

COLLEGE OF EUROPE
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**EQUITY-BASED CROWDFUNDING: TOWARDS AN EU REGULATORY
FRAMEWORK TO PROTECT INVESTORS**

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Abstract

The European Commission published in September 2015 a communication on an Action Plan to build a Capital Markets Union. In this Action Plan the EU is considering equity-based crowdfunding as a way to close the early-stage funding gap of SME's. By developing the sector, job growth and innovation will increase, boosting the real economy. However, equity-based crowdfunding is a very recent phenomenon and as it involves the investment in new ventures, it is very risky. Moreover, equity-based crowdfunding is mainly addressed to unsophisticated investors, who are not aware of the risks they are facing. Therefore the EU is trying to find a balance between boosting the sector and protecting investors.

The goal of this master thesis is to understand what are the risks faced by investors in equity-based crowdfunding and how the EU can mitigate them. The master thesis consists of three main parts.

The first part describes the emergence of crowdfunding and equity-based crowdfunding, explains how the latter functions and is closing the early-stage funding gap, and summarises the main risks for investors. Those are regrouped in four main parts: risks related to the inexperience of investors, post-investment risks, risks related to platforms and other risks.

The second part of the thesis tries to understand how investors are protected nowadays, by regulation and in practice. First, since equity-based crowdfunding has developed well, some EU countries have put in place bespoke regulatory regimes protecting investors, mainly by restricting the offerings of shares. Four main tools are used: disclosure requirements, investment caps, self-certification and withdrawal rights. Countries are going into the same direction but with slightly different approaches, resulting in a fragmentation of the regulatory framework. Secondly, platforms are protecting investors beyond the rules, in order to forge reputation in a competitive market.

The third part considers that the EU should act immediately and is offering propositions on possible regulations in order to protect investors.