

CROWDFUNDING: GUIDE FOR THE GENERAL PUBLIC

In France the number of crowdfunding platforms, where people seeking finance for a project can raise money from the public, is soaring. These platforms, which offer new forms of funding, may work in different ways and offer flexible services.

Before making a commitment, individuals who want to participate in a project should understand what they are being offered, what they can expect, and what the associated risks are.

Definition

There is no legal definition. Crowdfunding is a mechanism designed to raise money, usually in small amounts, from large numbers of people in order to finance a creative project (music, book, film, etc.) or a business venture. Generally conducted online, crowdfunding operations may support local initiatives or projects that stand for specific values. They differ from traditional funding methods in that they often have a strong emotional dimension.

Different types of crowdfunding

- Crowdfunding may take the form of interest-bearing or no-cost loans (peer-to-peer lending).
- Subscription for securities (shares or bonds) is another possibility, with the investor acquiring the equity or debt issued by the company receiving the backing (crowdinvesting).
- It can also take the form of a donation or contribution in exchange for possible compensation, either in kind (CDs, tickets to shows, etc.) or in cash (a share in any profits made by the funded project, etc.).

Rules

Depending on the chosen method of funding, the crowdfunding platform or project owner may have to comply with banking and financial regulations, particularly regarding the provision of investment services, public offers of financial securities, banking transactions, payment services, and direct marketing of banking or financial services.

Risks

Crowdfunding involves specific risks, including:

- the risk of losing some or all of the capital invested or funds loaned, particularly if the issuing or borrowing firm runs into difficulty;
- for unlisted securities, trouble determining the sale value, as well as the securities' lack of liquidity, making them difficult to sell (even though a holding period may have been recommended at the time of subscription);
- failure to deposit the funds in a supervised institution and the risk of misappropriation of the payments made through the platform;
- the lack of guarantees regarding the allocation of the funds raised for the initial project.

In addition, when the platform does not have regulated status,¹ there is no guarantee that the public will receive information that is clear, accurate and not misleading. For individuals wanting to take part in the project, there is no certainty that it will be appropriate in view of their objectives, financial experience and the level of risk they are willing to accept.²

Before committing themselves, **therefore, individuals** wishing to participate financially in a project **need** to obtain information on the nature of the proposed transaction, as well as on the obligations imposed on the crowdfunding platform and the project owner. In particular, the following actions are advisable:

- depending on the nature of the services provided by the website, check that the organisation in question is listed as a service provider authorised to conduct business in France:
 - the financial firm register (Regafi), which lists the French and foreign companies that have been granted approval or authorisation to carry out financial activities in France (<https://www.regafi.fr>);
 - the register of insurance, banking and financial intermediaries (<https://www.orias.fr>);
- based on the type of investment proposed, check with the platform that a prospectus has been prepared or that an exemption applies, and learn more about it;
- obtain information on how to cash out or exit the investment.

*

* *

If you have any questions or concerns, please visit our website:

Assurance-Banque-Epargne Info Service: www.abe-infoservice.fr or call 0811 901 801 Monday through Friday from 8:00 a.m. to 6:00 p.m.

AMF: <http://www.amf-france.org> or call 01 53 45 62 00 Monday through Friday from 9:00 a.m. to 5:00 p.m.

ACP: <http://www.acp.banque-france.fr>.

¹ Investment services provider (ISP) – credit institution or investment firm – financial investment advisor (FIA), payment institution or intermediary in banking transactions and in payment services.

² No suitability test or appropriateness test.