

# DELIVERABLE D.T1.1.1

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**Minimum platform standards**

**Version 1  
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## 1. CROWD-FUND-PORT PROJECT BACKGROUND

### 1.1. CROWD-FUND-PORT Project's challenge and objective

Crowdfunding ecosystem in Central Europe is growing and gaining more relevant role among alternative business models, willing to support new ideas/projects of start-ups and SMEs. Since the industry is still young, the environment conditions, terminology & research, legal framework and practices are constantly accompanied by a rapid development and change. Fast development and changes are presenting key challenge for involved stakeholders of crowdfunding ecosystem:

- Crowdfunding platform operators,
- Start-ups & SMEs,
- Investors & citizens,
- Policy makers.

It forces them to improve skills and competences in order to keep up with growing competition.

Mentioned fast growth of the industry is demanding, brings a lot uncertainty, risk factors and can influence on the quality of provided services, therefore the main objective of the CROWD-FUND-PORT project is, to support stakeholder groups with quality information, knowledge and good practices.

Project's main objective is to improve skills and competences of all four relevant stakeholder groups to prepare them for taking advantage of crowdfunding instruments. Therefore, it contributes to the improvement of financial conditions for start-ups, fostering innovation, employment and social stability in the region.

The Project Partnership has a lot of knowledge, experiences and skills from previously implemented projects (among others from CENTRAL EUROPE Programme 2007-2013) which can be capitalized in this project.



## 1.2. Introduction to WPT1: Increasing competences for crowdfunding

The purpose and aim of work package 1 is to increase institutional competences for crowdfunding capacities of crowdfunding platform operators in order to provide better services or start new crowdfunding platforms.

The activities in the work package one are focusing on raising capacities of crowdfunding platforms (current and future ones), therefore the deliverables and knowledge gained will be used in future work of current crowdfunding platforms and future platforms that will be established.

Starting point in the implementation of the project is the activity about legal issues for institutional capacity building (A.T1.1). It will be tackled with these deliverables consisting of:

- Development of minimum Platform standards (D.T1.1.1)
- Preparation of common Code of conduct for platforms (D.T1.1.2)
- Preparation of List of barriers for internationalization of crowdfunding platforms (D.T1.1.3)

The following activity is related to creation and operation of capacity-building platform (A.T1.2) with the CROWD-FUND-PORT (Output O.T.1.1.) as output will be enabled.

This document is a step towards establishment of a minimum standard for crowdfunding/crowd investing platforms and would assure the transfer of know-how and serve as the recommendations for prospective platform operators as well.

With the preparation of platform standards and recommendations for existing and future crowd investing and crowdfunding platforms in Central Europe, project partnership would like to contribute to:

- improvement of quality of services,
- higher professional management standards,
- higher ethical standards,
- higher visibility and acknowledgment of CE regional platforms.



## 2. INTRODUCTION

Are we talking about donations or investments?

Crowdfunding is not a homogenous concept. It can be used by different models of financing.

The two main categories to be distinguished are:

- Crowdfunding with non-financial returns (donations, rewards and pre-sales) and
- Crowdfunding with financial returns (equity-based and lending-based).

The main difference between these two types of crowdfunding is the potential financial return which the project offers to the investor (see working terminology below).

### 2.1. The benefits of Crowdfunding

As an area of alternative Finance, which means finance organized outside of the banking system crowdfunding differs from traditional types of financing in two important factors:

- The funding is made by relatively small amounts of many individuals within the pre-defined period of time.
- Potential donors or investors can see at any time how much money has already been spent and how many other donors/investors have already participated in the project. This, in turn, could have a great impact on whether or not they themselves participate.
- This approach to funding business or ideas has created the opportunity for individuals, small businesses and entrepreneurs to raise capital from anyone with money to invest. It provides a forum to anyone with an idea to pitch it in front of prospective investors.

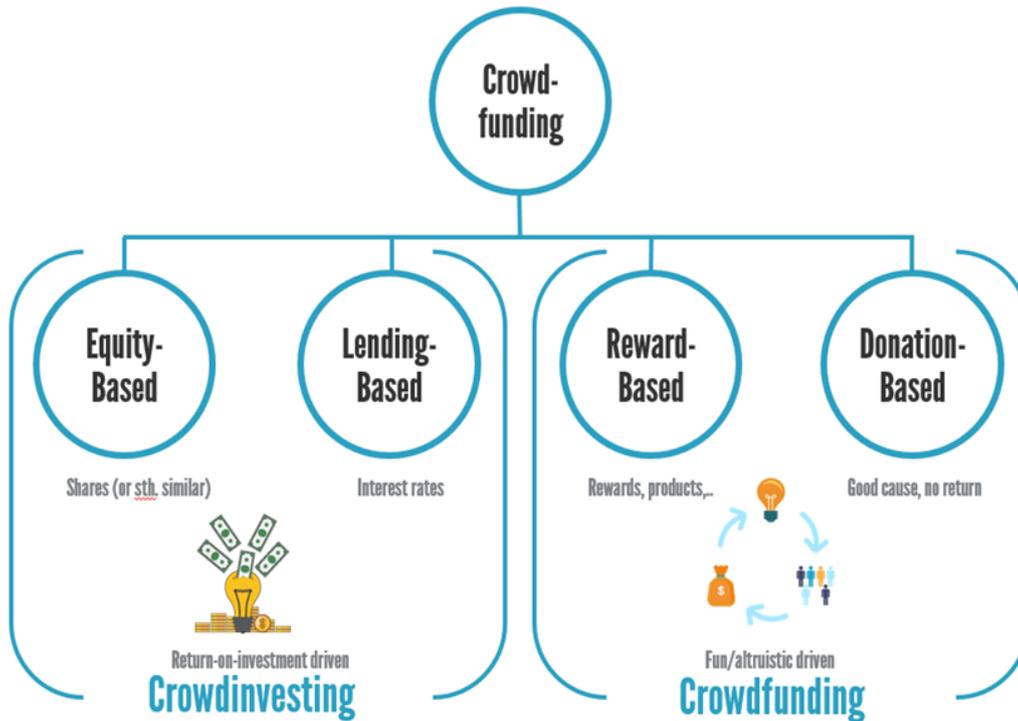
Crowdfunding can be referred to as a collective term, which includes the following forms of gift, credit and compensation-based crowdfunding, as well as equity-based crowdfunding.

In addition, applies also for equity-based crowdfunding:

- 1) potential to combine fundraising/financing with marketing/customer acquisition
- 2) accessible to everybody (unlike Bank funding or venture capital)
- 3) interaction with investors, investor feedback



Table 1: Crowdfunding basics



Source: CONDA AG, "Crowd investing: alternative ways of financing"

## 2.2. Working Terminology

Oxford Dictionary defines Crowdfunding as "the practice of funding a project or venture by raising many small amounts of money from a large number of people (also known as the "Crowd"), typically via the Internet."

Crowdfunding usually takes place via an online platform – a website which facilitates crowdfunding by allowing people or companies seeking money to raise it from members of the public.

Platforms list different projects, handle the financial transactions involved, and may also provide services such as media hosting, social networking, and facilitating contact with investors or interested public.

The 2nd European Alternative Finance Industry Report 2016 identifies a total of 10 current alternative finance model types - Table 2.



**Table 2: 10 current alternative finance model types**

ALTERNATIVE FINANCE MODEL	DEFINITION
Peer-to-Peer Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.
Peer-to-Peer Business Lending	Individuals or institutional funders provide a loan to a business borrower.
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
Reward-based Crowdfunding	Backers provide finance to individuals, projects or companies in exchange for non-monetary rewards or products.
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.
Profit Sharing Crowdfunding	Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material return.
Debt-based Securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture at a fixed interest rate.
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.

Source: [https://www.jbs.cam.ac.uk/fileadmin/user\\_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf](https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf)

For the purpose of this document, the focus lies on the four different types of funding like donation, reward, equity and lending.

In each type of Crowdfunding, a different name has been established for the persons from the crowd, who supports the projects with their financial contributions. This distinction is exemplary as the industry is in state of dynamic development.



**Table 3: Types of Contributors in Crowdfunding**

CONTRIBUTORS	ALTERNATIVE FINANCE MODEL
Investors	Equity-based Crowdfunding
Backers	Reward-based Crowdfunding
Donors	Donation-based Crowdfunding
Lender	Lending-based Crowdfunding
Supporters	User of a platform who has participated in a crowdfunding campaign and funded the project. Could be referred to all types of crowdfunding.

### 2.3. Donation-based crowdfunding

(Also called Gift-oriented crowdfunding)

Money is obtained on a donation basis from several individuals and businesses but nothing is returned to those who give the money. The big difference to conventional donations, however, is that the donor (here called backer) is informed in detail about the project and the use of the funds. Often donation crowdfunding is most successful among charities and non-profits. Some services invite people to donate to projects for the pleasure of giving. Philanthropy based services usually have other benefits such as tax credits or rebates.

As this sort of crowdfunding is predicated on donations, funders do not obtain any ownership or rights to the project, nor do they become creditors to the project. Typically the online service providers take a 5 %-10 % fee of all donations.

### 2.4. Reward-based Crowdfunding

(Remuneration-based crowdfunding)

Rewards-based crowdfunding is where individuals donate to a project or business with the expectation of receiving a non-financial reward in return, such as goods or services at a later stage. A common example is a project or business offering a unique service (rewards) or a new product (pre-selling) in return for investment. This form of crowdfunding allows companies to launch with orders already on the books and cash-flow secured (a major issue for new business) and gathers an audience before a product launch.

Key features:

Funds given don't have to be repaid; you just deliver the service or the goods promised.

Orders are secured before the launch of a new product, and the crowdfunding campaign allows you to build your customer base as you raise funds.



You are obliged to deliver on your promises on schedule.

It is a popular option for start-ups and entrepreneurs as it provides a way to fund the launch of new companies or products.

It is particularly suitable for products and services that are innovative or garner high levels of consumer attention.

Complicated concepts or products are less suitable for rewards crowdfunding.

There are two types of terminology generally identified:

- “Keep-it-All” (KIA) (also called flexible funding) where the firm sets a fundraising goal and keeps the entire amount raised regardless of whether or not they meet their goal. The target sum has to be reached in order to distribute the funds to the project
- “All-or-Nothing” (AON) (also called fixed funding) where the entrepreneurial firm sets a fundraising goal and keeps nothing unless the goal is achieved. The target sum has to be reached in order to distribute the funds to the project

## **2.5. Equity-based crowdfunding**

(Crowd investing, investment crowdfunding, crowd equity)

This crowdfunding type is an investment with financial consideration. A large number of people invest in a company and are thereby involved in the success of the company.

Investors usually acquire equity interests in companies in which they profit from the annual profit and the increase in the company's value. This new and alternative form of corporate finance combines the benefits of crowdfunding with those of equity capital.

Most equity-based Crowdfunding uses shares or stocks, however the using of mezzanine instruments such as profit-participating subordinated loans, which are structured like equity is possible in Austria and Germany.

For the investment in the form of a subordinated loan, equity-based crowdfunding is a part of mezzanine capital; the crowd gets an annual fixed interest rate. The investor's claim for repayment of the loan is subordinated to other creditors of the company: in the event of insolvency or liquidation of the borrower, the loan falls behind the other claims of the respective company.

This form allows participation financing for the early-stage financing of start-ups or for innovation projects in small and medium-sized enterprises (usually starting at around 100 €). Young companies in particular are often faced with difficulties in getting capital to finance their



business adequately. A crowd investing campaign can be used to raise the necessary capital, which in turn facilitates follow-up financing by banks or funding agencies.

On the other hand, entrepreneurs have a significant added value through the great attention and reach through campaign. Because equity crowdfunding involves investment into a commercial enterprise, it is often subject to securities and financial regulation.

## **2.6. Lending - based crowdfunding (crowd lending)**

This is a kind of a private microcredit for projects and companies. Several private sponsors (the crowd) lend their money through a platform to a borrower: a person or company of their choice. The platform Intermediaries serve as online credit marketplaces, which usually receive a fee for their mediation activities.

The crowd lending is primarily based on the idea of allowing people and companies to borrow that do not see any or little chance of obtaining a bank loan. Crowd lending can be divided as follows:

- Person-to-person lending (Peer-to-peer lending, P2P lending). Both the lenders and the borrowers are individuals.
- Person-to-business lending (peer-to-business credit, P2B lending): In this case the lenders are peers to companies.

## **2.7. Use of reward-and equity-based Crowdfunding**

Several terms and expressions referring to crowdfunding may cause confusion and have to be used with care and perhaps explained. A clear distinction in the media between “crowdfunding” und “crowd investing” is not always made and some crowdfunding platforms also address start-ups as it is possible to run diverse types of crowdfunding projects on e.g. equity-based crowdfunding platform as well.

Crowdfunding is often used to describe all types for crowdfunding finance rather unusual and cost-effective projects. With “crowd investing” refers usually to equity-based and lending- based crowdfunding.

The operational transparency, legal certainty, secures and reliable handling of payments and data protection are also a success factor for the numerous platforms as well as the ease of use.



### 3. RECOMMENDATIONS TO SET UP A CROWDFUNDING PLATTFORM

Recent technological developments like Web 2.0, offers new opportunities and scenarios for crowdfunding. This is supported above all via special platforms on which the descriptions of the projects can be found and which handle all transactions and retain a commission in case of success. Each crowdfunding platform operator should have a sound legal basis for its payment operations together with appropriate rules and procedures.

As the intermediary between investors and entrepreneurs, crowd investing platforms owe fundraisers and investors a high degree of transparency and the ability to facilitate secure transactions to reduce the risk of fraud.

Depending on the choice which type of the crowdfunding platform will be set up the degree of the regulations which have to be meeting may vary.

The dynamic potential of the crowdfunding industry seems to be unlimited currently, so crowdfunding can effectively become the backbone of both SME financing and philanthropic donations.

#### 3.1. Start up platform groundwork

Before setting up a platform the operators have to pay attention to many challenges, check facts and figures and deal with various questions. The building of a platform requires high level of personal commitment and awareness about what resources are available.

Operators have to set up business strategy (a rough formulation of the processes and the estimation of the financing requirements and fees) and chose well specialisation which type of crowdfunding will be provided on the platform.

There are some universal points which have to be examined before start relevant for each form of activities in the crowdfunding space.

Creating a platform is a huge undertaking and often includes details that may never have been considered. Operators have to make sure to cover all when starting a platform operation.

##### 3.1.1. Market research

It is crucial to gain knowledge about relevant competition landscape and delivering what users wants.

- > Furthermore, it is recommended to build up an insight into crowd, prospective investors, backer's motivation and user's decision.



- > Doing research and analyse the market; survey the target market before start.
- > Platform operators are well advised to target the right market (regional or international)
- > Consider the fact that multilingual platform operation activities require additional resources and solutions.
- > Assure to have enough initial and ongoing investment.
- > Raise awareness of citizens and improve understanding for crowd and finance alternative finance, they are prospective investors or backers.
- > Train and educate the platform operators continuously.

### **3.1.2. Legal information**

- > As international guidelines and national law regulations regarding crowdfunding, crowd investing, web-related activities, e-commerce, and alternative finance instruments are in ongoing and dynamic development. It is crucial to stay up-to-date regarding legal framework on national level.
- > Platform operators who are ready to meet the challenge of cross-border operations have to develop an understanding what relevant regulations, licenses and information duties coming to force there.
- > It could be recommended to consult preventive and proactive with a lawyer and accountant to confirm understanding and to help structure platform business to be in compliance with the current law.

### **3.1.3. Risk Awareness**

Although dynamic potentials are big, the crowdfunding platforms across whole Europe also identified several risks that may influence their practice:



**Table 4: Identified risks**

IDENTIFIED RISK	Significance of risk whole Europe	Significance of risk in Central and Eastern Europe <sup>1</sup>
Fraud involving one or more high-profile campaigns/deals/loans	40 % platforms view this risk as very high or high risk	25 % platforms view this risk as very high or high risk
The collapse of one or more well-known platforms due to malpractice	46 % platforms view this risk as very high or high risk	52 % platforms view this risk as very high or high risk
Changes to regulation at a national level	39 % platforms view this as very high or high risk	41 % platforms view this as low risk
Cyber security breach	42 % platforms view this as medium risk	14 % platforms view this as very high risk
Notable increase in default rates/business failure rates	42 % platforms view this as very high or high risk	39 % platforms view this as very high or high risk
Changes to regulation at an European level	30 % platforms view this as very high or high risk, 31 % platforms view this as very low or low risk	45 % platforms view this as medium risk
Potential ‘crowding out’ of retail investors as institutionalisation accelerates	47 % platform view this as a very low risk or low risk	37 % platform view this as a very low risk or low risk

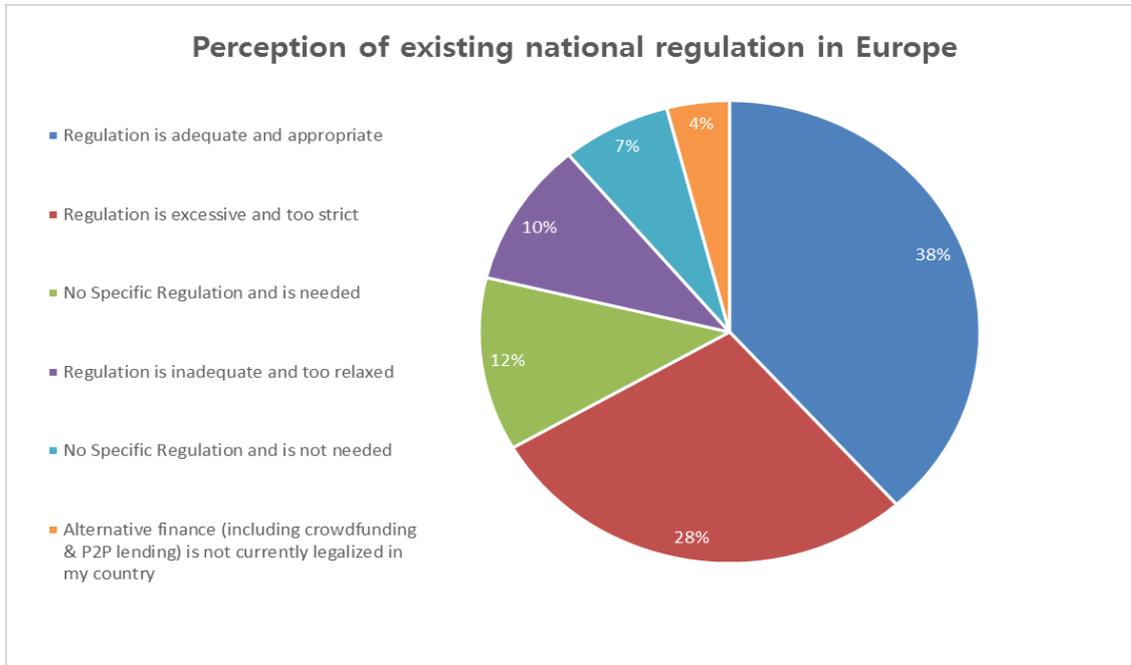
Source: [https://www.jbs.cam.ac.uk/fileadmin/user\\_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf](https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf)

Platforms perceptions towards existing national regulation in whole Europe (Table 5) shows that the largest percent (38 %) of platforms percept existing national regulation as an adequate and appropriate, on the other hand more than quarter (28 %) view it as excessive and too strict.

<sup>1</sup> Central and Eastern Europe: Albania, Armenia, Austria, Belarus, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.



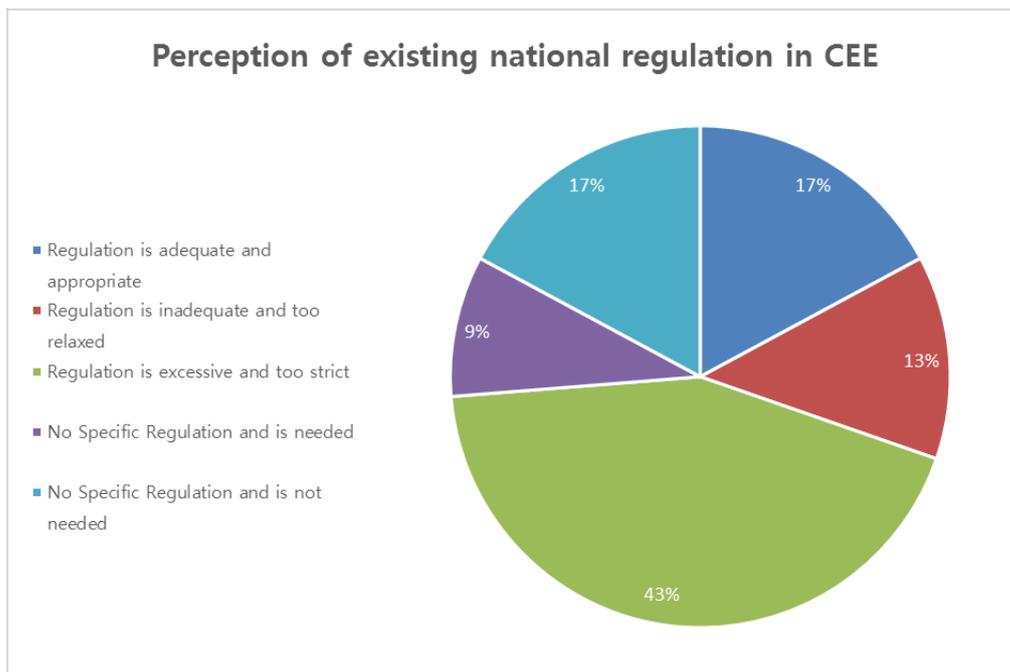
**Table 5: Perception of national regulation in Europe**



Source: [https://www.jbs.cam.ac.uk/fileadmin/user\\_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf](https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf)

Platforms perceptions towards existing national regulation in Central and Eastern Europe are shown in pie chart - Table 6.

**Table 6: Perception of national regulation in Central and Eastern Europe**



Source: [https://www.jbs.cam.ac.uk/fileadmin/user\\_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf](https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf)



The largest percent (43 %) of platforms believe that existing national regulation in Central and Eastern European countries is excessive and too strict, (17 %) of platforms view it as adequate and appropriate and the same percentage believe there is no need for specific regulation.

The area of crowdfunding is not widely regulated yet so it could be recommended to follow up on the regulation in the national legal systems, development of European directive and general anticipate future developments on the early possible stage.

### 3.1.4. Branding and trademark

- > It is crucial to make sure the platform or company name chosen is one with an available trademark and Internet domain name.
- > If someone else owns the brand or obtain a trademark already, it could put platform operation business at risk.

To prove, if a trademark is available, it is recommended to carry out trademark search online and offline as well. E.g. <https://euipo.europa.eu>

### 3.1.5. Business Models and Fees

All Crowdfunding platforms incur costs; therefore it is vital to think about means to cover the following costs:

- > Legal Cost
- > Management
- > Customer Support
- > Taxes
- > Domain, Server Space, Internet Traffic
- > Software Maintenance and Development
- > Payment Cost

Platforms have different types of refinancing models, but mostly in the market we find platforms which operate on a fee.

- > Fee from projects

Platforms which charge a success-based fee only retrieve the fee from the project if the funding has been successful, otherwise all payments are paid back to the supporters and there is no fee.



The success-based fee is linked to either the end of the crowdfunding campaign in Keep-it-All-Models or the reaching of the target sum in the All-or-Nothing-Model.

For some equity-based and lending-based Crowdfunding platforms, a success-based fee only applies if a project returns the money to the crowd. For instance, some equity-based Crowdfunding platforms charge a fee when a start-up has a so-called exit and returns the investment to the crowd. Platforms also charge an additional fixed fee from projects for additional services in setting-up the project or supporting the campaign with advertising. Very few platforms are asking for voluntary project fees, where each project can decide how much they want to give back to the platform.

> Fees from supporters

Any fee from the project is in fact a fee from supporters. A project budget needs to include all the fees of the crowdfunding campaign and each fee to the project has to be mirrored by the supporters. A fee to the project makes it necessary to raise more money. Some platforms have switched to directly charging supporters 5-10% of the amount from the supporters during the funding-process. The fee is sometimes success-based, more often however it is fixed, meaning that the platform will not reimburse the fee if a project does not reach its target sum.

Some platforms operate on a voluntary supporter fee - thus allowing the supporters to decide if they want to directly support the platforms for their services.

Direct support from a major partner - increasingly platforms are fully-funded by a major partner. The partner pays for all costs associated with the platform. Service fees from major partners - some platforms have earned revenue by partnering with partners who are co-financing projects. These matching-funds-competitions contribute to a greater media reach of the partner. The platforms charge the partners for running the competition.

### **3.2. Payment Solution**

It is recommended to platform operators to collect, store, and send funds through specialised institutions like payment service providers.

Payment Service Providers (PSP) are companies that have specialized in the technical connection and the transaction processing of payment solutions in the e-commerce area. They offer a kind of the "virtual cash register" for the Internet and integrate the desired payment systems into platforms via an interface (API - application programming interface that connects systems).



This choice is usually based on what's most important to the platform's operators, the skills of platform team and needs of end - users.

PSP offer a variety of different payment methods (credit cards, online transfer, wallet solutions like PayPal, mobile payment etc.)

It is to be taken into consideration:

- Which payment solutions are appropriate to the form of platform, e.g. if PSP understand the needs of the crowdfunding market.
- The conditions for the provision of payment services available and the rights and obligations of users.
- Terms and conditions of the establishment and operation of payment systems (like periods of transfers. billing of costs, information required from users, reporting).

### **3.2.1. Escrow account**

Cambridge Dictionary defines escrow as an agreement between two people or organizations in which money or property is kept by a third person or organization until a particular condition is met. Particularly equity-based crowdfunding requires that all funds raised go into a third-party escrow account and remain there until the funding goal is met or be returned to investors if the goal is not met: the money is placed in escrow until all specified conditions are met and transfer of ownership can occur. Money, securities, funds and other assets can all be held in escrow. The platforms can't touch the funds, a third-party is needed that can fulfil the escrow requirements.

It helps make transactions more secure by keeping the payment in a secure escrow account which is only released when all of the terms are met. While the payment is 'In Escrow' the transaction can be safely carried out without risk of losing money due to fraud. Escrow arrangement reduces the risk of fraud by acting as a trusted third-party.

### **3.2.2. Payments Solutions Overview**

Each payment solution has its unique features and reach. It has to be considered that normally a platform charges a platform fee and the payment providers could charge different transaction fees as well.



**Table 7: List of online payment service providers**

Payment Platform	Description
Bitpay <a href="https://bitpay.com">https://bitpay.com</a>	Supports Bitcoin. Global availability. Extremely low transaction fees.
Braintreepayments <a href="https://www.braintreepayments.com/">https://www.braintreepayments.com/</a>	International support for selected countries. On-site payments.
Coinbase <a href="https://www.coinbase.com/">https://www.coinbase.com/</a>	Bitcoin payments. International and very low fees.
Dwolla <a href="https://www.dwolla.com/">https://www.dwolla.com/</a>	US only. Does not support credit cards, but have very low transaction fees.
Gocardless <a href="https://www.gocardless.com/">https://www.gocardless.com/</a>	UK only. Reasonable fees, easy to work with.
Mangopay <a href="https://www.mangopay.com/">https://www.mangopay.com/</a>	Unique payment provider for Europe. Very flexible bank transfers.
Pagseguro <a href="https://pagseguro.uol.com.br/">https://pagseguro.uol.com.br/</a>	Brazil's number one payment gateway.
Payfast <a href="https://www.payfast.co.za/">https://www.payfast.co.za/</a>	One of the biggest payment gateways in South Africa.
Paypal <a href="https://www.paypal.com/">https://www.paypal.com/</a>	Supports payments across the globe. Supports payment with credit cards.
Razorpay <a href="https://razorpay.com/">https://razorpay.com/</a>	Innovative payment gateway for India. On-site payments supported.
Stripe <a href="https://stripe.com/at">https://stripe.com/at</a>	Multicurrency, including Bitcoin. International support. On-site credit card payments.
Wepay <a href="https://go.wepay.com">https://go.wepay.com</a>	US only. Supports payment with credit cards. Easy to use.
DotPay <a href="http://www.dotpay.pl/en/">http://www.dotpay.pl/en/</a>	E-transfers, mobile payment. Supports payment with credit cards, E-wallets, PayPal. Commissions
Przelewy24 <a href="http://www.przelewy24.pl/eng/about-us">http://www.przelewy24.pl/eng/about-us</a>	E-transfers, Supports payment with credit cards, E-Wallets and mobile payments. Commissions.
tpay.com <a href="https://tpay.com/en">https://tpay.com/en</a>	E-transfers, E-wallet, PayPal, mobile payments Supports payment with credit cards. Commissions
Pay-U <a href="https://www.payu.pl/en">https://www.payu.pl/en</a>	E-transfers, Supports payment with credit cards Commissions



Payment Platform	Description
Payeezy <a href="https://developer.payeezy.com/">https://developer.payeezy.com/</a>	E transfers, e-wallets, Supports payment with credit cards. Multicurrency. Commissions.
PayByNet <a href="https://www.kir.pl/en/about-us/about-kir/">https://www.kir.pl/en/about-us/about-kir/</a>	E-transfer, Commissions. A service offered by National Clearing House of Poland.
PayLane <a href="http://paylane.com/">http://paylane.com/</a>	Multicurrency, Supports payment with credit cards, e-transfers, PayPal. Commissions
eCard <a href="http://www.ecard.pl/English.htm">http://www.ecard.pl/English.htm</a>	E-transfers. Commissions.
Homepay <a href="https://homepay.pl/">https://homepay.pl/</a>	E-transfers. Commissions
Lemonway <a href="https://www.lemonway.com/">https://www.lemonway.com/</a>	Mobile services, payment processing, wallet management, crowdfunding, e-commerce.

### 3.3. Technology and equipment

Building a crowdfunding platform requires checking technology components that fit the need and budget and are available. Generally that includes: a computer and a stable Internet connection to go to the Internet at all and maintain the service 365/24/7. To get a platform online a domain name (a web address like yoursitename.com) and a hosting (a service that connects your site to the internet) with database access and cloud storage services have to be found and sustain. It is appropriate to make sure that the platform is designed responsive for mobile users (worldwide rising trend in using internet): They are potential visitors, investors, backers and customers. With the number of mobile users, the transactions generated by mobile devices are also increasing.

#### 3.3.1. Platform functionality

There are many ways to create crowdfunding platform website the list below can help create a crowdfunding platform.

- > White-Label Platform

On the Internet, the term white label refers to a product or service in which a website provider can include a product or service of a partner website in the layout of its own homepage. Visitors to the website use the white label as their own product. For transactions generated via the white label, the user usually receives a commission from the provider. The required technical



support is provided by the supplier. An important component of a white label on the Internet is the functionality provided and not the content shown.

> Open Source Crowdfunding Platform

Open-source software (OSS) is computer software with its source code made available with a license in which the copyright holder provides the rights to study, change, and distribute the software to anyone and for any purpose.

Most of today's websites are based on a content management system (CMS) which allows managing digital content directly. Platform operators are recommended to maintain the content of the platform with such a system, as it is often used to support multiple users working in a collaborative environment, e.g.:

> WordPress Themes for a Crowdfunding Platform

WordPress is a free and open-source CMS. WordPress users may install and switch between different. Themes allow users to change the look and functionality of a WordPress website and they can be installed without altering the content or health of the site.

> In- house Programming

Nowadays the general trend goes definitely to standard software, though for the sake of completeness this option has to be mentioned as well. In order to develop a long term - solution it is recommended to examine precisely how the new platform could be connected to the existing software (e.g. with API - application programming interface). It is essential to fix strictly and exactly how to document, support, update and customize the program, or implement additional features. The training for new operators and users could be here challenging as well.

It is important to identify the functions which the platforms want to include. Below is a list of possible functions.



**Table 8: Possible functions on the platform**

Modules	Functions e.g.:
User Management	Registration Login User Verification Detection of Fraud Public Search
Project Management	Personalized Direct URL Title Text (Project Description) Image - Content Video - Content Rewards/Perks Images for Rewards Social Media Sharing Campaign Time Management Campaign Time Extension Funding Goal Management Funding Minimum Funding Threshold Funding Maximum Public Project Search Project Categories Project Statistics Information about Project owner
Funding/Payment Management	APIs to Payment Providers Escrow Accounts Pre - Blocking of Payment Subscription based payments Payment Reversal
Performance Monitoring	Summary Reports Traffic Analysis Statistical Analysis



Modules	Functions e.g.:
General and legal information	Site notice/Legal notice/Legal disclosure: Information about the platform owner Terms of use Privacy Policy Disclaimer Relevant law regulations
Partner Sites	e.g. Match funding Sites; Sites with partnership with existing stakeholders
News	News from the Project; events recommendations Sites
Educational and Information Material	Subpages or/and download information Area about alternative financing, crowdfunding, crowd investing



## 4. RECOMMENDED OPERATIONAL STANDARDS

Some of the most relevant issues for all crowdfunding models are:

- Proper advertising and advice by platforms
- Treatment of payments (whether reclaimable contributions are returned)
- Trustful using the money collected for stated purposes (the risk of fraud)
- Trustful data protection and security procedures
- Equity - based platform models may entail main further risks:
- Legal uncertainty arising from divergent national laws
- Financial risk and investment risks: i.e. the risk of the investment being unprofitable or the risk of losing the invested capital as a result of project failure.

### 4.1. Crowdfunding Platforms

Reward-based crowdfunding platforms are not as strictly regulated as equity-based crowdfunding services but should fulfil numerous obligations as well. They are presented in the next chapters.

#### 4.1.1. Terms of Service (Terms of Use)

A Website that provides only information or sells a product often does not have terms of service, but every crowdfunding platform are internet service provider and as such store financial transaction information and personal data for a user and do have to have terms of service.

Terms of Service are also known as Terms of Use and Terms and Conditions and are commonly abbreviated as ToS or TOS and TOU.

Users must read and accept every aspect of this and any other agreement or policy provided by the platform. In the General Terms and Conditions each platform can set its own terms of contract. Frequently there are free download samples for general terms and conditions, which could be provided by local economic associations.

Terms of service should be available and clear published on the website for platform users

Those are rules a user must observe in order to use a service as legitimate terms-of-service agreement is generally legally binding.

A terms-of-service agreement typically contains sections pertaining to one or more of the following topics:

- User rights and responsibilities



- Property rights
- Proper or expected usage
- potential misuse
- Accountability for online actions, discipline guidelines and conduct
- Privacy policy outlining the use of personal data
- Payment details such as membership or subscription fees, etc.
- Opt-out policy describing procedure for account termination
- Disclaimer/Limitation of Liability clarifying the site's legal liability for damages incurred by users
- Types of Business not supported (e.g. multi-level marketing, weapons, adult entertainment)
- User notification upon modification of terms, if offered
- It is important to make comprehensible where the platform is based and where any disputes would be regulated and in according to which applicable law.

#### **4.1.2. Data Protection and Privacy Policy**

A platform operator collects, processes and stores a lot of personal data from users. The data protection laws foresee that users must be informed of the data that is stored.

Personal data means any information relating to an identified or identifiable individual. An identifiable person is one who can be identified, directly or indirectly, in particular by reference to an identification number (e.g. social security number) or one or more factors specific to his physical, physiological, mental, economic, cultural or social identity (e.g. name and first name, date of birth, biometrics data, fingerprints, ID, credit card ...).

It does not matter how the personal data is stored: on paper, on an IT system etc. The exact contents of a privacy policy will depend upon the applicable law.

Therefore, it has to be transparent which data, for what purpose and what happens with the collected information:

- > Prepare a comprehensive statement describing platform policies and practices with respect to the handling of personal data.
- > Links to the privacy policy have to be well displayed.



- > In order to investigate, prevent, or take action regarding illegal activities, suspected fraud, situations involving potential threats to the physical safety of any person, violations of terms of use, or as otherwise required by law - the disclosure information have to be published.

## 4.2. Equity-based Crowdfunding Platforms

Equity-based platform operators usually are entitled to broker alternative financial instruments between investors and issuers.

### 4.2.1. Operational Transparency

As the intermediary between investors and entrepreneurs, crowdfunding platforms owe fundraisers and investors a high degree of transparency. Licensed crowdfunding service providers have to meet and maintain certain minimum standards.

### 4.2.2. Trade authorization

In many cases equity-based crowdfunding platforms can only be operated by licensed or entitled providers. So in case of set up such a service platform operator will probably need to apply for a crowdfunding licence as: concession of financial market supervision, or a trade license for asset advisors; business consultants or securities service providers. Furthermore, it could be required to owe authorization/concession (e.g. according to industrial code) or be a holder of a so-called MiFID Licence (MiFID or the Markets in Financial Instruments Directive is a European Directive for the Single Regulation of the Financial and Investment Sector in the European Union).

This new pan-European licence permits to expand debt and equity crowdfunding services across all 31 EU and EEA countries. So the platform is able to operate freely in Europe without having to start from scratch in each country. Platform operator has to examine which type of authorisation is required and strongly need to follow application or registration procedures available.

### 4.2.3. Reporting

In Addition to reporting requirements each project has to fulfill in the legal framework, the platforms commit to develop and apply reporting guidelines, according to their specific legal and market conditions.

When reporting to their investors, projects should respect the following principles:

- > **Relevance:** The information provided allows investors to follow the development of their investment.



- > **Transparency:** The development of the investment project should be transparent in all relevant aspects.
- > **Consistency:** The information provided to investors should be consistent over time.
- > **Regularity:** The period of reporting should be clear to the investor and be regular.

The platform should set up those reporting guidelines which includes recommendations for a professional and transparent reporting to investors through the capital-seeking projects.

The purpose of the reporting guidelines is to supplement information and data from financial accounting and to develop a presentation form that allows investors to get a clear and comprehensive picture of the development stage of a project in connection with the financing form implemented.

In addition to the annual report, at least one further reporting could be recommended. The reporting contains appropriate details for the respective business model (start-up/real estate/SME/Renewable Energy Projects etc.)

#### **4.2.4. Information sheet/prospectus obligations for platforms**

The prospectus obligation is the statutory requirement that issuers of securities have to prepare and publish a prospectus. The basic content and structure of the prospectus is partly regulated by law. A prospectus has to include key information necessary to give the public an accurate assessment of financial security of the issuers for potential investors.

The main question here is the duty to create a full capital market prospectus after a certain limit of amount. It has to be underlined here; the preparation of such a prospectus may cost several tens of thousands of Euros, as extra lawyers have to be charged for this.



Table 9: Information sheet/prospectus obligations and thresholds by CE countries

COUNTRY	INFORMATION SHEET/PROSPECTUS OBLIGATIONS AND THRESHOLDS by CE COUNTRIES
AUSTRIA	<ul style="list-style-type: none"> <li>✓ In Austria those who collect the money must publish an information sheet only from an amount of 100,000 Euros.</li> <li>✓ From EUR 1.5 million, there is a prospectus obligation light.</li> <li>✓ From 5 million there is then a full prospectus obligation. As a rule, a capital profile shows the key figures for the investors in detail</li> </ul>
CZECH REPUBLIC	<ul style="list-style-type: none"> <li>✓ General prospectus requirement for offering of investment securities</li> <li>✓ Exemptions apply under threshold of EUR 1,000,000 per issuer for investment securities offered in any Member State of EU within 12 months</li> <li>✓ prospectus is not required when emission is under EUR 1,000,000 per 12 months within whole EU (there are exceptions even over EUR 1,000,000 they hardly occur within any crowdfunding platform, e.g. state bonds)</li> <li>✓ otherwise it is required. Act No. 256/2004 Col., §34 and §35.</li> <li>✓ Crowdfunding platforms usually set the limit of a bid/emission to EUR 1,000,000, obviously to stay below prospectus requirements.</li> </ul>
CROATIA	<ul style="list-style-type: none"> <li>✓ Prospectus requirement for offering of securities transferable on capital markets.</li> <li>✓ Threshold: EUR 5 million EU-wide per issuer within 12 months</li> </ul>
GERMANY	<ul style="list-style-type: none"> <li>✓ Prospectus requirement for offering of securities or investment products</li> <li>✓ General threshold: EUR 100,000 per issuer within 12 months</li> <li>✓ Prospectus obligatory from € 2,5 Mio €</li> </ul>
HUNGARY	<ul style="list-style-type: none"> <li>✓ Prospectus requirement for offering of securities and certain other financial instruments (e.g. shares, bonds, certain derivatives)</li> <li>✓ Threshold: EUR 100,000 aggregated issue value for securities offered in all member states of EU within a period of 12 months</li> </ul>
ITALY	<ul style="list-style-type: none"> <li>✓ Regarding equity-based crowdfunding: Consob (Commissione Nazionale per le Società e la Borsa - Italian Securities and Exchange Commission) Regulation provided two mandatory information sheets: a general one, referred to all the platform activities and a different one specifically referred to each investment proposal and whatever the amount is.</li> <li>✓ Information sheets for crowd investing shouldn't have Consob authorization.</li> <li>✓ Crowd-issuer must indicate in the information sheet that Consob is not responsible for the information contained.</li> <li>✓ Prospectus requirement for offering of securities</li> <li>✓ Threshold: EUR 5 Million per issuer</li> </ul>
POLAND	<ul style="list-style-type: none"> <li>✓ Public offers of shares require the drawing-up of issue prospectuses, confirmation by the Polish Financial Supervision Authority [Komisja Nadzoru Finansowego - KNF] and intermediation by a brokerage house when conducting the offer</li> <li>✓ There are, however, a series of exceptions to the prospectus requirement, e.g. the waiver from this obligation for public offers of low value, where the total value of financing obtained in this manner would not exceed EUR 100,000 over a 12-month period.</li> </ul>



COUNTRY	INFORMATION SHEET/PROSPECTUS OBLIGATIONS AND THRESHOLDS by CE COUNTRIES
SLOVAKIA	<ul style="list-style-type: none"> <li>✓ Prospectus must be published for offering securities</li> <li>✓ Threshold: EUR 100.000 in the EU issuer within 12 months</li> <li>✓ An offer of securities addressed to more than 150 natural persons or legal entities per Member State, other than qualified investors;</li> <li>✓ an offer of securities addressed to investors who acquire securities for a total consideration of at least EUR 100,000 per investor;</li> <li>✓ an offer of securities having a denomination per unit of at least EUR 100,000; or</li> <li>✓ an offer of securities in the European Union with a total consideration of less than EUR 100,000, which limit shall be calculated over a period of 12 months or</li> <li>✓ an offer of securities in the European Union with a total consideration of less than EUR 100,000, which limit shall be calculated over a period of 12 months.</li> <li>✓ the prospectus is formulated in Collective Investment Act §153 and applies only to asset management companies and funds.</li> <li>✓ Social public collections are regulated in Act 163/2014 Coll. on Public Collections and on change and amendments of some Acts</li> </ul>
SLOVENIA	<ul style="list-style-type: none"> <li>✓ Prospectus requirement for offer of securities</li> <li>✓ Threshold: EUR 100.000 in EU within 12 months</li> <li>✓ Other most relevant exceptions: (i) offering of securities to sophisticated investors only, or (ii) offering of</li> <li>✓ securities to up to 150 natural or legal, persons, who are not sophisticated investors</li> <li>✓ Simplified prospectus possible for offerings of securities below or equal to EUR 5.000.000 in EU within 12 months.</li> </ul>

### 4.3. Security of information and payments

#### 4.3.1. Risk information

The platform has to indicate about the recommended risk diversification and warning requirement concerning the risk of a total loss of the investment visibly.

In case of crowdfunding the risk lies in the nature of the matter: the capital invested is venture capital, which may be lost. Important is to deal with it openly. Crowdfunding platforms have explicitly point to potential risks. According to the law related obligation, if they have any.

#### 4.3.2. Obligations to prevent money laundering

- > the platform operator has to identify and verify the identity of investor (e.g. official Photo identification document).
- > Transactions and use of services has to be monitored by the platform operator.
- > Project due diligence data and documentation regarding a project relationship must be delivered. The platform obtains information on the nature and scope of the project/customer's business, stores the identification and due diligence data.



### 4.3.3. Minimum Information requirements

The information on selection criteria for projects and on the fees collected have to be publicly visible in particular via their own platform and the platform operators (e.g. According to Data Protection regulatory). Platform operators have to publish their periodical financial statements e.g. annual financial statements.

### 4.4. Investors Protection

In some cases, the individual investment restrictions could be set up by law regulations. Platform operator has to implement and control those restrictions. Furthermore, the extensive and easily accessible information regarding the risk of the investment have to be disclosed.

**Table 10: Limits of investments per individual investor for equity-based crowdfunding**

COUNTRY	LIMITS OF INVESTMENT PER INVESTOR FOR CROWDINVESTING
AUSTRIA	<ul style="list-style-type: none"> <li>✓ One investor can invest up to €5.000 per project.</li> <li>✓ However, this € €5,000 limit can be surpassed if the investor earns a net salary of more than</li> <li>✓ €2,500 per month. In this case, the investor is allowed to invest double his net monthly earnings.</li> </ul>
CZECH REPUBLIC	<ul style="list-style-type: none"> <li>✓ no legislative limit on investment volumes was found</li> </ul>
CROATIA	<ul style="list-style-type: none"> <li>✓ no legislative limit on investment volumes was found</li> </ul>
GERMANY	<ul style="list-style-type: none"> <li>✓ The maximum sum a natural person is allowed to invest in such a project is €10.000. But when investing more than €1.000, the investor needs to assure that person holds disposable assets of at least €100.000 or that he invests less than twice of his monthly net-income.</li> </ul>
HUNGARY	<ul style="list-style-type: none"> <li>✓ There is no any national regulation available, this type of service is prohibited</li> </ul>
ITALY	<ul style="list-style-type: none"> <li>✓ Individual investments must be concluded either by the platforms or by broker-dealers, in full compliance with anti-laundering laws and the E.U. Markets in Financial Instruments Directive (MiFID).</li> <li>✓ An exemption for small investments: <ul style="list-style-type: none"> <li>○ For individuals: €500 per deal and €1000 annually;</li> <li>○ For companies €5.000 per deal and €10.000 annually</li> </ul> </li> </ul>
POLAND	<ul style="list-style-type: none"> <li>✓ no legislative limit on investment volumes was found</li> </ul>
SLOVAKIA	<ul style="list-style-type: none"> <li>✓ no special legislation available</li> </ul>
SLOVENIA	<ul style="list-style-type: none"> <li>✓ One investor can invest up to 5.000 € per project,</li> <li>✓ If the investor invests more than 5.000 €, special provisions</li> </ul>



#### **4.5. Communication**

Platform should support the transparency in the communication with projects investors and founders. So the investors could get in contact with and ask questions about the companies e.g. in a separate section.

In order to be able to assess the risk better, the platform also could provide a guide on what to look for. It should encourage single and potential investors to get a better picture of the project they want to invest into.

#### **4.6. Social networking services**

Social networking services are interactive Web 2.0 Internet-based applications (like Facebook, Twitter, Instagram, etc.) Social media platforms help projects as they are shared across these and get a greater reach. It is crucial tool for the campaign; however it has to be taken into consideration how to implement using of social media communication strategy for the platform operation from the beginning. Through this interaction between the project and the financiers, the project becomes more serious and binds other donors.



## 5. CONCLUSIONS

In recent years, crowdfunding has become a dynamically increasing alternative financing method worldwide. This is an initial set of recommendations and is not intended to be exhaustive. Users may find this document to be useful examples of what to be focused on.

The previous content is intended to help readers who are not familiar with crowdfunding platforms to quickly get a sense of how it works.

For the future and explain relationship with future work in the project, i.e. that recommendations will be updated or expanded later in the project.



## 6. REFERENCES

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