

Equity Crowdfunding – An Alternative Source of Finance for Irish Companies

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Crowdfunding in Ireland, particularly equity crowdfunding, has become increasingly popular. A somewhat recent development in the equity crowdfunding space in Ireland, is the registration of Seedrs as a regulated crowdfunding platform (CP) with the Central Bank of Ireland (CBI). Seedrs position as a regulated European Union (EU) platform, has resulted in it being one of the largest global CPs.

Equity crowdfunding

Equity crowdfunding is a method for companies to raise finance from a range of investors in a collective manner, in exchange for an interest in the company. Some of the benefits to an Irish company by raising finance in this way, are as follows:

- reach a wider pool of potential investors which also may result in long-term investor relationships
- sell small amounts of equity to a large number of investors
- launching a crowdfunding campaign can attract publicity and exposure for the company.

Whilst there are drawbacks, such as costs, the risk of not achieving a funding target and of course the regulatory burden (detailed further below), the benefits can outweigh the risks.

Regulation

Equity crowdfunding in Ireland, is regulated by Regulation (EU) 2020/1503 (the **Crowdfunding Regulation**) together with Directive 2020/1504 (**MiFID II**). The Crowdfunding Regulation will apply directly in all EU member states. Pursuant to the Crowdfunding Regulation, the CBI is the designated national competent authority for crowdfunding regulation in Ireland. A CP that

facilitates either peer-to-peer business lending or investment-based crowdfunding via its platforms will need to be authorised by the CBI.

Once authorised, a CP will be able to provide crowdfunding services across the EU on a cross-border "passport" basis in line with the requirements outlined in the Crowdfunding Regulation. The authorisation process is a detailed and lengthy process, which will take approximately 6 months in total. Once authorised, the CP, and the project owners on the platform, have to comply with the CBI's requirements.

CBI Requirements

The CBI has stringent compliance requirements, some of which are as follows:

- **maximum financing:** project owners are limited to raising €5 million within a 12-month period. Offers exceeding €5 million fall under the scope of MiFID II and other regulations;
- **policies and procedures:** CPs must frequently monitor, evaluate and update the adequacy and effectiveness of their policies, procedures and systems to ensure compliance with the Crowdfunding Regulation and other applicable laws. The CB can request sight of the CP's policies and procedures;
- **information sheet:** a key investment information sheet is required to be drawn up by the project owner for each crowdfunding offer. This must contain all information about the project owner(s) and the crowdfunding project. CPs must have adequate procedures in place to verify the details contained within it;
- **due diligence:** CPs must carry out a minimum level of due diligence in respect of project owners; and
- **CP participation:** CPs cannot participate in crowdfunding offers offered on their platforms as well as from offering crowdfunding offers of persons closely related to them.

Conclusion

It is indicative from the transposition of the Crowdfunding Regulation and the recent registration of Seedrs as a CP with the CBI, that crowdfunding as a source of finance for Irish companies is on an upward trend.

If you're interested in discussing this matter further and exploring how our team can assist you please contact us via our details below.

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