

## Fact Sheet on Crowdfunding

Updated: 27 July 2016

Crowdfunding is a new form of project financing, in which the project initiators and potential funders are brought together using crowdfunding platforms. Crowdfunding is a segment with strong growth in the EU and has great potential in the long term to become a core source of funding for small and medium-sized businesses.

Crowdfunding may be implemented using a variety of business models, the following of which are the most important:

- **Investment-based crowdfunding:** The project initiators issue equity instruments (e.g. shares in the business), debt instruments (e.g. mini-bonds), or other contractual instruments (e.g. profit participation models), generally via an online platform.
  - *Example: The project investors can invest directly or indirectly (e.g. via a special purpose vehicle) in the business shares of the project initiator.*
- **Lending-based crowdfunding:** The project initiators receive capital from the investors in the form of loan agreements.
  - *Example: The loan agreement may be concluded with the project initiators, the platform operators, or a third party such as a banking institution, with or without an exchange of securities.*
- **Invoice trading crowdfunding:** The project initiators sell receivables or unpaid invoices, individually or bundled, to a group of investors, typically via an online platform.
  - *Example: An online auction is used to sell receivables to institutions.*
- **Reward-based crowdfunding:** The project initiators receive capital and promise consideration to the project investors (service, product related or not related to the project). The value of the consideration does not have to correspond to the value of the investment.
  - *Example: Before production, the project initiators offer a rebate on the final product to investors.*
- **Donation-based crowdfunding:** The project initiators collect donations for innovative ideas or charitable activities without the donor receiving any consideration.
  - *Example: A new idea in the field of renewable energy needs and finds donors.*
- **Hybrid models of crowdfunding:** Hybrid forms of the crowdfunding designs mentioned above.
  - *Example: Donors receive consideration if they donate above a certain amount.*

## **Opportunities and risks**

Especially the following aspects can be considered possible opportunities:

- simplified way to raise capital (young enterprises, enterprises with funding difficulties);
- avoidance/reduction of costs that might have arisen using other funding channels;
- if the required minimum project amount is not reached, investors are repaid;
- risk spreading by promoting several projects with smaller amounts;
- avoidance/simplification of prospectus requirements;
- way to reach international funders.

Conceivable risks include:

- risk of capital loss;
- difficult to assess real risks (information gap);
- possible lack of official supervision;
- conflicts of interest due to commission system;
- liquidity risk, given that funders are not able to call in their funds at any time;
- operational risks (e.g. cyberattacks).

## **Legal situation**

Because crowdfunding continues to be implemented primarily at the national or local level and the sector is developing rapidly, the European Commission so far sees no reason to enact a legal framework at the level of the EU.

Also in Liechtenstein, no dedicated crowdfunding law exists as of now. However, the application of a large number of existing laws must be checked for whether a licensing obligation may exist for the envisaged activity. Interested persons are therefore advised to contact the FMA before taking up a business activity in the field of crowdfunding and to clarify licensing requirements in order to avoid any violations of the law. The FMA will be happy to discuss this with you.