

Digital Finance

Equity crowdfunding

Lecture 3

Words...

Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the Internet. We could describe it as “the practice of raising funds from two or more people over the internet towards a common Service, Project, Product, Investment, Social Cause, and Experience.



Equity Crowdfunding is a mechanism that enables broad groups of investors to fund startup companies and small businesses in return for equity. Investors give money to a business and receive ownership of a piece of that business. If the business succeeds, then its value goes up, as well as the value of the shares.

2012: 2,7 B\$

2013: 5,1 B\$



Track....

Model	2012 Volumes	Motivation	Business Volume
Reward	383.000.000	16,3	62.429.000
Lending	1.169.700.000	54,2	633.977.400
Donation	979.300.000	12,8	125.350.400
Equity	111.700.000	***	111.700.000
TOTAL	2.643.700.000	35%	933.456.800

35% of the 2012 crowdfunding volume has been collected with a business motivation

Equity

Scouting



Evaluation

Investors

VC

Crowd

EC

Equity crowdfunding is closer to the venture capital than to the traditional crowdfunding





ITALY: the track...

LAW:

**Law n. 221
december 17, 2012**

REGULATION:

**CONSOB Reg. n. 18592
June 26, 2013**

Worldwide

UE: Until April 2014 only Italy and UK has completed the regulation

USA: Jobs Act and SEC regulation are only for professional investors

Some authors defined Italy “the new Silicon valley for start up”

Italy vs USA

ITALY

- 6,7M\$
- Any Nationality
- No individual investment limit
- Free sale of the shares

USA

- 1M\$
- US National only
- 2K\$ max per person
- Sale only after 1 year

Actors

CONSOB

BANKS/BROKER DEALER

PLATFORMS

START UPS

INVESTORS



CONSOB

Italian Securities and Exchange Commission
that manages the platforms registry
(Ordinary and Special section)

MAIN TASKS

Regulation

Supervision

Vigilanza

Respect of rules	Investor Protection
Stability of Financial market System	Trust on financial System

Actors

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Banks and Investment Companies could directly manage a platform and also could be partner of a crowdfunding platform taking in charge the payment (in escrow account) and the execution of investment (giving suggestions within their general rules).

Identification	Anti-Laundering	MIFID
<ul style="list-style-type: none">• Always	<ul style="list-style-type: none">• Respecting the threshold	<ul style="list-style-type: none">• Investors profile

MIFID

Individuals

- Single investment > 500,00 euro
- Year > 1.000,00 euro

Companies

- Single investment > 5.000 euro
- Year > 10.000 euro

Actors

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Platforms

- 1) Exclusive purpose (raise equity from the crowd), but it is also possible advise the start up offering other services.

(Platforms may not provide recommendations to influence pledges)

- 2) Registration requirements: the shareholders and managers must be honourable (no preventive measures, restrictions or punishment for certain crimes) and professional (experiences)

Focus

The platform is a new category of broker dealers registered exempted from most broker dealers rules, forbidden to manage money of third parties.

Do not provide Prospectus but a lot of specific information about:

Investment loss

Illiquidity

Temporary tax advantage

No dividend for a certain times

Gap

#a good idea

#a good management

#a good market

#a good “exit- route”



Follow up



In Italy only one start-up company in 10 exceeds the third year. The reasons:

5. PRODUCT

Bad IP management

4. BUSINESS PLAN

Weakness of the business model

3. THE TEAM

Weakness of the team

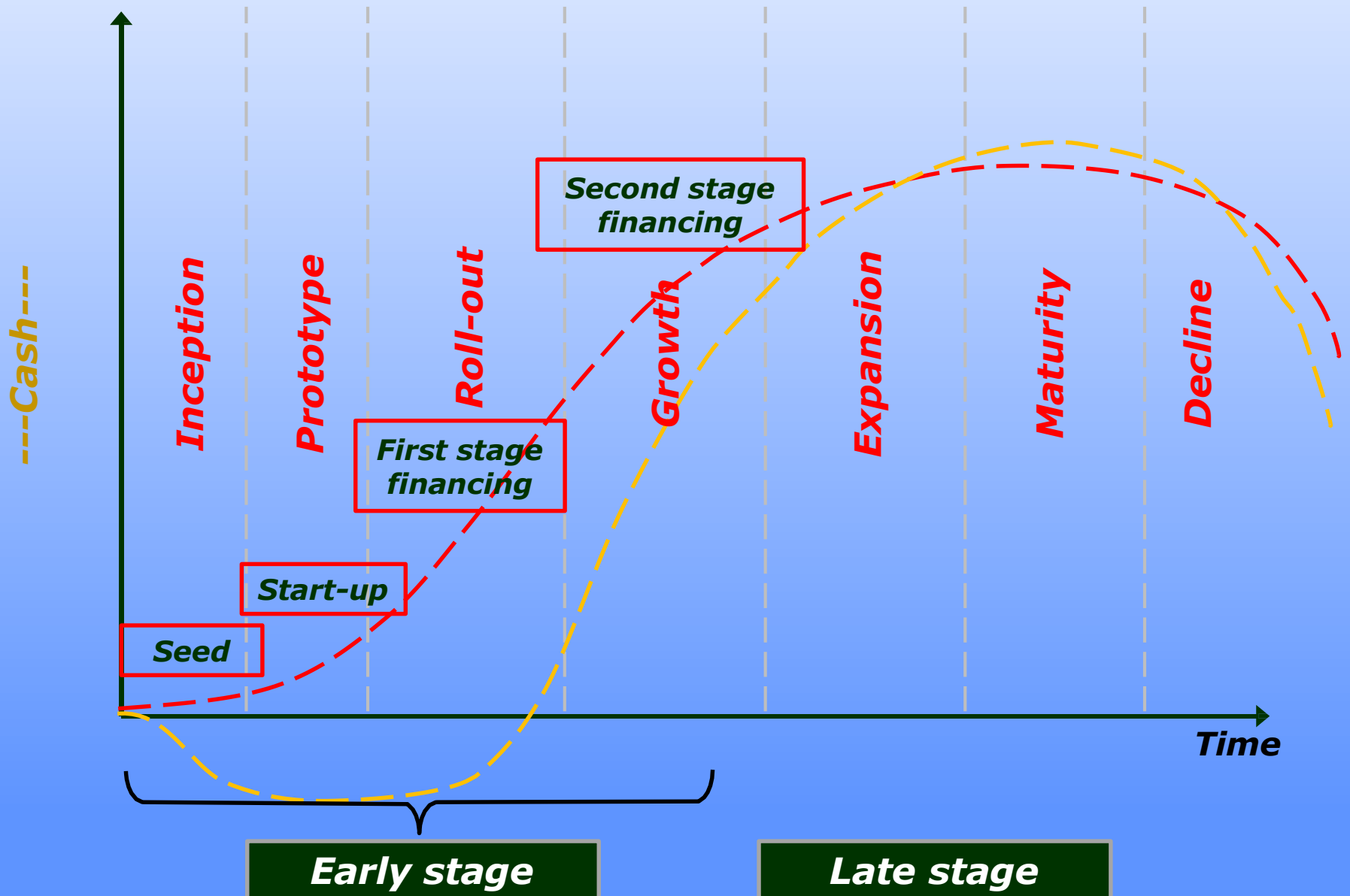
2. THE MARKET

Inability in reading the market

1. CASH

Cash needs

Cash and Growth



Actors...



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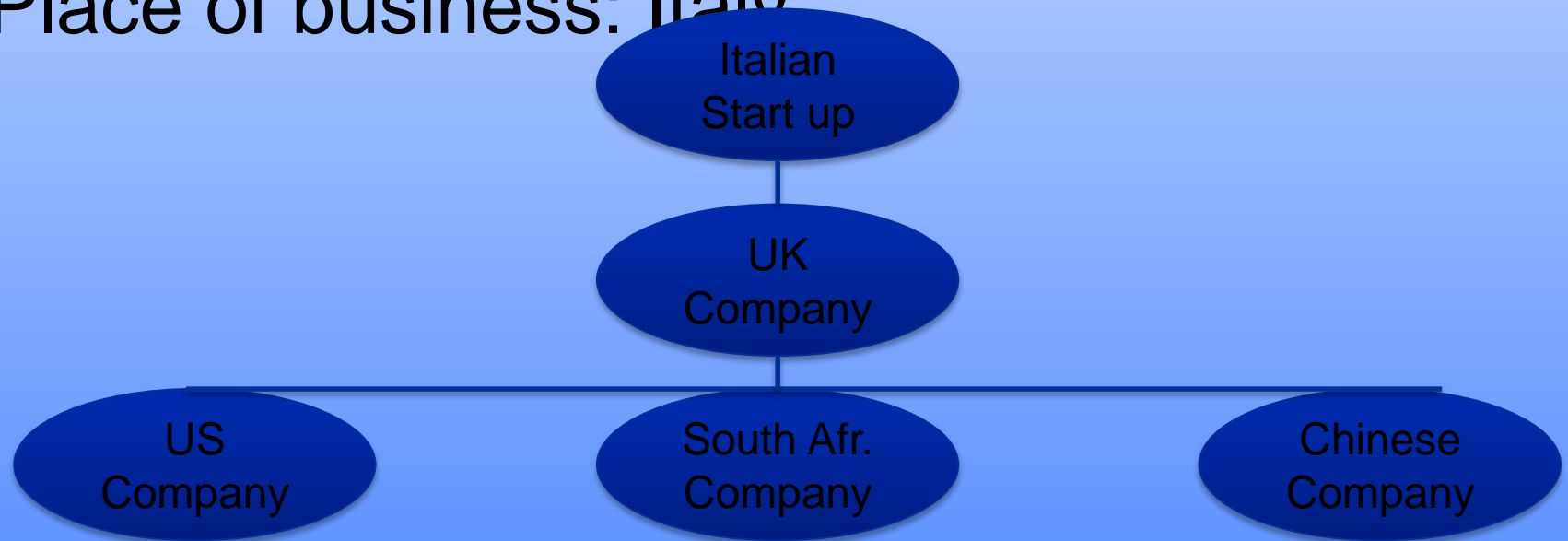


Where...

Owners: any nationality

Management Company: European

Place of business: Italy



Requirements

General requirements (all)



Actors

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Focus

1) Start up may offers preferred shares with limited voting rights against advantages in dividend distribution;

2) Tax advantages:

- Individuals: deduction up to 19% (25% for investment in social startup); (0,5M max);

- Companies: deduction up to 20% (27% for investment in social startup); (1,8M max);

In all the case to confirm the deduction it is necessary keeping the investment for 2 years;

3) 5% of the offered must be subscribed by a professional investors;

4) Withdrawal right (7 days for professionals, 15 days for consumers (consumer's code) – Shareholders agreement: tag along

The future



2025
93 B\$

1,5 times
actual venture
capital market

240 <> 344 M
of families will
invest with
equity
crowdfunding