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Dear Jason,

Consumer Panel's response the FCA's regulatory approach to crowdfunding (and similar activities)

This is the Consumer Panel's response to the Financial Conduct Authority's (FCA) regulatory approach to crowdfunding and similar activities consultation.

The Panel supports the introduction of protection for investors in crowdfunding and similar activities. As we stated in response to the FCA's high level proposals for the consumer credit regime, it is vital that these protections are proportionate to the risks involved and do not stifle this fast emerging alternative to mainstream lending¹.

Funding for growth is desperately needed by start-ups and small businesses, but is not being provided by the banks. The National Audit Office recently reported that the flow of new bank term lending to SMEs fell by 23 per cent between 2009 and 2012 and that there is a current funding gap (the difference between the funding required by SMEs and the funding available) of approximately £10 billion². Crowdfunding has developed to try and meet this demand and can play a vital role in helping the economy grow.

The Panel feels that in the proposals are broadly proportionate, balanced and build on existing industry standards. We agree that risks need to be plainly stated and advertisements clear and not misleading. The Panel also feels that it is prudent to require investors to demonstrate they have understood the risks and are clear what protections do and do not exist for them. There is a challenge, however, in ensuring this proposal does not become a tick box exercise.

The Panel understands how prudential requirements will help bring integrity to the market. However, we believe that it is essential that these requirements are not overly restrictive. We note that of the current 25 loan based crowdfunding platforms three share 90 per cent of the market. We would not want excessive capital requirements to result in smaller operators leaving the market and a barrier to new competitors being created.

Finally we would suggest the regime needs to be monitored and flexible. It is a new area and regulation needs to be agile enough to respond to any developments within it.

Sincerely

Sue Lewis, Chair - Financial Services Consumer Panel

¹ <http://www.fs-cp.org.uk/publications/pdf/CP-response-FCA-consumer-credit-consultation20130430.pdf>

² <http://www.nao.org.uk/wp-content/uploads/2013/10/10274-001-Executive-Summary.pdf>