



ShareSoc

UK Individual Shareholders Society

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Via Email: cp13-13@fca.org.uk

17 December 2013

Response to Consultation on Crowdfunding

Dear Mr Pope and Ms Andrews,

I refer to the above mentioned consultation. Here are our answers to the questions posed, submitted on behalf of our members (we have focussed our responses on the need to protect retail investors):

Q1: Do you have any comments on our assessment of the equality and diversity considerations?

Answer: we certainly have some concerns that crowdfunding platforms would attract the more inexperienced investors, and the risks attached to the kind of investments promoted by such platforms may not be recognised by such investors. The assessment provided well covers the subject.

Q2: Do you agree with our assessment of unregulated, exempt and regulated crowdfunding activities?

Answer: we agree with the assessment.

Q3: Do you agree with our proposals for transitional periods?

Answer: we agree.

Q4: Do you think there are other risks relating to crowdfunding that we should consider and seek to address?

Answer: an additional risk is that the low cost of crowdfunding will attract a lot of speculative ventures from inexperienced managers. Because there is little experience of the returns obtainable from either loan or equity based crowdfunding, the assumptions made by investors may be very optimistic and the sales pitches to them likewise.

Q5: Do you agree that we should not include loan-based crowdfunding platforms within the remit of the FSCS?

Answer: yes, we agree they should not be included. Investors need to be aware that these are not like normal deposits and hence protection under the FSCS should not be advertised.

Q6: Do you agree with the prudential standards proposed for loan-based crowdfunding firms? If not, what amendments would you make and why?

Answer: yes, we agree with the general approach, but the "prudential requirements" appear to be relatively low to us in relation to the risks and costs that might be faced if platforms got into financial difficulties.

Q7: Do you agree with the transitional approach proposed for the financial requirements for loan-based crowdfunding firms?

Answer: no comment.

Q8: Do you agree that firms running loan-based crowdfunding platforms should be subject to our client money rules?

Answer: we agree.

Q9: Do you agree that money held by the failed platform at the primary pooling event should be returned only to relevant investors?

Answer: we agree.

Q10: If contracts do not provide for risk transfer in the way described above, should CASS include a rule to require this in order to protect borrowers?

Answer: we agree that this should be required.

Q11: Do you agree with our understanding of how money received after a primary pooling event will be treated?

Answer: we agree.

Q12: Do you agree that firms operating loan-based crowdfunding platforms should be required to have arrangements in place so that existing loans continue to be administered in the event of platform failure?

Answer: our comment is that this provides a very onerous obligation and it is difficult to see how anyone would take on such an obligation without knowing the complexity of the platform, the financial viability of operating it, etc. Any such arrangements that are put in place might in reality turn out to be unenforceable and practically useless. In our view it would be better to strengthen the "prudential requirements" to cover the risk of platforms ceasing to operate.

Q13: Do you agree with our interpretation of the Distance Marketing Directive cancellation rights for firms operating loan-based crowdfunding platforms?

Answer: we agree.

Q14: Do you have any comments on our proposed approach to regulating disclosures on loan-based crowdfunding platforms?

Answer: No comments, we agree with the general approach.

Q15: Do you agree that firms running loan-based crowdfunding platforms should be subject to our dispute resolution rules?

Answer: we agree they should be.

Q16: Do you have any comments on the reporting requirements we propose for firms running loan-based crowdfunding platforms?

Answer: We agree they should do so.

Q17: Do you agree with our proposals to revise our approach to investment-based crowdfunding platforms?

Answer: We agree with the proposals, and believe it provides a reasonable compromise between investor protection while keeping the rules simple and quick to operate.

Q18: Do you have any comments on our analysis of the crowdfunding market or further information about it?

Answer: Our only comment is that we believe that it is necessary to regulate these markets even though some people might perceive the proposed regulation to be excessive. But the dangers of too light a regulatory touch for many investors would be high.

Q19: Do you have any comments on our cost benefit analysis for the proposed regulatory approach to crowdfunding?

Answer: No comments.

Q20: Do you have any comments on the compatibility statement?

Answer: No comments.

I submit the above responses to you on behalf of our board and our members.

Yours sincerely

Roger Lawson
Chairman

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