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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Regulating Crowdfunding Platforms

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Tobias Tröger: German policy makers do not live up to the new challenges



Crowdfunding is an example of the new forms of finance facilitated by the rise of fintech companies. The innovation in crowdfunding stems from applying new digital techniques that enable previously unacquainted suppliers and demanders of capital to conclude contractual or corporate law relationships directly without incurring prohibitive transaction costs. Traditional forms of capital intermediation may become less important in the future and an economically considerable volume of financing relationships may be initiated that way.

In a new SAFE Working Paper Tobias H. Tröger (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/56-troeger.html>), SAFE Law Professor, draws the conclusion that German regulation, however, does not fully live up to the new challenges. To be

sure, the business model of crowdfunding platforms does not exhibit the typical fragility that signifies banks' lending business. However, the more momentum crowdfunding – and crowdfunding respectively – gets in initiating financing relationships, the more relevant platforms would become as providers of market infrastructure. Yet, German supervisory practice largely exempts crowdfunding platforms from the obligation to seek an authorization from competent authorities so far.

Tröger argues that IT-driven platforms could play a relevant function in investor protection by compelling issuers to provide relevant information to attenuate informational asymmetries. “Although a certain exemption from the traditional prospectus regime is a justified policy choice, it needs to be complemented by an adequate regulation which considers the platforms' role as gatekeepers,” Tröger suggests. Such rules, specifically tailored to the needs of the players in crowdfunding could be part of the European Capital Markets Union project.

More on this topic: Tobias H. Tröger: Remarks on the German Regulation of Crowdfunding, SAFE Working Paper No. 184 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3048885).

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