



Speech Crowdfunding Day 12 May 2015

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Crowdfunding and the AFM: opposites attract!

Ladies and gentlemen,

I always dreamt of being at center stage in the Arena. Unfortunately, not as striker for Ajax – our football team, but nevertheless.

Thank you for inviting me – in the capacity of your regulator - here today. I am really glad to have the opportunity to contribute to your big day. To be able to exchange ideas about this exciting and I might say, hot, topic, crowdfunding.

As regulator, we are often accused of creating regulatory hurdles, red-tape as you wish. We in the Netherlands, and we as AFM choose not to do this. Let the crowdfunding market flourish. Give some leeway to the initiatives out there. Embrace innovation. This is also in tandem with the initiative within Europe to create a true Capital Market Union. To make the industry less subject to banking finance. Currently 90% of loans go via banking finance. And only 10% via capital market finance. We should reverse the statistics.

But, let me start by quoting some famous words:

*'The order is rapidly fading'. And the first one now. Will later be last
For the times they are a-changin'.*

These are not my own words, nor the words of some notorious prophet from ancient times. There are the words of a more 'recent' prophet; Bob Dylan.

What Bob Dylan did, and still does, is changing and setting a new scene. Dylan is experimenting against all odds and inspiring a whole generation to do things and think differently.

It might seem strange to you that I, as a regulator, choose to quote a 'bohemian' musician like Dylan. But let me tell you – opposites attract. And besides that, we are not all that different. Our goals might actually be the same. And that is what I would like to discuss today.

1. Talk about crowdfunding and the changing times;
2. Explain our role as a regulator; and
3. Share some ideas about what we have in common, the challenges we – you, as sector and me, as regulator - are both facing. This creates a joint responsibility.

Since the financial crisis the setting of finance has transformed significantly. New players have entered the stage, where simplicity, speed and data sources are more important than ever. The demands of consumers and businesses – small, medium and large - have changed as well. The way we buy things, set up businesses and the way we invest are different than, let me say, a decade ago.

This change has also set the stage for a rising ‘phenomenon’ such as crowdfunding. A new financial reality. The crowdfunding sector in The Netherlands is developing rapidly and we hope even more rapidly in going forward.

It has emerged from its start-up and pioneering phase and will now enter a phase of real growth.

We estimate that around 37 million euro of funds was raised through crowdfunding by regulated platforms in 2014. Still a small amount. However, this corresponds to a growth of more than 100% compared to 2013. Where exponential growth is expected. So where will this all end? We simply do not know.

And The Netherlands is not alone in this. I recently visited the United States, and met with the crowdfunding sector and their regulators. In the US they speak about billions instead of millions. There the number of different platforms is increasing every day. We in the Netherlands envy the US markets. And if we can provide a playground – smaller, but as attractive and innovative - in continental Europe, this is an aim worth striving for. And the same is true for the United Kingdom which is the front-runner in Europe in everything related to capital markets, not surprisingly including equity-based crowdfunding.

What do we, as a regulator, think of crowdfunding?

We more than welcome the development of crowdfunding. It meets the need for funding small and medium-sized enterprises. These SME’s have found it increasingly difficult to find funding from traditional players like banks. Banks that need to shrink their balance sheets. Banks that have difficulty in attracting new capital themselves. Banks that have to comply with more stringent capital requirements on leveraged and more risky positions. Banks that are bound back by a suboptimal

securitization market in Europe. This all to prevent another crisis. But this has a huge impact on the economic growth potential in the real world in Europe.

I therefore think that initiatives such as crowdfunding have the potential to play an important role in the financial markets. It also provides the Netherlands the chance to put its name out. Simply because it attracts start-up's, entrepreneurs, young professionals, and above all it fosters knowledge, innovation and creativity. Creativity that made the city of Amsterdam notorious, vibrant and home of many early adaptors. You now understand why we in Amsterdam and we in the Netherlands embrace the potential of crowdfunding.

Therefore we consider it important that the crowdfunding sector is given the opportunity to grow in a sustainable and responsible manner. The AFM has been involved with the crowdfunding sector for some time. Since 2012, we have been granting licenses and exemptions for crowdfunding platforms on the basis of existing legislation and regulation.

Quite recently, in December of last year, we published a study in which we looked more closely at the supervisory regime in the growing crowdfunding market. Based on this study, we recommended that legislation and regulation should only gradually be implemented. In our view, this will encourage the market to develop gradually into a sustainable and mature sector. And therefore it is important you talk to us – and we talk to you. Exchange ideas and understanding.

Yet, as Eleanor Roosevelt once said: 'With freedom comes responsibility.' This means that you and other stakeholders bear a great responsibility. Crowdfunding has a specific character with accompanying risks and these need to be addressed properly and reduced as much as possible. For example, a minimum level of transparency, a certain degree of protection for investors and borrowers and cooperation between platforms. We expect that you are aware of these risks and take your responsibility.

What else do we as a regulator think of crowdfunding?

We support the suggested exemption by the legislator regarding the ban on inducements for crowdfunding platforms with an investment firm license. But this exemption should not be misused by the platforms and other participants. If we identify misuse, we will have to act upon it.

Most of the regulated platforms in the Netherlands currently have an exemption for intermediation in callable funds. In our study we concluded that this exemption was too lenient in comparison with

the other regimes for crowdfunding platforms. The suggested addition of requirements regarding properness and business conduct by the legislator is important. It will help the sector become more professional and reliable, which is eventually needed in a mature market. Besides these important upcoming regulatory changes, the AFM currently drafts the preconditions of a so called suitability test for larger investors, or those that pretend to be.

And what consumers and investors? What should the sector do?

Just like in any other sector – either in banking or in the healthcare or food sector – the protection of consumers is key. Especially when larger amounts of money are involved. Platforms have to provide clear-cut information on their website to investors. For example about, net return percentage, costs, risks and the provided service by the platform.

Our first impression is that some of the websites do not offer sufficient and trustworthy information about some key characteristics. For example, certain risk factors or the fact that often an investor cannot sell before the end of period is not mentioned on the website.

We stimulate the sector to think about creative ways to inform investors; you know your customers best, so it is up to you. What do they want to know? What do they need to know to be able to make a responsible and informed decision? Make use of your crowd; that is – ultimately- your most important capital.

This transparency will reduce the risk of inappropriate investing or disappointments and will have a deterrent effect on fraudulent parties and scams. There may also be other tools for saving your investor from disappointment, for example by the infrastructure of your website – like the positioning of the information provided. A crowdfunding platform sells trust. As a consequence the crowdfunding sector will keep the trust people have, and the sector as a whole will eventually benefit and be sustainable.

What about the future?

As we described in our study, we consider the Dutch crowdfunding market as growing rapidly; it is on its way to become mature. Once it becomes mature and fully developed, there might be a new Dutch statutory regime put in place which consist of specific regimes for loan-based crowdfunding and equity-based crowdfunding. This should ensure that investors and borrowers enjoy a certain



level of protection and that prudential requirements apply to the platforms. In a mature market it will be possible for the market to meet these preconditions.

But before these preconditions kick-in, you have a first-mover advantage. It is a data-driven industry. The more experience, the larger the pool of data, the more advantageous and sustainable your business model. We want to provide you with that advantage.

Of course it is possible that besides specific Dutch regulation, European regulation will be established. Minimum European requirements for crowdfunding can assure a certain level of protection and professionalism of platforms in Europe and allow for further cross border growth. Therefore we are in close contact with ESMA, the European Commission and EBA.

In order to inform you about interesting regulatory and supervisory news we will launch a specific AFM crowdfunding newsletter. The first edition will be issued this summer. Subscription for the newsletter is possible on the AFM website.

Ladies and gentleman, let me conclude. Opposites attract? I think we are allies. It seems that both the sector and the AFM have a supervisory role regarding crowdfunding. We both wish for a dynamic and responsible sector. Although we might not marry in the end, and will have ditches along the road, we as AFM are more than happy to embrace innovation. And a tender embrace is often a first sign of true love.

I wish you a very fruitful and inspiring day.

Thank you for your attention.