

Joel Kettunen

Equity-based crowdfunding regulation in Finland and United Kingdom

Helsinki Metropolia University of Applied Sciences

Bachelor of Business Administration

European Business Administration

Thesis

06.05.2016

Author(s) Title	Joel Kettunen Equity-based crowdfunding regulation in Finland and the United Kingdom
Number of Pages Date	37 pages + 1 appendix 6 May 2016
Degree	Bachelor of Business Administration
Degree Programme	European Business Administration
Specialisation option	International Law
Instructor(s)	Rosli Kamarul-Baharin, Supervisor
<p>The aim of this research is to identify and interpret the key regulative differences between Finland and the United Kingdom in equity crowdfunding and how cross-border equity crowdfunding operations should be conducted.</p> <p>Equity crowdfunding has been a booming industry in recent years. However, analysis of regulative differences between two Member States of the European Union has not been made and cross-border aspects of equity crowdfunding have not been looked into in detail. For this reason, the author has decided to research the regulative differences and similarities between Finland and the UK in equity crowdfunding and give suggestions as to how cross-border operations should be set up.</p> <p>This thesis uses a qualitative descriptive method to answer the research questions and compares the differences and similarities between the two Member States. Data sources for the research are mostly secondary sources coming from either independent researchers or governments or government entities.</p> <p>The results show that even though there are regulative similarities due to EU harmonisation, differences in regulation still exist and crowdfunding platforms need to assess markets before entering. Cross-border operations in Finland and the UK seem to be feasible according to the study and best practices are recommended.</p>	
Keywords	Crowdfunding/Equity/Platform/Regulation/Cross-border

Contents

1	Introduction	1
2	Methodology	3
2.1	The research and its goals	3
2.2	Earlier studies	4
2.3	Research method	5
2.4	Data collection	6
2.5	Data analysis	6
2.6	Research reliability, validity and limitations	7
3	Literature review	9
3.1	Crowdsourcing	9
3.2	Crowdfunding	10
3.3	Models of crowdfunding	10
3.4	The equity-based crowdfunding model	11
3.5	Other forms of financing	13
3.6	Equity crowdfunding in the UK	14
3.7	Equity Crowdfunding in Finland	16
3.8	Regulative bodies	16
3.9	Markets in Financial Instruments Directive	17
4	Analysis and discussion	19
4.1	The differences and similarities in regulation in the UK and Finland	19
4.2	Cross-border operations of platforms	25
5	Conclusion	30
	References	33
	Appendices	
	Appendix 1. Social media promotions	

List of Abbreviations

CFP.....	Crowdfunding platform
ECN.....	European Crowdfunding Network
EEA.....	European Economic Area
EU.....	European Union
FCA.....	Financial Conduct Authority
FIN-FSA.....	Finland's Financial Supervisory Authority
MiFID.....	Markets in Financial Instruments Directive
UK.....	United Kingdom

1 Introduction

During the recent years crowdfunding has developed from a niche form of financing to a large booming industry with a funding volume of bit under \$6.1bn globally in 2013 (Esposti et al. 2015: 8). Crowdfunding itself is a form of alternative-finance, which includes various financial instruments and distributive channels that have emerged outside of the traditional financial system (Wardrop, Zhang, Rau & Gray 2014: 9). The market has grown globally 83.7% per annum in 2012 and 125% in 2013 (Esposti et al. 2015: 8).

But even though the industry is booming, it is still taking its first steps. Most crowdfunding happens within a nation, and this is largely due to regulative differences between countries not only across the globe, but also in the European Union. Even though certain directives have harmonised the financial markets in the EU, such as the Prospectus Directive and the Markets in Financial Instruments Directive (MiFID), there still remain national differences in regulation in areas that have not been touched by the EU directives and also with differences to implementation of these directives between Member States.

The most developed nation when it comes to crowdfunding and equity-based crowdfunding is the UK. However, according to a study the weighted inflow and outflow of capital in equity crowdfunding was reported at 11.55% and 4.86% respectively (Zhang, Baeck, Ziegler, Bone & Garvey 2016: 30). Inflow refers to the capital coming from outside of the UK to UK based companies and outflow to capital going from the UK to fundraisers outside of the UK. If the most advanced country in crowdfunding only has below 12% of funding flowing to the UK companies, this shows that either the market is just developing or there are other factors at play as well.

Earlier research into equity crowdfunding has focused mostly on looking at crowdfunding platforms in different countries and taking different viewpoints. Most studies freely available are bachelor theses, which shows that the topic is still quite new. Also industry reports are widely available and there are organisations providing

either global or national reports on a yearly basis. The reports usually provide a look into what the market size is and how the market is developing.

There is a gap in providing actual knowledge on how platforms should be conducting cross-border operations. Also it hasn't been studied in detail what the regulative differences and similarities are between two EU countries when it comes to equity crowdfunding. Thus adding to this missing area some knowledge is of crucial interest.

This research is done in order to answer the questions of what the key regulative differences and similarities between Finland and the United Kingdom are in equity crowdfunding as well as how should cross-border operations be conducted. This thesis is done from the viewpoint of an equity crowdfunding platform that has MiFID investment firm authorisation, which sets the scope and gives the platform the ability to offer its services in any EEA Member State, thus making cross-border operations that much easier.

In the second chapter of this research we look at the research methodology, define the research questions, define the purpose and objectives of the study, data collection and analysis methods as well as the limitations of the study. The third chapter gives the reader an understanding of the relevant concepts in this research and thorough understanding of not only crowdfunding but also other forms of financing. The fourth chapter goes into the analysis and discussion of the research questions and in the final chapter we conclude the analysis of the whole research and try to find future research areas.

2 Methodology

2.1 The research and its goals

The meaning of this research was to find the key regulative differences and similarities between Finland and the UK with regards to equity crowdfunding. The findings resulting from this would help to assess how cross-border operations could possibly be conducted between the two countries and whether it was feasible to do cross-border operations in the first place. To help with the scope of the research, the research was conducted from the point of view of an equity CFP that has a Markets in Financial Instruments Directive (MiFID) investment firm license.

Limiting the research to look at specifically equity-based crowdfunding was due to two reasons. The motivations of participating in equity crowdfunding and other forms of crowdfunding can be assumed to be quite different, especially when comparing equity-based crowdfunding to donation and rewards based crowdfunding. The second reason is because donation and rewards based crowdfunding are not supervised by the same authorities as lending and equity-based crowdfunding are (Financial Conduct Authority 2015a; Financial Supervisory Authority 2014). Focusing on just one model of crowdfunding also allows the research to go more in-depth in the analysis of the regulations affecting the scope.

Country selection for this research was largely affected by the fact Finland needed to be compared against a country where the equity crowdfunding sector was more developed. Finland does not yet have crowdfunding specific regulation whereas UK has. The activity in the Finnish market has on the other hand been quite high, which gives a good reason to research Finland and compare its regulative landscape to that of UK's. On top of this, the fact that Finland will most likely be passing its own crowdfunding legislation will allow the research to provide a picture of the equity crowdfunding industry just before this change (Alois, J., 2016b).

The research questions were:

1. What are the key regulatory aspects governing the equity crowdfunding platforms in Finland and the United Kingdom?
2. How can a MiFID licensed equity crowdfunding platform operate in both markets at the same time and do cross-border business?

2.2 Earlier studies

Even though equity-based crowdfunding is relatively new there are already studies concentrating on the subject, especially in the form of bachelor papers and industry reports by third parties. The British Business Bank, did a study in 2014 about equity crowdfunding in the UK. The study gathered data explicitly from Beauhurst's database on equity investments in campaigns that were considered to be equity crowdfunding campaigns (British Business Bank 2014: 4). The study provided a look to the industry itself, how big was it, how fast was it growing, where in the UK was equity crowdfunding the most active etc.

The Financial Conduct Authority (FCA) did also a study in 2015 looking at the regulatory regime for crowdfunding after the change they had made in 2014 that set new rules for the CFPs (Financial Conduct Authority 2015(a): 1). They tried to look at the different growth rates in debt crowdfunding and equity crowdfunding and how the regulatory changes might have affected the industry as a whole

For the Finnish market, there have been a few bachelor papers looking at different aspects of the industry. Lauri Ketoja and Oskar Pajunen in their study *Equity-based crowdfunding in Finland* in 2014 looked at what kind of companies have done crowdfunding in Finland, how much they have raised, how much equity has been offered and in the company's opinion how important was the crowdfunding round for the company's internationalisation. The findings have been that the companies were mostly at the time Information Technology companies and found the crowdfunding round to be important to their internationalization (Ketoja & Pajunen 2014: 55).

The European Crowdfunding Network (ECN) has done a multitude of studies relating to the state of crowdfunding in the Europe. Perhaps the most related to this research is the 2014 Review of Crowdfunding Regulation which summarises the state of crowdfunding in Europe, North-America and Israel while interpreting specific national crowdfunding regulations as well as other varying applications of European legislation to CFPs (European Crowdfunding Network 2014: 10).

2.3 Research method

Qualitative research is the study of things in their natural habitat where the researcher is trying to interpret certain phenomena (Merriam 2014: 13). Merriam goes further by saying that it is „understanding the meaning people have constructed...“. For the case at hand, the qualitative research method helps us look into, describe and interpret the equity crowdfunding industry, regulation and from here on to expand the discussion into how platforms in either country could conduct cross-border trade.

Reaching the objective and answering the research questions set for this research, the researcher chose a descriptive research method. The descriptive research method is good when the researcher wishes to understand what is happening and wants no more than to add to our knowledge just for the sake of knowing (McNeill & Chapman 2005: 7). There were two levels of research in order to answer the questions. Firstly, there was an analysis of the equity crowdfunding sector in both markets, focusing on the regulative aspects of equity crowdfunding. The important points here were identifying the relevant regulations and from those regulations try to find the most relevant articles. Here we looked for things that might especially have an effect on the platform's core operations which are defined in this research as the actual offering the shares of the companies that raise crowdfunding and promoting said shares through different medias. This required us to look at different regulations, such as The Securities Markets Act (*Arvopaperimarkkinalaki*) in Finland and the Companies Act 2006 in the UK.

Secondly, answering the second research question required the research to find concrete differences and similarities between the two markets as per the first research

question and expand the research on these findings. The research expanded on the findings from the first question by researching the MiFID further to find key issues that were essential for the proper operations of an investment services firm. Lastly, to provide actual examples of CFP operations the research looked at some platforms in both markets to see how actual operations were in contrast to regulations.

2.4 Data collection

The research used mostly secondary data on the research. Third party crowdfunding reports by organisations, national governments and government entities as well as individuals were used. Also newspaper articles, journals and websites were used to provide insight into the industry.

Specifically, in the first research question, secondary sources of data relating to regulation were gathered from government or government agency websites as well as from other online sources. This secondary data encompassed regulations and summaries of regulations.

For the second question data was partly already created by answering the first question and partly taken from sources such as legislative texts and summaries of said texts. In this part, the research also took primary data of the platforms themselves.

2.5 Data analysis

Data analysis in the first question of the research focused on the regulative circumstances that are present on each market and that govern the functions and operations of the individual equity CFPs. This was largely interpretation of regulation although the research does not go too deep into interpreting regulation as this was not the ultimate point. The data was analysed by a descriptive analysis, where the data was merely opened up for the reader to see and finally the differences and similarities of the two markets were compared to each other.

The second question expanded on the first question and tried to analyse it further by providing actual recommendations. To provide recommendations that wouldn't solely rely on insights from the first question, the research brought into the analysis also additional regulative aspects from the MiFID relating to the conducting of business. Additionally, examples of CFPs were used to bring contrast to the possible differences in what regulation described versus what the actual situation in the market was.

2.6 Research reliability, validity and limitations

Reliability and validity of the research are important points that needs to always be assessed in the research. Reliability of a research is measured how well the data gathered by the researcher can be repeatedly be gathered by using the same research method (McNeill & Chapman 2005: 9). Thus the researcher must be careful when choosing a research method. Data gathered for this research was done mostly through the use of online material. The legislative texts, studies and summaries and articles were all found online. Also the primary data procured of the platforms themselves, can be found by the reader as well if he or she so wishes. The data itself can be gathered with ease repeatedly, however reliability questions can arise if the data comes from studies made by organisations and individuals. Here the reliability of their data comes into question and their methodology affects this research as well. To mitigate this, this research tries to use information from government's or government agencies, such as legislative texts and reports prepared by government agencies. For example, the Financial Conduct Authority in the UK even though not being directly a government agency still supervises the financial market and is held responsible to the Parliament, thus creating credibility and reliability.

Validity of the research refers according to McNeill & Chapman (McNeill & Chapman 2005: 9) whether the data gives true picture of what is being studied. Especially it can be a problem, when the research method affects the collected data skewing the results of the research itself. The problems of research validity relating to this research are that whether this research gives complete enough of a picture of the situation at hand or not. There is a lot to look at when assessing multiple regulations relating to an industry and without defining the scope, the amount of work can get out of hand

quickly. But the problem can also be setting the scope too narrow, which affects the objectives of the research not fulfilling. In this case, identifying relevant regulations required immersing into regulations and making decisions based on what is essential when raising capital and what the researcher thought was best to include in the research, which on the other hand also adds to the possibility of the research not being valid in the end.

3 Literature review

This part provides a thorough description of what crowdfunding is and what is its current situation globally as well as in each market related to this research. First the researcher defines crowdsourcing, the parent concept of crowdfunding to provide the reader a thorough understanding where crowdfunding originates from. From there, the research looks at crowdfunding and all its different models. After this, the research looks at equity crowdfunding on a deeper level and describes the markets in both the United Kingdom and Finland. Other forms of financing are defined also to give the reader an understanding of what the basic different financing methods are for companies. In the final part of the literature review the research looks at the relevant regulative bodies in each market and provides a summary of the MiFID.

3.1 Crowdsourcing

To provide a comprehensive understanding of crowdfunding one must also provide a description of the concept of which it is but a part of, crowdsourcing. Crowdsourcing was first coined as a term by Jeff Howe (2006) and it was simply defined as „the act of a company or institution taking a function once performed by employees and outsourcing it to an undefined (and generally large) network of people in the form of an open call.“ After this there have popped up a variety of differing definitions of crowdsourcing all having minor differences. However, all of these different descriptions have two unchanging elements in them as noted by Sánchez & Estellés-Arolas (2015: 132): there must be a large heterogeneous crowd and an open call to everyone. Thus crowdsourcing is in its simplicity the engagement of the crowd, referring to people in general, through an open call, which is a description of the task, need or problem addressed openly to everyone. To reach a large enough crowd, crowdsourcing is done via the use of applications and platforms on the internet to which thousands of users can connect to and share information (Sánchez & Estellés-Arolas 2015: 132).

3.2 Crowdfunding

The European Crowdfunding Network defines crowdfunding in the following way: "Crowdfunding can be defined as a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organisations. This is usually done via or with the help of the Internet" (Buysere, Gajda, Kleverlaan & Marom 2012: 9).

This shows that crowdfunding is essentially the tapping of networks to realise a goal. Instead of having a few contributors donating or investing large sums of money to gather funding as is the case with traditional ways of funding, in crowdfunding there are many individuals with smaller monetary contributions. Cases utilising crowdfunding can vary from donations to social and charitable causes, a band raising money or a company raising capital to support their business operations (Buysere, Gajda, Kleverlaan & Marom 2012: 9).

3.3 Models of crowdfunding

The multiple different models of crowdfunding are rewards based crowdfunding, donation based crowdfunding, debt based crowdfunding and equity based crowdfunding (Freedman & Nutting 2015: 1). In rewards based crowdfunding a person, a group of people, an organisation or a company seeks funding to realise a project out of which there is a clear product which can thus be given out as a reward to the contributors (Freedman & Nutting 2015: 2). Usually the reward is also tied to the amount the person has contributed, for example there can be categories set-up that people who contribute 10 € receive a CD and those who contribute 20€ receive a CD and a t-shirt. Most notable rewards based CFPs include Kickstarter and Indiegogo.

Donation based crowdfunding is a form of crowdfunding that focuses on a charitable cause. Contributors don't receive anything for their contributions, but rather contribute because they believe in the cause that the campaign is serving. One of the largest donation based CFPs, and also one of the largest CFPs overall as well, is GoFundMe,

which focuses on campaigns made by small organisations or individuals (Freedman & Nutting 2015: 5).

Debt based crowdfunding, as the name suggests, is crowdfunding namely focusing on financing people or organisations through debt. Debt based crowdfunding can be subcategorised into two distinctive departments: peer-to-peer lending and crowdfunded bonds. Peer-to-peer lending, or P2P, is for the borrower a convenient way to receive credit as it might be near to impossible to do so through a bank since the 2008 financial meltdown. For the investor, P2P lending can be a good way to get a decent return on their investment when taking into consideration proper diversification (Freedman & Nutting 2015: 4). A notable P2P lending based crowdfunding company is Lending Club and Funding Circle.

3.4 The equity-based crowdfunding model

Like the other models of crowdfunding, equity-based crowdfunding or equity crowdfunding, has grown exponentially in the recent years. Globally equity crowdfunding grew 182% and became a \$1.11bn market in 2014. Europe was lagging behind in growth, with a growth percentage of 145% while the United States grew at a rate of 301% (Esposti et al. 2015: 55). In equity crowdfunding, traditionally the investor receives an equity instrument for her or his investment that translates to ownership in the company the investor has invested in. Another model is called the collective investment scheme, where the investor doesn't become an owner in the company but acquires rights in the profits of the company. In this research, the focus is on the more traditional concept of equity crowdfunding where the investor buys direct ownership in the crowdfunding companies.

Overall there are two different models of how equity CFPs offer the shares of the target companies seeking funding. Firstly, there is the model where investors buy shares directly in the company and in the event of a successful crowdfunding round the company gets tens, hundreds or even thousands of new shareholders. This can be problematic for companies as they would need to communicate in the most challenging scenario with thousands of different shareholders. Thus, many CFPs collect the

invested funds in a special purpose vehicle (SPV), which makes a single investment to the company and becomes the nominal shareholder (Esposti et al. 2015: 44). But as some CFPs operate in the former mentioned manner, this has resulted in a need of a service through which the companies can manage their shareholders and communicate with them. For example, the Danish service named Capdesk founded by the former directors of Fundedbyme's Danish operations has been set up to serve this need (Alois 2016(a)). Also, the Finnish equity and debt CFPs Invesdor offers their own shareholder management tool for companies, called Ownersportal (Invesdor Services Oy 2016).

As is the case in stock market investing, there is a chance for a bigger upside when investing to equity crowdfunded projects than in debt crowdfunded projects. This is obviously because investing to debt gives the investor profit only in the form of interest, thus limiting the possibility of the upside of the investment. Investing in equity on the other hand gives the investor the possibility to receive dividend payments as well as the prospect of the company increasing in value thus increasing the value of the equity owned by the investor. On the other hand, this also means that the investor runs the risk of either losing her or his money in whole or partly due to poor development of the company's business as well as receiving irregular or no dividend payments at all. An additional point of risk is the fact that equity investors are subordinate to creditors in the line of repayment, making equity a riskier investment than debt.

The investor must make her or his investment decision based on the material offered by the company on the CFP and whatever additional information the company might provide through the internet or by attending a possible investor event that the company holds during the crowdfunding round. And as the companies seeking funding through crowdfunding are at least at this point mostly unlisted companies, meaning not listed on the stock exchange, there is generally less information about the companies when making an investment decision. Thus the researcher sees, that it is largely up to the CFPs responsibility to require the company that seeks crowdfunding to provide relevant and thorough information about the business.

However, sizing the equity crowdfunding market is not without its troubles. The methodology used by Wardrop in their study was surveying the CFPs themselves on

how much they raised on that specific year (Wardrop et al. 2015: 10). The trouble in this is that much of a CFPs activity happens also in the background. There can be campaigns going through which will remain unknown to the public crowd, but which the CFP will report in their statistics as funding raised through crowdfunding. This then raises another question, is this really part of crowdfunding or not. And furthermore, what is the definition of a crowd.

3.5 Other forms of financing

Other sources or forms of financing for companies both in the early and later stages include banks, business angels, venture capital companies and institutional investors. After the 2008 financial meltdown banks have been less and less involved in financing early-stage companies due to their high risk profile. This has resulted in a significant funding gap for SMEs since banks are reluctant to give loans to them. For this reason, the research won't be looking at bank financing but will focus more closely on the other forms that are there to support especially SMEs and their growth. The research will also not look at private equity companies as they mostly focus on leveraged buy outs of a publicly traded company, thus having little to do with SME financing (Berk & DeMarzo 2014: 809).

Alasdair Steele, the Head of the Financial Sector Group, Nabarro LLP (Davis 2012: 4) cites that the estimates for the funding gap for SME financing is between £29bn and £59bn in the UK. The gap is big and for that reason alternative forms of financing have surfaced. But obviously also the more established and traditional forms of SME financing continue to exist as well and for a good reason too. For example, business angels and venture capital companies can provide not only money when assisting companies but also their experience, expertise and network to help boost the company's growth.

Business angels usually come from the network of the entrepreneurs (Berk & DeMarzo 2014: 807). They are traditionally the first choice for the entrepreneurs for funding outside the company. Also, venture capital companies seem to be leaving the seed rounds to do more follow-on investing, at least in the UK, meaning later rounds with

more established companies thus contributing to the funding gap especially in the companies seed stage (Deloitte LLP 2013: 11). This seems to have been true as well in the US according to the Harvard Business Review article by Bob Zider (1998), who mentions that the point of investment seems to be when the company is at the adolescence stage, not at the start-up stage. The significant amount of seed stage start-ups that require funding to continue or develop their operations has contributed to the increased amount of angel syndication. Angel syndicates allow angels to spread their capital more evenly to more start-ups and diminish their risk (Deloitte LLP 2013: 11).

Venture capital companies differ from angel investors in that they are limited partnerships, where the limited partners are usually institutional investors such as pension funds and insurance companies (Berk & DeMarzo 2014: 808). The general partners are the ones running the company. Venture capital companies have funds, where the limited partners and other investors provide the capital which is then invested across a wide array of early stage companies. This provides the diversification that angel syndicates are also seeking at the moment.

The interesting point is, that even though these sources of financing are still kept separate from equity crowdfunding in general, equity crowdfunding does not rule these out. For example, business angels are investing more and more through equity CFPs. Co-investing alongside an equity CFP is the most usual co-investment choice for UK angels according to a study done by Wright, Hart & Fu (2015: 18). This shows that equity crowdfunding does not rule out other sources of financing. This brings up a larger question whether crowdfunding is really a source of funding or just a form of funding for companies.

3.6 Equity crowdfunding in the UK

The United Kingdom and especially London has a long history as a financial centre. London has been one of the most important financial hubs of the world alongside other cities such as New York, Hong Kong and Singapore. And in 2015 the Z/Yen Group proclaimed it the best financial centre in the world (Telegraph Media Group Limited

2015). In 2016, London was subsequently proclaimed the financial technology (fintech), capital of the world in a report made by the Her Majesty's Treasury in collaboration with Ernst & Young (Alois 2016d). This goes to show, that when it comes to financial services as well as innovation, the UK is one of the most developed nations in the world to look at. The same applies when it comes to crowdfunding, which has grown faster in the UK than in the rest of continental Europe. In 2013 equity crowdfunding amounted to €37 million raised in the UK while in 2014 the amount raised was already €111 million contributing to a 200 % growth rate (Wardrop et al. 2015: 37). According to the same research equity crowdfunding in the rest of Europe raised €47.5 million in 2013 and €82.6 million in 2014 contributing to a growth rate of 73.8 %. In 2015, equity crowdfunding's growth only accelerated in the UK and the market grew to £332 million. The single largest sector in equity crowdfunding in the UK was real-estate crowdfunding, which was £87 million in 2015. (Zhang et al. 2016: 11).

The Financial Conduct Authority (FCA) has introduced regulation to equity crowdfunding in 2014 thus making the UK one of the forerunners in the European Union by doing so (Financial Conduct Authority 2015a: 1). This regulation has largely been viewed as a positive thing by the equity CFPs as well as other alternative finance platforms according to the study made by Zhang et al. (2016: 33). However, there has been some criticism as well. The promotion of securities online and through social media is viewed by 21% of the surveyed platforms in Zhang's study to be 'excessive or too strict'.

To boost the industry, UK also provides tax incentives to investors through Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) (British Business Bank, 2015, p.6). Investing into companies that qualify as either EIS or SEIS companies gives the investor notable tax benefits that cover for example income tax, capital gains tax as well as inheritance tax (Kuber Ventures Limited 2016). The importance of the tax benefits is big as the British Business Bank (2015: 6-7) report notes "Many crowdfunding platforms have made concerted effort to promote the tax incentives to investors – indeed some platforms host exclusively SEIS/EIS-eligible companies." The largest equity CFP in the UK (Alois 2016c), Crowdcube, for example seems to feature only EIS and SEIS companies on their site at the time of writing this.

3.7 Equity Crowdfunding in Finland

Equity crowdfunding industry in Finland is much less developed and a lot smaller than in the UK. This also contributes to the fact that there is little research concerning the market itself and its state today. It is important to understand that at the time of writing there are at least four active equity CFPs in Finland and one Software as a Service (SaaS) based equity crowdfunding tool that firms can use to conduct their own crowdfunding campaign. The active CFP that are operating in Finland are Fundedby.me, Innovestor, Invesdor and Kansalaisrahoitus. The SaaS –based service is called Fundu.

To provide the reader an understanding of the approximate size of the market, the researcher will use the openly provided data of the four active equity CFPs to size the market for the year 2015. Fundu does not openly provide information of the equity crowdfunding campaigns that are done by companies using their funding tool service, thus their data is not included in this calculation. The market size analysis is done by looking at campaigns that have ended in 2015 and then adding all of the raised capital of such campaigns together. The limitation of this method is that the information provided by the platforms might be unclear in presentation, incomplete or even not to be considered capital raised from the crowds. For example, Ahola Transport's campaign hosted on Invesdor's platform (Invesdor 2015a) mentions that the company raises funding also from other places which is all shown in the raised capital figure, thus rendering the figure unusable as the real amount of how much was raised through crowdfunding remains unclear. The final figure for equity crowdfunding's market size in 2015 in Finland is €18,783,666.

3.8 Regulative bodies

Both in Finland and in the United Kingdom equity crowdfunding is regulated activity. In Finland, the regulatory and supervisory authority of financial companies is called the Financial Supervisory Authority (FIN-FSA) in English. The FIN-FSA supervises a wide array of financial companies operating in different fields, such as banks, insurance and pension companies, investment firms etc. (Financial Supervisory Authority 2016). The organisation is financed by the firms that it supervises up to 95% and the remainder

comes from the Bank of Finland. Their stated mission is to enable the balanced operations of all the supervised entities in a stable financial markets. FIN-FSA strives to also maintain the public confidence in the financial market operations and work to benefit the users of banking, insurance and investment services. The core activities of FIN-FSA are supervision of the regulated financial companies as well as regulatory operations, which includes the issuance of regulations and guidelines and participation in preparations for financial market legislation both in Finland and within the European Union. Even though FIN-FSA supervises companies that are within their regulatory jurisdiction, the first responsibility for operations is always bore by the supervised entity itself, meaning that operations have to be set up in a manner that help the company operate following the regulatory requirements.

The Financial Conduct Authority is UK's regulatory and supervisory body of financial companies that is the most related to this research. There are other organisations, namely the Prudential Regulation Authority, the Bank of England, the Financial Policy Committee and Her Majesty's Treasury. All of these have separate tasks, objectives and goals set out in the Financial Services Act 2012. This structure was created after the financial crisis of 2008 in order to strengthen UK's economy. The main purpose of the new FCA is to maintain and ensure market integrity, consumer protection and promotion of competition in consumers' interest (Financial Conduct Authority 2016d). The FCA is funded in its entirety by the companies that it regulates and is not a government body but is accountable ultimately to the Treasury and to Parliament (Financial Conduct Authority 2016b).

3.9 Markets in Financial Instruments Directive

As mentioned before, the research is focusing on an equity CFP that has a MiFID investment firm authorisation. It is important to know why this predisposition was made in this research by providing some of the basics of what MiFID is. MiFID is a continuation of the Investment Services Directive (ISD) of 1993 and it goes further than the ISD in financial markets integration. The scope of the entire directive is very wide and in this research we will be looking only at certain parts that have been implemented to the national legislation, not at MiFID itself. MiFID's aspects relate to for

example market transparency and integrity, investor protection and the definition on competent authorities (European Commission 2004).

4 Analysis and discussion

4.1 The differences and similarities in regulation in the UK and Finland

As equity crowdfunding is still relatively new, many countries lack legislation to provide clear and coherent rules on how to operate as an equity CFP. On the other hand, large parts of equity crowdfunding activities are already covered by existing financial regulation. Raising equity capital for companies is not a new thing after all, but the new way of doing it brings new questions to be considered. United Kingdom, as mentioned before is one of the forerunners not only in equity crowdfunding but also in the broader context of alternative finance, and has implemented investment-based crowdfunding specific rules that aim to enhance consumer protection. The rules relate mostly to the marketing and sales of investment-crowdfunded securities that are non-readily realisable. A non-readily realisable security is something that is regarded as illiquid and hard-to-price where there is no or a limited secondary market (Sehra 2015).

Unlike United Kingdom, Finland has yet to introduce crowdfunding specific regulation. This will most likely change during the summer of 2016 as the Crowdfunding Act is expected to come in force July 1, 2016 (Alois 2016b). Before 2014 equity CFPs did not need a license in order to operate in Finland, however in 2014, the Finnish Financial Supervisory Authority (FIN-FSA) released a statement regarding crowdfunding (Financial Supervisory Authority 2014) saying in the statement: "Within the limits of its mandate and tasks, FIN-FSA supervises crowdfunding activity in the financial sector only in so far as the conduct of such activity is subject to existing financial regulation." With regards to this statement and the Investment Services Act, to operate an equity CFP in Finland at the moment before the Crowdfunding Act has come into force, one must authorise their activities by registering as an investment firm. This new interpretation of the regulation by the FIN-FSA led to the fact that equity crowdfunding is considered in Finland to be an investment service as according to the Investment Services Act (*Sijoituspalvelulaki*). Looking at the regulation from the point of view of a platform that already has an investment firm authorisation of course covers this point effectively.

This leads us to looking at the regulation related to equity crowdfunding in Finland and naturally the Investment Services Act serves as a good point from where to begin. The Act includes provisions from the MiFID and authorising one's activities on the MiFID level guarantees you the fact that you can export your services to other EEA countries as already discussed. The Investment Services Act itself looks at how an investment services firm should set up their operations right from what are the minimum capital requirements, how to acquire shares and what are its restrictions, setting up an inside register and controlling it, creating the company's financial statements and how they are audited as well as holding and handling customer funds among many other things (Sijoituspalvelulaki 2012).

The Investment Services Act demands the authorised companies to check from non-professional investors their knowledge of the specific instruments being offered by the investment services firm before offering the service to the investor (Sijoituspalvelulaki 2012, s.3(10)(3)). And if the investment firm sees that the knowledge of the investor is not sufficient, it must communicate this to the investor and not offer the service to the investor. When this is applied to an equity crowdfunding operator, the company must make sure that the investor has sufficient knowledge of the different securities being offered at the platform, before he or she has the opportunity to invest. This is done at Invesdor, which is a Finnish MiFID licensed platform, through the use of a questionnaire when registering (Invesdor 2016). As can be seen later, similar requirements are set for UK platforms.

Another such legislation that relates to the activities of an authorised CFP, is the Act on Detecting and Preventing Money Laundering and Terrorist Financing (*Laki rahanpesun ja terrorismin rahoittamisen estämisestä ja selvittämisestä*). This creates a necessity that an investment firm has to know its customers to a degree specified in the legislation. However, as this regulation is harmonised by the Money Laundering Directive and it relates to a wide variety of businesses outside that of just equity crowdfunding, we will not dive to the details of these regulations in either markets.

A more relevant act for this research to look at in Finland is the Securities Markets Act (*Arvopaperimarkkinalaki*). It applies to the issuance of securities to the public, the

transfer and clearing of securities issued to the public as well as to the arrangement of trading in securities (*Securities and Markets Act 2012. s.1(1)(1)*). This Act for example covers the area of a prospectus, when is it needed and what should it contain. A prospectus is a legal document, which is required when certain conditions are fulfilled and it needs the approval of the regulatory authority in the market that it is used in, for example Finland or the UK. It should contain all the information, including risk assessment, that an investor needs to make an informed investment decision (Investopedia 2016b). Securities themselves are defined chapter 2 section 1 (*Securities Markets Act 2012. s.1(2)(1)*), from where one can see that shares of a company that are transferable and issued to the public together with several other securities with similar rights fall within the scope of this legislation.

An important part of the Securities Markets Act is Chapter 2 which relates to the duty of publishing a prospectus. The need for a prospectus and the elements of a prospectus have been harmonised to an extent in the EU by the 2003 directive, known commonly as the Prospectus Directive. The level of harmonisation is sufficient enough so that a prospectus accepted in another EEA Member State is also valid in Finland when the country where the securities are issued is some other country than Finland and the securities are offered to the public in Finland (*Securities Markets Act 2012. s.3(5)(2)*).

The general exemptions to publishing a prospectus that are relevant in both the United Kingdom as well as Finland are for example if the securities are offered only to qualified investors, the offer is made to or directed at fewer than 150 non-qualified investors per EEA state or the minimum consideration which may be paid by any person is at least 100,000 euros or the securities themselves are denominated in amounts of at least 100,000 euros (*Securities Markets Act 2012. s.3(4)(3)*; Ashurst London, 2012, p.1). The differences between Finland and the UK are the thresholds of how much can be raised within the EEA in 12 months. In Finland the threshold is now 2,5 million euros and in the UK the limit is five million euros (DLA Piper, 2014, p.2). If a prospectus is needed when running an equity crowdfunding campaign and the offer of the securities is done in addition to the home country of the company in another EEA Member State, for example an UK based company offering the shares in Finland, one must pay attention to what language the prospectus needs to be provided in.

The exception in funding thresholds makes it easier for UK companies to raise larger amounts of capital from the public. Creating a prospectus is usually an expensive process requiring a law firm, thus increasing the cost of capital. A way to not have the prospectus for the Finnish platforms would be to utilise one of the other exceptions. For example, if you were to offer the shares to less than 150 non-qualified investors per EEA state, no prospectus would be needed. However, this would require the crowdfunding platform to limit their offering in some way which varies from the standard model where all the offers are displayed on the platform.

Finland has not really assessed financial promotion in as detailed of a way as the UK has. The Securities and Markets Act does refer to the fact that in marketing securities one must not offer misleading or untruthful information with regards to the securities (*Securities Markets Act 2012. s.1(3)*). Additionally, the Consumer Protection Act (*Kuluttajansuojalaki*) has provisions about marketing that apply generally to companies as well some provisions on distance selling of financial services and instruments (Consumer Protection Act 1978). However, these provisions mostly relate to distance selling and not the actual marketing of services and have little to do with about how a financial promotion should be set up for example, whereas UK's FCA has assessed this part thoroughly and will be gone through below.

In UK, the FCA has already provided regulation for crowdfunding by creating rules for the promotion of non-readily realisable securities as mentioned before. The regulation focuses in the equity crowdfunding side on the marketing of the securities as well as the platforms having the responsibility of assessing the client's suitability (Financial Conduct Authority 2015c: 2-3). To do direct-offer financial promotion an equity CFP must comply with specific regulation. The platform can make sure that the retail client is one of the following as stated in Conduct of Business Sourcebook (COBS) 4.7.7 (Financial Conduct Authority 2016a):

- (2) The first condition is that the retail client recipient of the direct-offer financial promotion is one of the following:
 - (a) certified as a 'high net worth investor' in accordance with COBS 4.7.9 R;

- (b) certified as a 'sophisticated investor' in accordance with COBS 4.7.9 R;
- (c) self-certified as a 'sophisticated investor' in accordance with COBS 4.7.9 R;
- (d) certified as a 'restricted investor' in accordance with COBS 4.7.10 R.

The second condition, when one of the first conditions is fulfilled, is that the platform will need to comply with the rules of appropriateness, COBS 10 or equivalent requirements. According to the rules of appropriateness, the equity CFP must ask the client to provide information regarding his knowledge and experience in the investment field relevant to the specific type of product or service offered. This is done in order to ensure that the client has the necessary experience and knowledge in order to understand the risks involved in relation to the product or service offered. The platform may also assume that a professional client has the necessary experience and knowledge in order to understand the risks involved in relation to those particular investment services or transactions for which the client is classified as a professional client.

In addition to these the platform may also communicate direct-offer financial promotion to a retail client if the firm itself will comply with the suitability rules of COBS 9 in relation to the investment promoted as mentioned in COBS 4.7.8 in the FCA Handbook. This is, if the platform would offer financial advice in addition to operating as an equity CFP. The suitability rules mention that the firm, an equity CFP in this case must assess the suitability of the client investor with regards to the security that is being offered (Financial Conduct Authority 2016a). The suitability assessment needs to take into account for example the investment objectives of the client, the financial situation of the client, the client's understanding of the risks involved in the transaction of the security at hand as well as the level of education, profession or relevant former profession.

An important note to make for the UK is that the Companies Act 2006 limits the private limited companies from offering their securities to the public (*Companies Act 2006. s.20(755)*). The exemption to this is that a private limited company who offers its shares to public will re-register as a public company before the shares are allotted or

as part of the terms of the offer will undertake the re-registration as a public company. A private limited company's offering does not constitute a public offer if the offer is not being calculated to result in the shares being available to other persons than to those receiving the offer. An offer does not constitute a public offer either if the offer itself is a private concern of the person who receives the offer and the person who makes it. A private concern here refers to a person who is already somehow connected with the company e.g. an existing member or employee of the company or a family member.

The FCA has also issued a statement in the form of a guidance on financial promotion in social media (Financial Conduct Authority 2015c). The guidance includes a wide variety of different forms of social media, such as blogs, microblogs (Twitter), social and professional networks (Facebook, LinkedIn), forums as well as image and video sharing platforms (YouTube, Instagram). In the statement, the FCA gives concrete examples of how one should promote financial products in social media, with the proper risk warnings in place even though some social medias contain strict character limits e.g. Twitter that give strict limitations on how long a risk warning can be. This statement by the FCA shows the proactive and supportive stance they take on regulating and enabling alternative finance to flourish as an industry in the UK. They recognise the importance of social media as a communicative channel for the new generation of financial platforms such as equity CFPs. The examples used in the statement, show different versions of a specific promotion in a certain social media channel. Some of the versions are approved by the FCA, as they contain adequate risk warnings or do not promote the products too openly. Some of the examples on the other hand are not approved, with inadequate risk warnings.

Overall, the main differences between the markets are that the UK has crowdfunding specific legislation and statements, whereas these are still lacking in Finland notwithstanding the few statements that the FIN-FSA has made, namely that equity crowdfunding operators need to seek authorisation. UK has given regulation to the promotion of non-readily realisable securities, which is what the securities of companies raising crowdfunding most commonly are. They have also given a statement to how to make financial promotions through social media. From the viewpoint of a MiFID authorised platform, the afore mentioned regulative differences as well as the fact that private limited companies have strict limitations when offering

securities to the public and the threshold limit differences for a prospectus are the most obvious differences. Similarities can be found in how an MiFID authorised investment services firm sets up its operations, other prospectus requirements as well as other regulations that are harmonised across the EU such as the Money Laundering Directive as mentioned above.

4.2 Cross-border operations of platforms

First, it is important to understand what is cross-border equity crowdfunding. Cross-border operations for a CFP can be separated into two different parts; accepting investors from a country other than the home country of the CFP and secondly taking companies to raise crowdfunding from a country other than the home country of the CFP. In the former case, the CFP needs to make sure it is complying with the relevant investor protection rules. For example, if the case would be that a UK based CFP would be accepting Finnish investors to a UK-based company's crowdfunding round, they would need to make sure that the prospectus threshold wouldn't be trespassed in Finland as it is somewhat smaller than in the UK (see page 16). In the latter case, the CFP needs to consider what kind of companies it can take to crowdfund through their service. An obvious example here is the point raised in the previous question; a private limited company cannot offer its shares to the public in the UK (see page 19).

A MiFID license in its own right gives the platform already the advantage of having the ability to export the company's service to any EEA country as already mentioned before. A German authorised investment firm may provide its services in Finland or the UK if it so wishes. The point of the MiFID was to create a level playing field for all participants. This 'passporting' of investment firm services allows the establishment of a branch in another Member State or the free provision of services (Committee of European Securities Regulators 2007: 5). If an investment firm wishes to provide its services in another Member State for the first time it needs to communicate to its competent authorities of its home Member State the following information in accordance with Article 31 of MiFID; the Member State where the company intends to operate; what services it will provide and whether it will use tied agents. Tied agents are according to the MiFID a natural or a legal person who will act under only one

investment firm and promote the services of said investment firm (*Directive 2004/39/EC 2004. s.1(4)(25)*). A good way to enter a market, whether it is a Finnish or UK based CFP entering either market can be to find a tied agent who can help establish the service in the country.

For a MiFID company to operate in a cross-border manner or in fact, at all, the company must set up their compliance processes to be of sufficient standard as is stated in the MiFID. Compliance refers to the processes of a company that relate to complying with specific regulations. According to Article 6 of the MiFID Implementing Directive compliance should take a risk-based approach in order to allocate the function's resources efficiently (European Securities and Markets Authority 2012: 4). This means that periodic risk assessments should be undertaken where the applicable obligations have been accounted for such as obligations under MiFID, national implementing regulations and the policies, procedures, systems and controls implemented within the firm.

To operate within the United Kingdom, one must of course take into consideration the fact that offering shares to the public of private limited companies is prohibited in in the Companies Act 2006 as previously mentioned (see page 19). However, it should be noted that many equity CFPs have private limited companies crowdfunding on their platform and at the time of writing the researcher identified on both Crowdcube and Seedrs platforms a number of private limited companies. How this has been made possible can vary from platform to platform. For example, Crowdcube states the following in their disclaimer: "This investment opportunity is not an offer to the public and is only available to registered members of Crowdcube.com who have qualified and categorised themselves as able to invest." (Crowdcube 2016a). This would go on to show that Crowdcube, and most likely other platforms offering shares of private limited companies, is avoiding the prohibition of offering shares of the private limited companies to the public either through this or through some other way. In any case, this goes on to show that a MiFID licensed equity CFP does not need to limit itself to taking only public companies to crowdfund through their service. It is possible to offer equity crowdfunding to private limited companies as long as the platform complies with the UK regulation the same way that the UK equity crowdfunding operators do. This

gives much more business opportunities to equity CFPs operating or wanting to operate in the UK.

When doing financial promotions in a cross-border manner, one must be careful of how to do this. Financial promotions over social media raise an important and interesting point that is also noted in FCA's statement on social media (Financial Conduct Authority 2015c: 13). Social media breaks the national barriers and a financial promotion posted on Finnish CFP social media channels can also be seen by UK residents. If the investment opportunity is also made possible to the UK residents to invest in, then the platform should follow the regulations relating to financial promotions in both markets. For example, financial promotion through social media in the UK requires clear risk warnings. However, having full risk warnings in social media channels with strict character limitations such as Twitter can be challenging. For that reason, one should benchmark what the industry standard is in the UK from the local CFPs and try to use the same forms these platforms are using. As can be seen from Appendix 1, the widely used method to express risk warnings is by writing "Capital at risk" in both Twitter and Facebook communications. Thus, wanting to operate in the UK one must put emphasis on how social media is used in promotion. For Finland, such examples have not been set and thus complying with the UK standards should be sufficient.

The next point of interest in doing cross-border operations relates to the due diligence of both the companies looking to raise funding as well as the investors. Due diligence relates to the investigation of a potential investment and includes legal and financial documents (Investopedia 2016a). The due diligence needs to be done on both parties to comply with regulations. On the company side, it is a matter of investor protection that the platform checks that a company wanting to raise financing is truly what they claim to be. For example, a company needs to make sure that the financial promotion material is fair, clear and not misleading (Financial Conduct Authority 2015b), as per the FCA's guidance. In Finland, The Securities Markets Act states also that it is prohibited to give misleading or untrue information in marketing securities as already mentioned (see page 17). Another point would be to avoid scams or fraudulent companies. So, in order for a Finnish platform to take a UK company to crowdfund

through their platform, they must adjust their due diligence processes to comply with the UK regulative landscape.

But having a comprehensive due diligence procedure for the companies wishing to raise funding is not just a matter of complying with regulation. It is also about choosing the best companies to crowdfund on the platform and providing the investors investment opportunities that have been vetted through properly. In an article at Equities.com, it is mentioned that OurCrowd CEO Jon Medved has stated that if a company is not ready for their level of due diligence, they should not apply at all (Jofre 2015). Thus, having just the bare minimum of what is passable as a platform's due diligence procedure might not cut it, especially when doing cross-border crowdfunding. Following industry's best practices in the market can provide a good level of due diligence for a platform wishing to operate either in Finland's or UK's market.

A platform will also need to do investor due diligence in accordance with the EU Directive 2015/849 on preventing the use of the financial system for money laundering or terrorist financing also known as the fourth Anti-Money Laundering Directive (Financial Conduct Authority 2016c; *Act on Detecting and Preventing Money Laundering and Terrorist Financing 2008*. s.1(2)). So as the know your customer process is harmonised by an EU directive, this makes operations for an equity CFP much easier in both countries. However, this does not mean that there might not be some minor differences in the implementation of the directive as well as differences in the best practices between Finland and the UK. The best way to get information on how a platform does their "know your customer" process is to register and invest through the platform.

Coming back to company specific due diligence, platforms run a due diligence process before accepting a crowdfunding campaign to raise funding through their platform, but these processes vary between platforms. This way the platforms make sure they won't offer shares of fraudulent companies to the public. Crowdcube for example mentions that they make the standard financial checks, corporate legal review of shareholder rights, review of the pitch and the advertising content but can also include proof of patents, market share data, press mentions and proof of revenue (Crowdcube 2016b). Seedrs mentions that they require contracts and paperwork on general corporate

matters, shareholders, financials, commercial contracts, property, intellectual property and related matters (Seedrs 2016). However, they differ in one key point, which is that their detailed due diligence process starts only after the crowdfunding campaign has hit 100%, meaning that the crowdfunding campaign will succeed. This is most likely done in order to make the process lighter for companies to start raising capital. A light due diligence is probably done before a company starts raising capital on the platform in order to avoid worst possible companies and scams.

To summarise what is required from a platform wishing to do cross-border equity crowdfunding in UK and Finland really boils down to one aspect: the level of compliance in the company. As mentioned already, it is important that operations of the CFP are set up in a way which ensures that when it enters a new market, it already knows what it should and shouldn't do. In this respect compliance officers in the company should be knowledgeable of the regulation in the target country and understand their important role in the company overall. They need to educate also other members of the company of the peculiarities in the new markets regulation. In that way a 'compliance culture' should be fostered in the company which would improve investor protection as noted by ESMA (European Securities and Markets Authority 2012: 8). But it is important to also note, that when setting up cross-border operations just relying on regulation is not enough. This can be seen from the fact that equity CFPs take private limited companies to crowdfund through their service. If you were to strictly follow regulation only, this might be overlooked and private limited companies would not be considered as eligible business.

At the moment there is at least one equity CFP openly operating both in the UK and Finland. This is the Finnish platform Invesdor, that has gained a MiFID investment firm license. They have not operated in UK for long, as they had their first campaign in December 2015 (Invesdor 2015b). From Appendix 1 you can see that the financial promotions the company makes through their social media is comparable in design with the platform's UK competitors Seedrs' and Crowdcube's. The differing factor is the use of capital at risk, which is missing from Fundedbyme's promotions, which is a Swedish platform operating in Finland as noted before.

5 Conclusion

The point of this research was to find the main regulative differences and at the same time some of the similarities in relation to equity crowdfunding in Finland and the United Kingdom and provide some answers to how a CFP might be able to operate in both of these markets in a cross-border manner.

Looking at the findings from the first question, we can see that there are differences in how an equity CFP operates in the UK and how it operates in Finland. Clearly some regulations are harmonised by EU directives, namely the MiFID affecting the investment services firms and the Money Laundering Act. But even here there can be differences in the implementation of those directives. A good example is the Prospectus Directive, which has at least threshold differences in the amount of money raised in 12 months between Finland and the UK. This goes on to show, that a company cannot expect that if UK and Finland have both implemented a directive, that there wouldn't be any differences. A platform must get acquainted with the applicable legislation before entering either market and conducting cross-border trade. Differences in regulation also relate to UK having a more proactive regulative body that has already provided crowdfunding specific regulation and also statements regarding the use of social media in financial promotion. Finland has on the other hand not provided any crowdfunding specific regulation yet, only statements relating to such activity.

The FIN-FSA 2014 statement on equity crowdfunding that made authorisation of one's operations mandatory also remains somewhat interesting. After this, at least two platforms applied for the license (European Crowdfunding Network 2014: 81) and one platform, Invesdor has gained the license (McCreadie 2015). Still the platforms that have not gained the license to date have continued to operate. Either the FIN-FSA does not have the resources to check the operations of said platforms or then the platforms operate on a model that does not interfere with the regulations that make equity crowdfunding require authorisation by the FIN-FSA interpretation. And soon the authorisation will most likely become useless in any case, as Finland is most likely to introduce crowdfunding specific legislation (see page 15).

Coming to the second question, conducting cross-border equity crowdfunding requires the company to have a high level of compliance in the company and a good 'culture of compliance' which permeates to all employees of the company, not just the compliance officers. Regulation is not the only place to look at when looking at cross-border business, but it is also important to benchmark national competitors and see how they are operating.

Thus the answer that arises from these two questions is that cross-border equity crowdfunding in Finland and the UK is far from impossible. Offering services in both markets by accepting investors from both countries and accepting companies to crowdfund through the platform is conveniently made possible by the MiFID license and the regulative differences do not make it so that operating in one of the markets would be impossible or too hard. The regulative similarities are mostly thanks to harmonisation across the EU by a number of different directives, such as MiFID, the Prospectus Directive and the Money Laundering Directive.

There can however arise difficulties with compliance, when operating simultaneously in two markets with different regulations. These difficulties can relate to for example not being able to control all of the financial promotions that go out to social media. Also an important point would be, that if for example a Finnish crowdfunding platform were to operate in the UK while maintaining physical presence only in Finland, it could be hard to keep the compliance up to date with all the possible developments in the other country when it comes to best practices for example.

As a recommendation for a cross-border platform operating in both markets would be to try to understand what might be happening in the future regulation wise. At the moment for example, there is going to be a vote for Britain's EU membership (Wheeler 2016) and if Britain were to leave, how would this affect the operations of a MiFID licensed equity CFP depends largely on the alternative road the country would choose. One option would be to still remain in the EEA, which would mean that the MiFID license would stay relevant.

For further research, it should provide to be interesting to look at what are the differences in regulation are after the crowdfunding regulation passes in Finland. For

the purpose of this research, it is not that important as this was done from the viewpoint of an already MiFID authorised platform. Also, the upcoming MiFID II as well as the Capital Markets Union will affect the equity crowdfunding field. Some drafts of these have been already released, so a possible further research could be to look at where the MiFID II would take equity crowdfunding or how the Capital Markets Union will affect the markets.

References

- Act on Detecting and Preventing Money Laundering and Terrorist Financing 2008. Helsinki: Ministry of the Interior. [online] Available at: <<http://www.finlex.fi/fi/laki/kaannokset/2008/en20080503.pdf>> [Accessed 15 April 2016]
- Alois, J., 2016a. Capdesk Wants to Improve the Experience for Shareholders in Unlisted Companies, *Crowdfund Insider*. [online] Available at: <<http://www.crowdfundinsider.com/2016/01/80089-capdesk-wants-to-improve-the-experience-for-shareholders-in-unlisted-companies/>> [Accessed 26 March 2016]
- Alois, J., 2016b. Finland Updates Investment Crowdfunding Rules, The Act Will "Improve New Financing Options, Particularly in Bottleneck Situations Affecting the Growth of SMEs", *Crowdfund Insider*. [online] Available at: <<http://www.crowdfundinsider.com/2016/04/84311-finland-updates-investment-crowdfunding-rules-the-act-will-improve-new-financing-options-particularly-in-bottleneck-situations-affecting-the-growth-of-smes/>> [Accessed 10 April 2016]
- Alois, J., 2016c. Luke Lang, Co-Founder of UK's Largest Equity Crowdfunding Platform, Welcome 2016, *Crowdfund Insider*. [online] Available at: <<http://www.crowdfundinsider.com/2016/01/79637-luke-lang-co-founder-of-uks-largest-equity-crowdfunding-platform-welcomes-2016/>> [Accessed 28 March 2016]
- Alois, J., 2016d. The United Kingdom is the Fintech Capital of the World, *Crowdfund Insider*. [online] Available at: <<http://www.crowdfundinsider.com/2016/02/82161-the-united-kingdom-is-the-fintech-capital-of-the-world/>> [Accessed 26 March 2016]
- Ashurst London, 2012. Changes to the Prospectus Directive and impact on UK ECM practice. [online] Available at: <https://www.ashurst.com/doc.aspx?id_Content=7931> [Accessed 10 April 2016]
- Berk, J., DeMarzo, P., 2014. *Corporate Finance*. Boston: Pearson.
- British Business Bank, 2014. *Equity crowdfunding in the UK: Evidence from the equity tracker*. [online] Available at: <<http://british-business-bank.co.uk/wp-content/uploads/2015/03/230315-Equity-crowdfunding-report-final.pdf>> [Accessed 9 March 2016]
- Buysere, K., Gajda, O., Kleverlaan, R., and Marom, D., 2012. *A framework for European crowdfunding*. [online] Available at: <http://eurocrowd.org/wp-content/blogs.dir/sites/85/2013/06/Framework_EU_Crowdfunding.pdf> [Accessed 2 March 2016]
- Committee of European Securities Regulators, 2007. *Protocol on MiFID Passport Notifications*. [online] Available at: <https://www.esma.europa.eu/sites/default/files/library/2015/11/07_317c.pdf> [Accessed 14 April 2016]

Companies Act 2006. London: HMSO. [online] Available at: <<http://www.legislation.gov.uk/ukpga/2006/46/contents>> [Accessed 5 April 2016]

Consumer Protection Act 1978. Helsinki: Ministry of Justice. [online] Available at: <<http://www.finlex.fi/fi/laki/kaannokset/1978/en19780038.pdf>> [Accessed 16 April 2016]

Crowdcube, 2016a. *Disclaimer*. [online] Available at: <<https://www.crowdcube.com/>> [Accessed 13 April 2016]

Crowdcube, 2016b. *Meet the team: Compliance Officer*. [online] Available at: <<http://blog.crowdcube.com/2016/03/15/meet-the-team-compliance-officer/>> [Accessed 16 April 2016]

Davis, A., 2012. *Seeds of Change: Emerging sources of non-bank funding for Britain's SMEs*. [online] Available at: <<http://static1.squarespace.com/static/54d620fce4b049bf4cd5be9b/t/551fb53ae4b00f468f89b775/1428141370781/Seeds+of+Change+Full.pdf>> [Accessed 7 April 2016]

Deloitte LLP, 2013. *Taking the pulse of the angel market*. [online] Available at: <http://www.ukbusinessangelsassociation.org.uk/sites/default/files/media/files/taking_pulse_of_the_angel_market_02_07_2013_0.pdf> [Accessed 9 April 2016]

Directive 2004/39/EC 2004. European Parliament. [online] Available at: <<http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32004L0039&from=en>> [Accessed 8 April 2016]

DLA Piper, 2014. *Raising equity finance – A Guide to the UK regulatory framework*. [online] Available at: <<https://www.dlapiper.com/~media/Files/Insights/Publications/2014/05/Raising%20equity%20finance.pdf>> [Accessed 13 April 2016]

Esposti, C., Cinelli, S., Buysere, K., Sernas, M., Evangelio, A., Asano, C., Villatoro, P., Sin, K., Maitra, A., Wenzlaff, K., Lerro, A., Gijsbert, Levanon, B., Acconcia, V., Groves, J., 2015. The crowdfunding industry report. File available upon request from researcher.

European Crowdfunding Network, 2014. Review of Crowdfunding Regulation. [online] Available at: <<http://eurocrowd.org/wp-content/blogs.dir/sites/85/2014/12/ECN-Review-of-Crowdfunding-Regulation-2014.pdf>> [Accessed 20 April 2016]

European Securities and Markets Authority, 2012. *Guidelines on certain aspects of the MiFID compliance function requirements*. [online] Available at: <https://www.esma.europa.eu/sites/default/files/library/2015/11/2012-388_en.pdf> [Accessed 15 April 2016]

Financial Conduct Authority, 2015a. *A review of the regulatory regime for crowdfunding and the promotion of non-readily realisable securities by other media.* [online] Available at: <<https://www.fca.org.uk/static/documents/crowdfunding-review.pdf>> [Accessed 26 March 2016]

Financial Conduct Authority, 2015b. *Financial promotions and adverts.* [online] Available at: <https://www.the-fca.org.uk/financial-promotions-and-adverts?field_fcasf_sector=unset&field_fcasf_page_category=unset> [Accessed 14 April 2016]

Financial Conduct Authority, 2015c. *The FCA's supervisory approach: a statement.* [online] Available at: <<https://www.fca.org.uk/static/documents/finalised-guidance/fg15-04.pdf>> [Accessed 10 April 2016]

Financial Conduct Authority, 2016a. *FCA Handbook.* [online] Available at: <<https://www.handbook.fca.org.uk/handbook>> [Accessed 8 April 2016]

Financial Conduct Authority, 2016b. *How we operate.* [online] Available at: <<https://www.fca.org.uk/about/operate>> [Accessed 15 April 2016]

Financial Conduct Authority, 2016c. *Money-laundering registration.* [online] Available at: <https://www.the-fca.org.uk/money-laundering-registration?field_fcasf_sector=unset&field_fcasf_page_category=451> [Accessed 14 April 2016]

Financial Conduct Authority, 2016d. *What we do.* [online] Available at: <<https://www.fca.org.uk/about/what>> [Accessed 10 April 2016]

Financial Supervisory Authority, 2014. *Only some forms of crowdfunding are currently regulated and thus subject to supervision.* [online] Available at: <http://www.finanssivalvonta.fi/en/Publications/news_releases/2014/Pages/09_2014.aspx> [Accessed 12 April 2016]

Financial Supervisory Authority, 2016. *About Us.* [online] Available at: <http://www.finanssivalvonta.fi/en/About_us/Pages/Default.aspx> [Accessed 14 April 2016]

Freedman, D., and Nutting, M., 2015. *A Brief History of Crowdfunding.* [online] Available at: <<http://www.freedman-chicago.com/ec4i/History-of-Crowdfunding.pdf>> [Accessed 3 March 2016]

Howe, J., 2006. *Crowdsourcing: A definition, Crowdsourcing.* [online] Available at: <http://crowdsourcing.typepad.com/cs/2006/06/crowdsourcing_a.html> [Accessed 20 March 2016]

Invesdor, 2015a. *Ahola Transport – Listautumisanti Aktietorgetiin.* [online] Available at: <<https://www.invesdor.com/en/pitches/508>> [Accessed 20 April 2016]

Invesdor, 2015b. *Invesdor's first UK case is now open!* [online] Available at: <<https://www.invesdor.com/en/media/blog/411>> [Accessed 25 April 2016]

Invesdor, 2016. *Registration – Invesdor*. [online] Available at: <https://www.invesdor.com/en/users/sign_up?path=%2Fen> [Accessed 30 April 2016]

Invesdor Services Oy, 2016. *Invesdor Ownersportal*. [online] Available at: <<https://ownersportal.net>> [Accessed 26 March 2016]

Investopedia, 2016a. *Due Diligence – DD*. [online] Available at: <<http://www.investopedia.com/terms/d/duediligence.asp>> [Accessed 10 April 2016]

Investopedia, 2016b. *Prospectus*. [online] Available at: <<http://www.investopedia.com/terms/p/prospectus.asp>> [Accessed 17 April 2016]

Jofre, O., 2015. What is Due Diligence in Equity Crowdfunding?, *Equities.com*. [online] Available at: <<https://www.equities.com/news/what-is-due-diligence-in-equity-crowdfunding>> [Accessed 16 April 2016]

Ketoja, L. & Pajunen, O., 2014. *Equity-based crowdfunding in Finland*. Bachelor. Turku Univeristy of Applied Sciences [online] Available at: <<http://www.theseus.fi/xmlui/handle/10024/82525>> [Accessed 19 April 2016]

Kuber Ventures Limited, 2016. *Seis / EIS Relief Benefits*. [online] Available at: <<https://www.kuberventures.co.uk/why-eis/benefits/>> [Accessed 31 March 2016]

McCreadie, G., 2015. Platform Gains License to Operate across the EU, *AltFi News*. [online] Available at: <http://www.altfi.com/article/0979_platform_gains_license_to_operate_across_the_eu> [Accessed 24 April 2016]

McNeill, P. & Chapman, S., 2005. *Research Methods*. Abingdon: Routledge.

Merriam, S., 2014. *Qualitative Research: A Guide to Design and Implementation*. San Francisco: Jossey-Bass.

Sánchez, J., Estellés-Arolas, E., 2015. Crowdfunding: A study of Present Creative Trends and Institutional Reaction. *International Journal of Business and Economics*, 14(2): 131-144.

Securities Markets Act 2012. Helsinki: Parliament of Finland. [online] Available at: <<http://www.finlex.fi/fi/laki/kaannokset/2012/en20120746.pdf>> [Accessed 7 April 2016]

Seedrs, 2016. *FAQs*. [online] Available at: <<https://learn.seedrs.com/faqs/#what-happens-when-a-campaign-reaches-100>> [Accessed 15 April 2016]

Sehra, A., 2015. FCA Rules for non-readily realisable securities and impact on crowdfunding, *CrowdFundBeat*. [online] Available at: <<http://www.crowdfundbeat.co.uk/2015/06/09/fca-rules-for-non-readily-realizable-securities-and-impact-on-crowdfunding/>> [Accessed 12 April 2016]

Sijoituspalvelulaki 2012. [online] Available at: <<http://www.finlex.fi/fi/laki/ajantasa/2012/20120747>> [Accessed 10 April 2016]

Telegraph Media Group Limited, 2015. Rule Britannia: London overtakes New York as the world's best financial centre, *The Telegraph*. [online] Available at: <<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11884783/Rule-Britannia-London-overtakes-New-York-as-the-worlds-best-financial-centre.html>> [Accessed 26 March 2016]

Wardrop, R., Zhang, B., Rau, R., and Gray, M., 2015. *The European alternative finance benchmarking report*. London: Wardour.

Wheeler, B., 2016. The UK's EU referendum: All you need to know, *BBC News*. [online] Available at: <<http://www.bbc.com/news/uk-politics-32810887>> [Accessed 20 April 2016]

Wright, M., Hart, M., Fu, Kun., 2015. Assessing the impact of angel investing across the UK. [online] Available at: <http://www.ukbusinessangelsassociation.org.uk/sites/default/files/media/files/erc_nation_of_angels_full_report.pdf> [Accessed 9 April 2016]

Zhang, B., Baeck, P., Ziegler, T., Bone, J., Garvey, K., 2016. *The 2015 UK alternative finance industry report*. [online] Available at: <https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2015-uk-alternative-finance-industry-report.pdf> [Accessed 26 March 2016]



Zider, B., 1998. How Venture Capital Works, *Harvard Business Review*. [online] Available at: <<https://hbr.org/1998/11/how-venture-capital-works>> [Accessed 9 April 2016]

 **FundedByMe** @fundedbyme · Apr 26
 Wow! 84% funded in this cool Spanish bike company! Only 6 days left!
 #Wobybi produces unique customised bicycles.




WOBYBI
 Custom bicycles at affordable prices. We assemble and ship unique bikes designed online by unique customers. Bikes transform cities and improve people's daily lives...
fundedbyme.com





   2 

 **FundedByMe** ▼
 Yesterday at 10:49 · 

15 days and the campaign is already overfunded! Natural box is already at 135% and you still have a chance to join this amazing company
<https://www.youtube.com/watch?v=gG9v-byKq9Q>. Read more about the campaign here: <http://bit.ly/NaturalBox>



Naturalbox
 Crowdfunding pitch for FundedbyMe by Alicja Chlebna and Eva Jonson the founders of Naturalbox & Veganbox Ecoliving International AB. An organic subscription ...
 YOUTUBE.COM


 Like  Comment  Share 

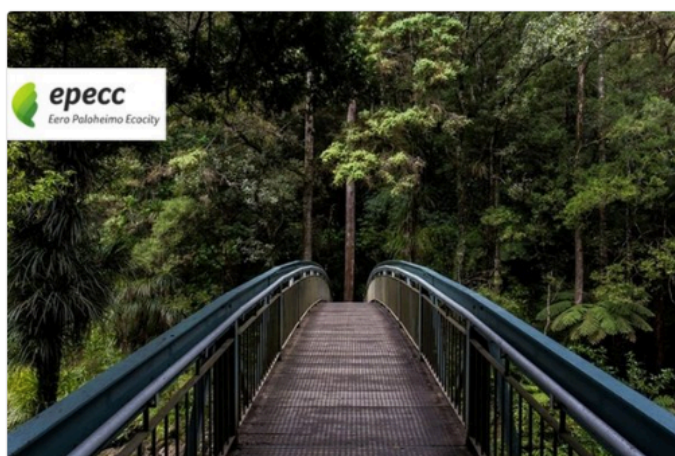
INVESDOR **Invesdor**
3 May at 18:31 · 🌐


The Turku-based football club **FC TPS** is waiting for your support. Over 200.000 € invested so far and the community is ready to grow even more:
<http://ow.ly/4n8LHI> #CapitalAtRisk



👍 Like 💬 Comment ➦ Share

 **Invesdor** @Invesdor · May 4
New case live: Ecocity - the company creating smart and sustainable cities:
ow.ly/4noV09 #CapitalAtRisk



 **Seedrs** @Seedrs · Apr 29
We're excited to have @Canyudo on Seedrs, currently at 63% - find out more seedrs.com/canyudo1 CapitalAtRisk



↩ ↻ ❤️ 2 ⋮

 **Seedrs**
24 April at 12:00 · 🌐

Blow Ltd are launching their crowdfunding campaign on Seedrs. London's hottest 'fast beauty on demand' startup. The "Uber for Beauty". Pre-register today, so you don't miss out. Capital at risk. <http://blow.seedrs.com>



 **SEEDRS**

blow LTD : Crowdfunding on Seedrs

blow Ltd are crowdfunding on Seedrs. Pre-register now, don't miss out. Capital at risk.

[HTTP://BLOW.SEEDRS.COM/](http://BLOW.SEEDRS.COM/)

👍 Like 💬 Comment ➦ Share

 **Crowdcube**
12 April at 16:19 · 🌐

50% of the target has just been hit... **Craved**, an online marketplace for craft food and drink lovers, is half way there. **Capital at Risk**. <http://bit.ly/1RRfphZ>




INVESTMENTS OF THIS NATURE CARRY RISKS TO YOUR CAPITAL. PLEASE #INVESTAWARE.
Approved as a financial promotion by Crowdcube Capital which is authorised and regulated by the Financial Conduct Authority (no. 650205).

 **crowdcube**
Empowering Entrepreneurs

👍 Like 💬 Comment ➦ Share

 **Crowdcube** @Crowdcube · Apr 25

.@justgoHenry. Banking re-imagined for children and teens now live on Crowdcube. **Capital At Risk**.



goHenry raising £2,000,000 investment on Crowdcube. Capital At Risk.
goHenry is a digital banking solution that will make your kids smarter at managing money than you are. goHenry's pre-paid debit card and app c...
crowdcube.com

👍 1 ❤️ 1 ⋮