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European Commission Launches Consultation on Crowdfunding: A Gateway to Alternative Project Financing in Europe

By [Orestis Omran](#), [Nora Wouters](#) on October 22, 2013

On October 3, 2013, the European Commission launched a [consultation](#) inviting stakeholders to share their views on crowdfunding. Considered as a rapidly emerging alternative source of financing involving open calls to the public, generally via the internet, to finance a project through either a donation, a monetary contribution in exchange for a reward, product pre-ordering, lending, or investment, crowdfunding is thought to demonstrate potential considerable benefits for EU economies, leading the European Commission to explore future regulation possibilities. This is also indicated by the estimated 65% growth that crowdfunding experienced in 2012 compared to 2011 reaching EUR 735 million. The consultation is due to terminate on December 31, 2013.

One of the most important benefits of crowdfunding appears to be the financial support provided to many small start-ups and medium sized enterprises that do not manage to access mainstream financial markets. In this way, crowdfunding can help facilitate technological research and development and secure the efficient execution of innovative projects, thus contributing to growth and job creation at the macroeconomic level, according to the European Commission.

In addition, benefits can be found on the contributors side, as crowdfunding constitutes a complementary investment tool that could lead to the generation of profits through the conclusion of further cooperation agreements between the project creators and the contributors. To contributors, crowdfunding generally offers the possibility of greater understanding of the projects they finance since, in principle, there is more efficient communication with the project's founders. In addition, one could add to the benefits the broadening of the concept of project ownership due to the extensive pool from which the required funding is derived and the promotion of popular legitimization of research and social solidarity.

The consultation paper addresses a number of issues concerning crowdfunding, ranging from the benefits and risks associated with this form of finance to the adequate safeguards for the avoidance of illegal practices and the required actions to exploit the potential of crowdfunding. The consultation participants are asked to complete a questionnaire referring to all of these issues, the compilation of answers to which is thought to provide the Commission with a preliminary understanding on whether crowdfunding markets require proper regulation or some type of soft law instead. Certain concerns could be raised about the failure of the European Commission to mention the implications of the call on the public that crowdfunding involves on the regulatory level and the prohibition of canvassing and hawking in financial products that exists in the national legislations of some EU Member States. It remains to be seen whether the historically uniform license requirements for calls on the public in the finance sphere will be decided to apply to crowdfunding as well or whether a *de minimis* exception will be provided.

U.S. investors who already operate in the EU or who are considering becoming involved in the EU financial markets need to watch closely for new developments and should take advantage of the current opportunity to complete the questionnaire and influence the process, contributing thus to the added value that flexible and efficient regulation would entail for crowdfunding. Financial models of crowdfunding can create a complementary investment opportunity, where investors can develop direct communication channels with project creators and benefit from the future success of the project.



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