Europaudvalget 2013-14
EUU Alm.del Bilag 185
Offentligt

MINISTRY OF BUSINESS AND GROWTH
DENMARK

MINISTRY OF BUSINESS AND GROWTH
Slotsholmsgade 10-12
DK-1216 Copenhagen K

Tel. +45 33 92 33 50
Fax +45 33 12 37 78
CVR no. 10 09 24 85
evm@evm.dk
www.evm.dk

Response from the Danish Government to the public consultation on crowdfunding in the EU – Exploring the added value of potential EU action

Denmark appreciates the opportunity to set forth our views on crowdfunding in the EU as an alternative finance instrument to support SMEs.

Denmark agrees that the Commission should explore ways of encouraging the development of crowdfunding and should seek to identify and eliminate regulatory obstacles. Reward-based and donation-based crowdfunding are already thriving in most European countries, but lending-based and especially equity-based crowdfunding needs special attention regarding the financial laws and regulatory framework in the EU to help SME's gain new access to finance.

In relation to equity-based crowdfunding, Denmark finds it essential to thoroughly validate the quality of the projects before raising capital through crowdfunding websites. Despite very few reported incidents on fraud in crowdfunding investments[1] it is still deemed necessary to establish appropriate protection for potential investors and their capital contributions. There has to be a regulatory framework for crowdfunding otherwise Denmark is afraid that possibilities of cheating and the risk of fraud will take the agenda instead of looking at the new possibilities that crowdfunding offers.

What separates crowdfunding investments from traditional investments is typically that the risk associated with crowdfunding is higher. As with other investments that contain risk it is vital to make crowdfunding investments transparent and to ensure that the capital invested is used for the purpose intended, and to make sure there is full clarity about the share of ownership in any given project.

---

[1] Pennsylvania University, *The Dynamics of Crowdfunding: Determinants of Success and Failure*, 2012 and European Securities and Markets Authority, *Crowdfunding – A regulatory framework in the EU*, December 2013

This summer Italy - as the first country in Europe - issued a new equity-based crowdfunding law, that can help promote and develop crowdfunding even further. The same applies in the United Kingdom where new legislation is being implemented during the spring of 2014 to create a legal framework for crowdfunding. Denmark agrees that all EU-countries in common shall seek to remove most obstacles for this new high-potential investment form.

Equity crowdfunding shares a lot of commonalities with the better known concept of venture capital in the sense that it focuses on entrepreneurs and innovative young companies that only require a limited amount of capital to get started and that it competes as an alternative to traditional bank financing. This is especially true due to the economic crisis where banks risk-taking currently is very low and also affected by the new solvency requirements proposed by the EU. Given the low growth in the current economy and low interest rates investors are more susceptible to take on more risk. This makes crowdfunding an interesting alternative to bank finance.

On this basis Denmark agrees that it is important to raise awareness of this topic in Europe and recommends more European initiatives that can promote crowdfunding. It is very important that regulatory measures will not make crowdfunding administrative burdensome and that investors and consumers are given adequate protection without stifling the development of crowdfunding as a new finance alternative.

Denmark does not recommend that the Commission initiate its own crowdfunding-platform as many crowdfunding websites already exists across many different EU countries. Denmark also proposes that EU-member-states use existing crowdfunding-platforms in an innovative way to fund new public projects or public-private partnerships.

Denmark emphasises that access to finance should remain a priority in future European policy development. However, if alternative sources of SME finance are to be explored, such as crowdfunding, it should be taken into account that the financial markets in the member states differ and that not all means of funding necessarily are attractive in all member states.

The EU can however play an effective role in arranging the financial regulatory services, to meet a wider range of crowdfunding websites. The EU can also work on developing guidelines for capital providers and investors in the crowdfunding industry to minimize the risk of fraud and to establish complete clarity of questions on subjects such as ownership, procedures for payment of dividends and investor protection.