

Milano, November 26th, 2017

European Commission

DG-FISMA C1

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RE: Inception Impact Assessment referring to the Legislative Proposal for an EU framework on crowd and peer to peer finance.

AssoFintech represents the interests of the fintech and insurtech operators in Italy. Its members are involved in the whole segments of fintech industry: equity crowdfunding, P2P lending, invoice trading, payment services, connected insurance, e-banking, cyber security, compliance.

Our non profit business Association, established in 2017, represents a place for aggregation, sharing and development of fintech culture in order to support the enhancement of the quality of services offered to the clients.

As far as legislative developments are concerned, AssoFintech considers the implementation of initiatives aiming at an effective client protection as its priority objective, being at the same time a precondition for maintaining a high level of confidence in the financial industry and the correct functioning of financial markets.

On behalf of the institutions we represent, we believe that there is a strong need of harmonisation of operating regulations and client protection measures in order to enhance the possibility to scale up quickly and to protect a fair and safe competitive environment.

Among AssoFintech members, AIEC, the Italian Equity Crowdfunding Association, has developed a specific expertise in the topic of the consultation and contributed to the enhancement of the

national regulation, throughout a continuous dialogue between the industry and Consob, the Italian regulator, and a deep analysis of the evolution of the market and the needs of the stakeholders. The experience has been reported in a Consob publication (S. Carbone, F. Fiamma, T. Marcelli, V. Mirra, D. Zaottini, *“La qualità della regolazione nell’esperienza della Consob. Dalla misurazione degli oneri amministrativi al ciclo della valutazione. Il caso dell’equity crowdfunding”* Roma, Aprile 2016, Consob Discussion Papers).

AssoFintech has a strong team where P2P lending and equity crowdfunding platforms as well as invoice trading marketplaces at the moment play the most significant role. Among its founders, Crowd Advisors, the first and most acknowledged Italian consulting organization focused on alternative finance, contributed to several researches on the industry at both European and National level. They contributed as well to the advocacy activities towards Consob and political institutions for the improvement of both equity and lending crowdfunding rules in Italy. Also, Crowd Advisors founders wrote several chapters of the book *“Crowdfunding for Sustainable Entrepreneurship and Innovation”*, published in English by IGI-Global, Hershey, Pennsylvania, USA, 2016.

AssoFintech Scientific Board includes academics who have been and still are directly involved in the research teams of Politecnico di Milano, Cambridge University, Università Cattolica, House of Parliament and Consob.

Our team members took part to most of the European data collection initiatives quoted in the Inception Impact Assessment: i.e. they contributed to the study prepared by CrowdSurfer and EY and discussed it at the presentation event in London; they contributed to the study prepared by EY, Open Evidence, Politecnico di Milano and European Crowdfunding Network.

They also took part to or directly produced several other studies and researches, as:

- *“Sustaining Momentum – The 3rd European Alternative Finance Industry Report”*, published by The University of Cambridge, Centre for Alternative Finance, Cambridge, UK, 2017.
- *“Sustaining Momentum – The 2nd European Alternative Finance Industry Report”*, published by The University of Cambridge, Centre for Alternative Finance, Cambridge, UK, 2016.
- *“2nd Italian Report about Crowdinvesting”* published by MIP Politecnico di Milano, School of Management, Milano, Italy, 2017;
- *“1st Italian Report about Crowdinvesting”* published by MIP Politecnico di Milano, School of Management, Milano, Italy, 2016.
- *“A Framework for European Crowdfunding”* by Crowdfunding Hub, the Netherlands, 2016
- *“Current State of crowdfunding in Europe”* by Crowdfunding Hub, The Netherlands, 2016
- *“2015CF The Crowdfunding Industry Report”*, published by Massolution, Los Angeles, USA, 2015.

Thanks to the deep knowledge of crowdfunding investment profiles of its founders and members, we believe that AssoFintech, is fully entitled to consistently represent the Italian point of view on this Inception Impact Assessment.

(1) Equity based crowdfunding

The 3rd proposed solution is the most appropriate policy option to properly support the rising crowdfunding industry aiming at the most effective investors' protection.

(1.a) as far as equity crowdfunding is concerned, the Commission well knows that the delay in an harmonization of the legal landscapes brought the EU Member States to design several different legal frameworks for equity crowdfunding, from no regulation to MiFID exception, to very peculiar regulation approaches as in Germany and France. As a consequence, no cross-border activity is permitted, unless crowdfunding is offered by MiFID licensed intermediaries, which is probably not proportional to the dimension of the business and the need of the markets.

(1.b) Looking at the market data, we see that throughout Europe the growth of equity crowdfunding in each Member State is proportional to the dimension of venture capital in such State. Where venture capital is a well established industry, equity crowdfunding quickly reached relevant volumes.

Indeed, in Italy venture capital has always been a small market; equity crowdfunding has in fact small volumes, but in 2017 it raised about 10% of venture capital, growing at fast rate. In France and Germany volumes are far bigger, given their different investment culture.

Indeed, only UK has seen a dramatic growth of equity crowdfunding, thanks to a finance friendly environment and well established financing habits and mind-set, that make that country a market leader with a huge gap to the second best country of the EU market.

All the other countries have experienced a slower growth and far smaller volumes, proportional to their respective financial culture and investment habits.

This means that, outside UK, there is a scalability problem: national markets are too small for the best exploitation of the potential of crowdfunding.

This is a problem of quantity: not enough resources may be addresses to platforms and their business remains scattered all over different local environments.

(1.c) Beside scalability, there is also a problem of quality: some studies have shown that most European platforms are generalist and therefore unable to offer highly qualified teams for the screening of the deal flow.

An interesting example is that of life science: the largest deals have been offered by generalist platforms, while the evaluation and presentations of the deals might have required specialist teams, capable of assessing projects in the best interest of investors.

It is not a coincidence that the second concern expressed in the Inception Impact Assessment is about the reliability of crowdfunding platforms, considered as key risk for the future growth of the industry.

It is self evident that investors appear not to have sufficient information or be misinformed about the risk-return profiles of projects, when platforms' business model doesn't allow them to be fully prepared to support them in areas such as scientific assessment, business evaluation, risk management or the prevention of conflict or misalignment of interests.

Would the market offer cross-border opportunities, platforms might specialize in vertical industries and offer more qualified services in the best interest of the investors and the market.

Given the above, AssoFintech deem Option 3 to be the appropriate approach to regulate the industry in the spirit of the Capital Market Union.

The second best might be Option 4, though the different national regimes and the probable requirements of an European opt-in regulated regime might create competition problems and two classes of platforms: those who can afford an international set up and compliance with EU requirements and those condemned to remain segregated into local dimensions, with no possibility to scale up, which is against the spirit of Capital Market Union.

(2) Lending based crowdfunding.

(2.a) Lending based crowdfunding is developing more quickly and raising larger volumes than equity crowdfunding, but it is a business that requires far larger volumes to be profitable.

In most countries it is run through *passportable* entities, such as payment institutes, and therefore, as a matter of fact, it is substantially more harmonized than equity crowdfunding.

(2.b) Nevertheless, there are lacks of harmonization that directly impact competition and the possibility to offer cross-border investment opportunities.

Examples are:

- anti-money laundering national regulations;
- national investment limits;
- local requirements such as that of having a national fiscal code, with very complicate procedures to get it;
- non harmonized withholding taxes on the investors' revenues.

(2.c) A further problem is that in no national regulation there is a clear prospectus exemption where funds are collected and invested by lending platforms on behalf of the investors: in such cases, the platform might be considered the borrower, though sub-lending the funds raised to several borrowers; and above 5 millions raised, prospectus regulation might apply.

Given the lower profitability of the industry, scalability is essential. Nevertheless, verticality might

be a value, as the success of real estate lending platforms is demonstrating.

Therefore, AssoFintech suggests a comprehensive EU approach, treating lending platforms like regulated trading venues or payment institutions, under Option 3, within a proportional regulative framework.

Kind regards

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