

Crowdfunding as a source of finance for businesses

Alternative financing concepts, such as crowdfunding, are presently on the rise. The concept is particularly relevant to entrepreneurs and small and medium-sized businesses, but it is important to note certain facts.

The concept *crowdfunding* covers activities without the requisite financing, where the initiators contact a large or small number of persons with the purpose of obtaining financing through these persons. The tendency, which emanates from abroad, is especially known from the social media, where crowdfunding may be used for financing cultural and beneficial purposes – including operations, repayment of debts, and travels abroad.

In the past years, the concept has developed into a source of finance for small businesses in particular, where the businesses via the Internet obtain financing from a number of investors, who typically contribute with a small amount each.

When it comes to corporate crowdfunding, it primarily takes place as a loan or against the issuance of shares or other securities, i.e. *equity crowdfunding*. Equity crowdfunding may take place within the frame of financial legislation, but is not directly regulated by Danish law. Therefore, we always recommend you to seek advice before you start a crowdfunding project.

Relevant crowdfunding platforms

Even if it is, in principle, possible to provide crowdfunding from your own website, the investment opening is typically offered through an established online crowdfunding platform.

The provider of the platform establishes the criteria for the projects and businesses requesting financing from the platform. Moreover, the platforms typically operate without any – or with a limited – regulatory authorisation, and providers of platforms are therefore only able to impart the investment opening as a kind of electronic bulletin board.

There are only a few Danish crowdfunding platform providers, but more are on their way, including platforms specifically offering equity crowdfunding.

Considerations worth making

Businesses interested in financing through crowdfunding should consider the following:

- Are we able to manage a large group of shareholders and the administrative challenges in this connection?
- How do you ensure that the new investors do not gain control (if this is not the intention)?
- Should the original owner(s) divide the share capital into classes of shares to ensure continuous control?
- Should the shares be issued through VP Securities A/S?
- How will it be possible to derogate from the pre-emption right of existing shareholders?
- How should the articles of association be changed in order for the company to communicate electronically with the shareholders?
- If it is an option – how can the investors get out of the investment?

Furthermore, it is of significance to consider the individual conditions of and adjustments to the business that may become important in connection with financing through crowdfunding.