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IOSCO Issues Report on Risks and Benefits of Financial Return Crowd-Funding

The Research Department of the International Organization of Securities Commissions (IOSCO) today published a Staff Working Paper entitled [*Crowd-funding: An Infant Industry Growing Fast.*](#)

The report provides a global overview of the crowd-funding industry along with a mapping exercise of the global regulatory landscape. It seeks to identify investor protection issues and to determine whether crowd-funding poses a systemic risk to the global financial sector. The views expressed in this Staff Working Paper are solely those of the IOSCO Research Department and do not necessarily reflect the views of IOSCO or its members.

Crowd-funding is an umbrella term describing the use of small amounts of money, obtained from a large number of individuals or organisations, to fund a project, a business or personal loan, and other needs through an online web-based platform. This report analyses financial return crowd-funding (FR crowd-funding), which refers to peer-to-peer lending and equity crowd-funding.

FR crowd-funding is a type of market-based finance that could help stimulate economic recovery by channelling capital to small and medium-sized enterprises (SMEs). However, FR crowd-funding poses many risks and raises an array of investor protection issues. The report says the challenge facing regulators and governments around the globe is to strike a balance between encouraging crowd-funding and mitigating the risks associated with its growth, while protecting investor interests.

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The FR crowd-funding market has doubled year on year for the last five years to an estimated \$6.4 billion in 2013, driven by annual growth of 90% in peer-to-peer lending. Peer-to-peer lending has spread across the globe, making FR crowd-funding a global phenomenon. The equity crowd-funding market is more modest in size and has grown at a slower pace.

The working paper identifies the main benefits of FR crowd-funding as the following:

- Provides a boost to economic growth through flows of credit to SMEs and other users in the real economy
- Fills a credit gap left by banks
- Offers lower cost of capital/high returns, leveraging off a lower cost basis
- Provides a new product for portfolio diversification

The main risks are:

- Risk of default
- Platform risk
- Risk of fraud
- Risk of illiquidity
- Risk of investor inexperience

The report concludes that the FR crowd-funding market does not present a systemic risk to the global financial sector at present. However, the report indicates that various factors could modify this outlook in the future. With the next evolution of this industry being in the global nature of funding sources, the challenges ahead will include cross-jurisdictional contractual and legal harmonisation, dispute settlement and resolution issues. IOSCO as a global standard setter for securities market regulators can have a role to play here in aiding regulators in monitoring the development of the industry.

Background to the Report:

Following the outbreak of the current financial crisis, IOSCO adopted a new strategic direction that emphasised the need for securities regulators to identify, monitor and manage systemic risks. To that

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end, IOSCO established a research function comprised of a Research Department at the General Secretariat and the IOSCO Committee on Emerging Risks (CER).

The Research Department is cognisant that the world is moving inexorably towards a more market-based, interconnected financing model, as credit institutions face higher capital requirements, constraining their ability to lend. In this context, Research supports IOSCO's efforts to create strong, transparent and appropriately regulated securities markets, which are essential to the sound functioning of the global economy and its recovery.

The IOSCO Research Department recently published the Staff Working Papers, [IOSCO Securities Markets Risk Outlook for 2013-2014](#) and [Cyber-crime, securities markets and systemic risk](#). Going forward, it will publish reports on corporate bond markets and incentive structures in supervision.

NOTES TO THE EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators Mr Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, United Kingdom and the United States.
3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing 75 per cent of the IOSCO membership. Mr. Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee endeavours to promote the development and greater efficiency of emerging securities and futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.

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4. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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