelines and self-regulation within the sector should, however, take place within a relatively short space of time. Learning from the examples of other countries was also deemed important.

**FIGURE 6. Instead of additional regulation, should crowdfunding be steered through the self-regulation of the sector and general instructions (targeted at investors and service providers) issued by the Financial Supervisory Authority? (N=29)**

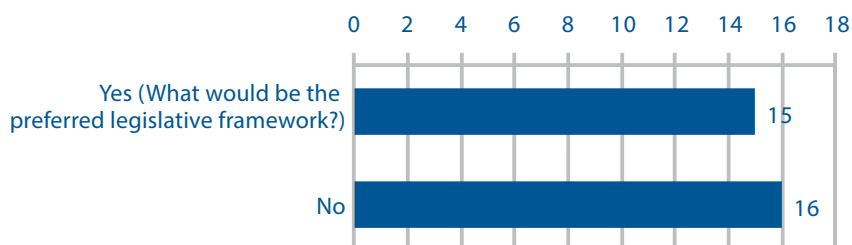


Detailed regulation of crowdfunding through legislation divided opinions among respondents. One reason for this could be the way in which the questions were posed, i.e. enquiring about the need for detailed regulation specifically concerning crowdfunding. Based on answers to the open-ended questions, few were directly in favour of increasing regulation, but the respondents hoped that possible regulation would be kept as light and clear as possible. Generally, authorisation sought from the Financial Supervisory Authority was considered a possible solution, provided that the application process can be kept light. It was considered important, however, to first determine the status of current legislation from the perspective



of crowdfunding and to take action only when clear problem areas are identified. Those in favour of strict and detailed regulation based their view on more effective prevention of misconduct and increasing the credibility of the sector.

**FIGURE 7. Should crowdfunding be regulated via detailed legislation (e.g. registration/authorisation obligation for all operators in the sector)? (N=31)**



### Investor protection

Problems concerning sufficient investor protection and investors' understanding of the risks of investment activities were highlighted in the survey. Investor protection was perceived to be closely associated with the adequacy of information provided by the companies soliciting funding and the evaluation of the value of the company. In some realised cases of equity-based crowdfunding, the determining factor was said to have been emotion, rather than factual information. This is a feature that also leaves room for fraud, an aspect that has the potential to damage the reputation of the sector. Some respondents found it possible that an insincere entrepreneur could attract small investors without a viable business plan or even actual business activity. Conversely, the right of a business to adequate information on investors and the legal certainty of ownership were deemed important. The realisation of investor protection in possible subsequent investment rounds was also perceived as a challenge in situations where the group did not have an active representative.

The respondents found it problematic that compliance with the obligation to report and provide information is not supervised in any way. Also the responsibilities of the party making the investment and, correspondingly, those of the other parties involved were experienced as problematic, depending on the funding method chosen. Particularly from the viewpoint of small investors, investor protection based on existing regulation was perceived as unclear and problematic. Investors contributing to equity-based crowdfunding may find it difficult to obtain adequate information to support their decisions. This can hinder the assessment of risks associated with the activities. Operators providing crowdfunding services may find it difficult to grasp the regulation or restrictions placed for the sector, particularly as concerns the regulation of the financial markets.

At the same time, some of the respondents declined to even discuss investor protection in this context, as they considered high risk to be a central element of crowdfunding. Some stated that direct investment in companies is always risky. The responsibilities of the service providers were considered to be limited to passing on the funding as promised, and not extend to protecting the investors from the risks involved. According to the respondents, investors should bear responsibility for their investments, provided that other obligations related to the crowdfunding service had been fulfilled. Some of the respondents wished for a lighter form of investor protection compared to the more established forms of investment. This view was based on the small average size of the investments, as a result of which the investors own responsibility for the risk should be sufficiently large.

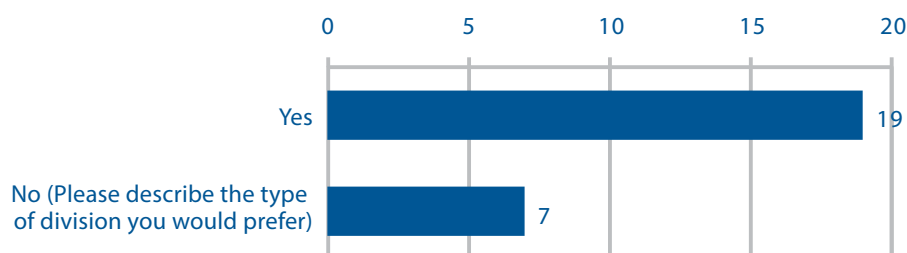
The existence of a market for trading in shares issued via crowdfunding was deemed central for the future of the sector as concerns the realisation of investor protection and ensuring the realistic valuation of businesses. According to the respondents, in some cases, shares had been issued as compensation to as many as several hundreds of shareholders. This poses the risk that the investor is not able to sell his or her shares or the potential buyer of shares is not able to ascertain the seller's ownership of the shares. Another problem identified was the inability of a company to maintain its share register and shareholder register up-to-date, leading to a situation where the shareholders will not be able to exert their rights as shareholders under the Limited Liability Companies Act.

### Particular attention focused on the Money Collection Act

When discussing crowdfunding in Finland, questions related to the Money Collection Act are often raised. The Money Collection Act is applicable to activities where money is collected without compensation. Such collections may not be arranged without a due money collection permit. The objectives of the act are to make it possible to organize money collections in order to fund non-profit activities and to prevent dishonest activity in connection with money collection. This type of system for money collection is not very common in Europe, and many countries have instead opted for a system with a lighter administrative procedure, involving, for example, an advance notification to authorities required from actors engaging in money collection activities. Some of the respondents felt that the most significant problems in crowdfunding were associated with the Money Collection Act and, in particular, the rigid interpretation and application of the act. The majority of the respondents who drew particular attention to the Money Collection Act perceived needs for reform in the existing Money Collection Act so that in the future the act would allow for the collection of crowdfunding without compensation in Finland.

When asked a specific question, the majority of the respondents however perceived the current policy outlined in the Money Collection Act as a necessary and functional one. As a rule, the Money Collection Act does not apply to activities where a compensation is provided. If any object with independent economic exchange value is offered as a compensation, the activity is not considered money collection but regular business activities. In practice, drawing the line between the two may be difficult, however. Determining exchange value for a share in a growth company or a pre-ordered consumer goods item can be determined so that the crucial factors are the nominal value of the share and the expected value of the pre-ordered consumer goods item. The room for interpretation in the way in which compensation is defined and the rational application of the act were highlighted in the comments. The suggestions made also included abandoning ex ante supervision implemented via the money collection permit and shifting to post-supervision.

**FIGURE 8. Is the division between the provision and non-provision of compensation applied in the Money Collection Act (i.e. whether the object funded has independent economic exchange value or not) necessary and functional for the purposes of crowdfunding? (N=26)**



## 3 Summary of survey responses

Based on the survey, the expectations directed towards crowdfunding are high. In general, the method of funding was considered cost-efficient, rapid and flexible. Crowdfunding was perceived to enable more effective utilisation of the deposited funds of private citizens and an increase in the availability of funding and, in particular, to facilitate the entry of start-ups and new innovations into the market. In several of the responses, crowdfunding was described as an alternative or a supplementary channel of funding. On the other hand, some respondents perceived crowdfunding more as a marketing or communications channel, rather than a funding source per se. The realisation of investor protection, the indefinite nature of regulation, lack of supervision by authorities and issues to do with providing and receiving information emerged as the most central problems.

The respondents' background organisations had an impact on their responses. To further clarify interests of the respondents, we have, in the following, divided the responses into four groups based on the background organisations of the respondents: (i) authorities (incl. ministries, government agencies acting in different roles, and other government-led institutions and units under public administration), (ii) interest groups, (iii) providers of crowdfunding services (iv) others (incl. legal firms, investment companies and other private actors).

### (i) Government authorities (N=12)

The largest group of respondents unconnected to crowdfunding was detected among the representatives of government authorities (N=4). The officials drew particular attention to the lack of self-regulation in the sector, the possibility of misconduct, investor protection and lack of clarity in legislation, case-law and the practice of authorities.

The majority of the officials felt that the regulation of the financial markets currently in force in Finland did not adequately cover the different forms of crowdfunding. The responses by the officials highlighted the need to specify existing regulation so that crowdfunding in its various forms would be better accounted for in legislation. Also, difficulties in the supervision of crowdfunding and the roles and responsibilities of operators offering crowdfunding services and regulation related thereto emerged in the responses of government officials.

Based on the survey, the authorities themselves do not support detailed regulation. A model based on self-regulation and instructions provided by authorities or, alternatively, light regulation, received support from authorities. The representatives of government authorities were generally positive about the formation of a functional market for trading in shares issued via crowdfunding and perceived this as central for the growth of the sector.

Out of individual authorities, Tax Administration perceived that matters related to the taxation of crowdfunding require active monitoring. The Bank of Finland perceived the regula-

tion of the financial markets to be up-to-date and, on a general note, to also cover problems associated with crowdfunding activities. From the viewpoint of the Bank of Finland, possible new regulation, if it is perceived as necessary, should constitute EU-level regulation and national legislative projects should not be undertaken.

## (ii) Interest groups (N=13)

The responses given by interest groups contained variation. Some of the representatives of interest groups were of the opinion that existing regulation on the financial markets does not account for the various forms of crowdfunding to a sufficient degree. Some of the organisations also perceived deficiencies specifically in the Money Collection Act and hoped that the functionality of current legislation in relation to crowdfunding would be analysed. The majority of interest groups hoped for more supervision and obligations to provide information for businesses soliciting funding. The respondents were not, however, in favour of detailed regulation, but perceived self-regulation as a good alternative. Instructions issued by the Financial Supervisory Authority were also mentioned. Moreover, some of the respondents supported a light version of an authorisation process for the sector, and separate and specific legislation for the sector was also proposed.

More than the other groups of respondents, the interest groups stressed the social significance of crowdfunding and its significance in the formation of communities. Crowdfunding was perceived as a new, potential channel for raising funds. As for problems, the same issues emerged as in the responses in general: investor protection, lack of supervision, possible misconduct, lack of clarity concerning the division of responsibilities between authorities and lack of regulation in the sector.

Out of all background organisations, the responses of interest groups indicated the most dissatisfaction with the functioning of the current Money Collection Act from the perspective of crowdfunding. In particular Kepa, the Council of Finnish Foundations, and the Finnish Fundraising Association stressed the poor functioning of the Money Collection Act stating that it is inflexible and prevents innovation in requests for donations presented to the general public. A central wish was a reform of the Money Collection Act in a way that would enable community funding without compensation also in Finland in the future.

The interest groups stressed the role of the ‘anchor investor’ in equity-based crowdfunding for the purposes of increasing the credibility of the investment target, acting as the supervisor of the interests of the group of investors and as a party inspiring confidence. All of the representatives of interest groups who responded to the question (N=8) supported the introduction of a so-called anchor investor in crowdfunding investments. A functional secondary market also gained unreserved support from the interest groups and were seen, almost without exception, as an important aspect of development in the sector.

Responses by the Federation of Finnish Financial Services differed from those provided by other interest groups. The Federation of Finnish Financial Services stressed the significance of equal regulation and the prerequisites for competition. Central elements in the regulation would have to be the requirement for authorisation and supervision by authorities, but requirements could, according to the Federation of Finnish Financial Services, also be posed for aspects such as the size of the businesses to be funded, the preparation of financial statements and the responsibilities of the party providing the crowdfunding service. At the same time, the Federation of Finnish Financial Services also stated that it takes a positive view to the development of different forms of funding, improving the availability of funding and supporting the growth of the economy by encouraging entrepreneurship.

### (iii) Providers of crowdfunding services (N=6)

The providers of crowdfunding services saw great potential in crowdfunding. Among the examples mentioned were better use of funds deposited in bank accounts, the reduction of unemployment and increase in exports. Service providers, too, brought up raising general awareness on crowdfunding and the creation of common rules as factors central for the development of the sector. The majority of service providers supported the development of self-regulation in the sector.

In the opinion of service providers, central problems in the sector included the unclarity of legislation and the aggressive marketing of some operators in the sector. A few respondents mentioned disruptive operators with the intention to deceive customers, particularly lay investors with no expertise in investing, as one of the problems of the crowdfunding sector.

The majority of service providers were of the opinion that existing regulation on the financial markets in Finland does not account for the different forms of crowdfunding to a sufficient degree. The service providers wished, however, that any new regulation would be based on existing legislation. Despite the above, half of the service providers covered by the survey supported detailed regulation. The suggestions provided included limited application of the Act on Investment Services and the creation of a separate legislation on crowdfunding.

Out of the service providers, all were prepared and willing to invest in companies soliciting funding via crowdfunding activities. The sums reported by the respondents varied on an annual level from EUR 100,000 to a few million. All service providers also supported the introduction of an anchor investor for investment targets financed through crowdfunding.

### (iv) Others (N=5)

The group of five respondents was a mixed sample of businesses (also including investment companies), market operators and legal firms. Crowdfunding was seen as a new and innovative funding channel, important particularly in the early stages of small companies.

In terms of problems, the same topics emerged as with other groups of respondents. Risks related to information security and investor protection, risk of fraud and embezzlement, unclarity of regulatory framework, laws governing different forms of crowdfunding and the lack of clear rules governing the sector were perceived as central problems in crowdfunding.

Also in this group of respondents, the majority was of the opinion that existing regulation on the financial markets in Finland does not account for the different forms of crowdfunding in a sufficient way. The respondents considered self-regulation and instructions issued by the Financial Supervisory Authority as the best way to proceed in the task of creating a shared set of rules for the sector but, paradoxically, the majority was also in favour of detailed regulation. In this context, some of the respondents referred to the possibility of a light registration duty with the associated conditions.

The secondary market, deemed important, was hoped to resemble the market for listed companies. This would allow for market-based price formation for the shares. The option where the shares of crowd-financed companies could also be traded in a suitable secondary market, such as the First North market, was also considered. Linking the secondary markets to the crowdfunding platforms in some appropriate manner was also perceived as useful. As for the sum to be invested, the respondents were prepared to invest amounts from EUR 10,000 to hundreds of thousands. At the same time, the point was made that from the perspective of a professional investor, also more established methods of investing are available.



## 4 Conclusions on the survey

Based on the survey, crowdfunding has potential to become a significant promoter of citizen participation and a source of funding for business life also in Finland. The growth of crowdfunding must be promoted, at the same time ensuring the avoidance of misconduct. Based on responses to the survey, the following conclusions applicable to each of the different forms of crowdfunding can be made.

**a) Regulation of the sector should be kept light**

Based on the survey, the regulation of the form of funding should be kept as light as possible. However, supervision of the sector must be increased, and possible misconduct must be addressed in an active manner, which may require clearer regulation. Moreover, the need for the harmonisation of requirements for the provision of information might require more detailed regulation. The Finnish authorities must be active as concerns possible regulation to be created on the EU level.

**b) The sector must develop self-regulation and good practices**

To ensure the balanced development of crowdfunding, operators in the field should develop self-regulation and good practices. Operators committed to compliance with self-regulation and good practices could be certified, where possible. Dialogue between different operators in the field is important to prevent misconduct and to enhance the development of the form of funding.

**c) Guidelines needed for the sector: actors require instructions and education**

In addition or instead of regulation and possible self-regulation concerning the sector, the authorities should consider the production of additional instructions and education to all parties involved in crowdfunding activities. At the initial stage, the goal of the instructions and education would be to describe acceptable practices, to present views on adequate investor protection and to establish uniform requirements for the provision of information.

**d) The general public's knowledge of the sector must be increased**

One of the most significant obstacles preventing the growth of the sector is lack of information. The knowledge of citizens and companies on the different forms of crowdfunding must be increased. This promotes wider adoption of the form of funding and improves the investor protection. The main responsibility for informing the public lies with the operators in the sector.

e) **Requiring authorisation or registration from operators in the sector should be considered**

The authorities should consider a registration obligation or an obligatory authorisation for operators in the sector. The amount of work required from service providers and the costs involved must, however, be kept to a minimum. One option is voluntary registration of service providers with the Financial Supervisory Authority to determine whether the activities of a certain service provider are covered by the regulation and supervision of the sector.

f) **The roles of the authorities must be clarified**

From the viewpoint of the authorities, accounting for the difference between the various forms of crowdfunding is important. Different forms of funding belong to the mandate of different authorities, and this division of responsibilities should be clarified.

g) **Secondary market would support development of the sector**

A functional secondary market will support the development of equity-based crowdfunding. The secondary market will also function to improve investor protection. Operators in the sector should enhance the formation of a functional secondary market. However, taking into account the size of the sector, the secondary market should not place too extensive obligations for the operators in the sector as concerns their activities or the provision of information.

h) **Crowdfunding should be more effectively accounted for in the Money Collection Act**

As a form of collecting funding involving compensation, crowdfunding does not fall within the scope of application of the Money Collection Act, but is governed by regulations on consumer protection and the financial markets. In practice, drawing the boundaries can be difficult, which is why the requirement for a permit for money collection without compensation should be reassessed with a particular eye on crowdfunding. In the scope of application of the Money Collection Act, instead of the permit procedure, a procedure based on an advance notification should be considered, thus shifting from ex ante supervision to ex post supervision.



## 5 Possible further measures by authorities

Based on conclusions from the survey, the Ministry for Employment and the Economy and the Ministry of Finance perceive five options for further measures by which to improve the regulation and supervision of crowdfunding and the legal protection of investors. The measures are not mutually exclusive, and they are not presented here in a manner that accounts for the differences between the different forms of crowdfunding in a detailed manner. Decisions in the matter will be made in the course of spring 2014.

**a) Assessment of existing legislation, to be amended where necessary**

The suitability of existing Finnish legislation on consumer protection and the avoidance of misconduct as well as the suitability of corresponding EU regulation for the different forms of crowdfunding will be assessed and the required measures taken. A potentially applicable regulatory framework to be assessed should include least the following acts, under the remit of the Ministry of Finance: (i) Act on Alternative Investment Fund Managers (162/2014, AIFML), (ii) Securities Markets Act (746/2012, AML), (iii) Act on Credit Institutions (121/2007, LLL, thorough reform under preparation), (iv) Act on Investment Services (747/2012, SIPAL) and (v) Payment Institutions Act (297/2010, MLL). The need to amend the Money Collection Act (255/2006) falling within the mandate of the Ministry of the Interior must also be assessed.

**b) A comprehensive assessment is performed on need to require registration or authorisation**

As part of the assessment of existing legislation, it should be determined whether registration with the Financial Supervisory Authority or applying for authorisation from the Financial Supervisory Authority should be established as a condition for the provision of all types of crowdfunding services. Some of the activities performed within the form of crowdfunding already require authorisation.

**c) Preparation of national legislation should not occur before possible legislative project by the EU**

The European Commission has given a preliminary announcement that it will issue a communication on crowdfunding before the European Parliament election in 2014. The communication may lead to a subsequent EU-level legislative project on crowdfunding with the aim of harmonising activities within the sector in the area of the European Union. Other international actors (IOSCO) have also examined the issue of crowdfunding. Before amendments to domestic or EU legislation, the activities

in Finland will continue as before, i.e. the Financial Supervisory Authority and the Finnish Competition and Consumer Authority will supervise the activities of businesses offering crowdfunding services within the limits of their current mandates, and the businesses will operate within the existing national legislative framework and the exceptions contained by it.

- d) Financial Supervisory Authority will prepare instructions on crowdfunding**  
Before the clarification of legally-binding regulation, the Financial Supervisory Authority will, within its current mandate, prepare instructions on good practices in crowdfunding and matters to be taken into account for operators in the field, businesses soliciting funding and investors.
  
- e) The sector will produce self-regulation for its activities**  
In cooperation with authorities, operators in the sector will prepare rules for peer-to-peer lending and equity-based crowdfunding that they then undertake to comply with.

