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**Paris EUROPLACE's feedback on the European Commission's
Inception impact assessment on crowd and peer to peer finance**

Paris EUROPLACE - which represents all the major players of the Paris Financial Centre, French and international corporates, investors, banks and financial intermediaries - would like to thank the European Commission for the opportunity to provide their feedback on crowd and peer to peer finance.

The present contribution is shared by the Association Française de l'Investissement Participatif (AFIP) and Financement Participatif France (FPF).

France has been a pioneer in Europe in developing a regulatory framework dedicated to crowdfunding platforms with the introduction of two different statutes as soon as October 2014. France has now gained an experience which might prove valuable to the development of an EU wide regime.

For instance, in the context of the AfricaFrance association set in place by African and French Heads of State, the "cluster Finances Africa France" led by Paris EUROPLACE was launched with the objective to support the development of African financial markets and contributed to reflexions on the creation of a legal framework aiming at fostering the development of crowdfunding in Africa.

Paris EUROPLACE calls for the introduction of an EU regulatory framework for crowd and P2P activities.

As a preliminary remark, we would like to highlight that **we fully support the Commission's overall objective to broaden access to finance for SMEs**, in particular for innovative companies, start-ups and scale-ups and to strengthen the different sources of alternative finance, including crowdfunding, which should become a more important source of market-based financing.

Crowdfunding is indeed an efficient tool to direct citizens' savings towards financing the real economy. Based on the principles of proximity, choice, transparency and traceability, it allows an optimum allocation of resources through an intermediary platform which investigates, analyses, and rigorously selects company projects before proposing to individual investors to finance them.

We share the Commission's more specific goal to enable crowd and P2P activities to grow and enable platforms to scale cross border and provide them with a proportionate and effective framework. It is

essential that Europe creates the conditions for their sustainable and structured development. Indeed, national markets are too limited for innovative companies to find an appropriate financing at national level and to reach the critical size to survive. In other words, the European market is too fragmented to foster the development of crowd and P2P activities. Of course, the European framework will have to be proportionate to also be suitable to local initiatives of a lesser scale.

Paris EUROPLACE believes that, in order to be efficient, such a framework should aim at the following main objectives:

- Regulation on crowd and P2P activities should give paramount importance to **financial stability and security** and should contribute to preventing money laundering, cyberattacks and market abuse.
- Another top priority is **investor protection**: regulation should foster trust, which is a prerequisite for players to develop their activities.
- Any European regulation on crowd and P2P activities should also take into account **the competitiveness of Europe**, in particular in the context of the Brexit. Indeed, regulation should foster the development of a wider single market, in terms of clients – bearing in mind that the end value of a company includes the size of its market - and investors, and in turn the emergence of European crowd and peer to peer finance champions.
- Finally, in our opinion, this framework should also be **proportionate**. One of the main objectives should be to create a regulatory framework that aims, not only at creating a Single Market, but at making sure that it becomes a competitive market by avoiding to impose additional cost to operators of this market. The principle of "proportionality" should underpin the EU regulatory framework, whereby rules should be appropriate to the nature of the risks, the size of the players and the size of the investments made by users.

It is equally important to ensure that platforms maintain an onboarding process that is as easy and simple as possible. As for any online activity, the ability for platforms to acquire new users depends heavily on the simplicity of the sign-up process with as little information required and dispensed as possible in the earliest stages of the new relationship. More information may be requested from the user and disclaimed to the user by the platform as the relationship grows and as the amounts invested increase.

Paris EUROPLACE believes that, in order to simplify and harmonize the current existing rules, the EU regulatory framework should fulfil the following main criteria:

- The EU framework **should be directly applicable, without any possible adjustment by the Member States**, and harmonize the rules of public offering, right of withdrawal, taxation, solicitation, and communication, etc. This statute could be for example modelled after the Investment Service Provider (ISP), which would allow it to move beyond some regulations that might impede this equality at the national level: consumer rights, taxation, e-commerce, etc.

- The EU framework **applicable to all crowdfunding platforms**, whether they are crowdlending or crowdequity platforms. This accreditation should be based on a common set of procedures to be implemented to ensure the security of data and transactions, the fight against money
- laundering and the financing of terrorism, know-your-customer, capital flow management, fair information...
- The EU framework should be **proportionate**. This common statute would ensure the protection of investors and would support innovation and the development of platforms by imposing on them appropriate procedures actually designed in application of the principle of proportionality.
- The EU framework should require that **transparency on late loan repayments and defaults are based on a standard calculation to ensure that default figures are reliable**. In France, platforms used different reporting and calculation methods to comply with the regulation about the disclosure of late and default loan payments by borrowers. Members of the trade association Financement Participatif France (FPF) drafted a calculation method that member platforms have to comply with if they want to remain within the association. This calculation method could be used throughout Europe.
- The EU framework should provide for **harmonised and standardised reporting obligations**. In France, reporting of transactions to local regulators or central banks is currently made by file transfer to the Banque de France on a monthly basis. The French trade association Financement Participatif France (FPF) partnered with Caisse de Dépôts to create a Consortium Blockchain based ledger of all loans issued via crowdfunding platforms, called Blockchain Lending Ledger (BLL). This BLL aims creating a ledger of Minibons (debt titles) and at creating the foundation of a potential secondary market. This should be used throughout Europe.
- The EU framework should provide for **unified KYC obligations** which would be passportable across the EU on the principle of "Do it once and for all".
- In the absence of fiscal harmonisation, the Commission should encourage as a good practice for activities of crowdlending that any loss incurred on a loan should be tax-deductible against any interest received on other loans of the same nature.

Paris EUROPLACE supports option 3B i.e. the introduction of a comprehensive EU approach to harmonise national regimes through a stand-alone legislation

- Option 1 would not be sufficient to meet the set objectives to enable crowd and P2P activities to grow, to enable platforms to scale cross border and to provide them with a proportionate and effective framework. Indeed, national markets are too limited for innovative companies to find an appropriate financing at national level and to reach the critical size to survive.



- Option 2 would still not be sufficient to meet these objectives. A self-regulation of platforms does not appear satisfactory as it would not allow the required level of harmonisation and the development of an EU wide regime.
- Option 3A would allow the introduction of a European licence. However, using existing passporting frameworks might not meet the specificities of crowd and P2P activities.
- **We support option 3B which proposes to harmonise national regimes through a standalone specific legislation for crowd and P2P activities.** Indeed, only this option would allow reaching the objectives and meet the criteria described above.
- Option 4 would not allow the introduction of a truly harmonised and compulsory European framework as national regimes would prevail and would hinder the scale up of activities at European level. We believe that any financial services legislation or supervisory practice at Member State level which prevents the development of cross border activities - and thus the development of a Single Market - should be removed.

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