

# Opinion on the Preparation of Systems for Crowd Funding

February 2014  
The Consumer Commission

For crowd funding (\*1), which is a measure to promote supply of risk money to new and growing companies, the Financial Services Agency is studying relaxation of regulations as shown below (\*2).

Relaxation of property regulation (\*4) for the companies which serve as brokers of small-amount means traded via the Internet only (\*3) among invitation for investment into unlisted stocks or fund equity

\*1 A fundraising scheme by linking new or growing companies with investors via the Internet so that a small amount of funds are collected from many investors.

\*2 "Report by the Working Group (WG) on the Risk Money Supply to New or Growing Companies under the Financial System Council" (December 25, 2013)

\*3 The WG reported that a "small amount" can be considered as "Total issued amount below ¥100 million for which ¥500,000 at most/person is invested".

\*4 At present, the minimum capital is specified for Type 1 Financial Instruments Business Operator(¥50,000,000) and Type 2 Financial Instruments Business Operator(¥10,000,000).

When relaxing the regulations, sufficient measures to protect investors should be taken. We request the Financial Services Agency to keep the following points in mind and take appropriate measures for prevention of consumer damage.

(Concerns about regulation relaxation)

Abuse in fraudulent action or use by antisocial forces

It is a concern that, to evade the requirement limiting this funding to a small amount investment (Total issued amount shall be below ¥100 million and the investment amount per person of ¥500,000 or less), some issuers and brokers might deal with their single fund as several funds.

For unlisted stocks and fund equity, less information for investment judgment than that for listed stocks is provided. It is more difficult to judge the value and the means to know whether the fund is appropriately used or not is limited.

Broker and issuer may abuse crowd funding as a means of fraudulent solicitation, or the broker may solicit the consumer for another investment.

Since fundraising via the Internet can be easily used by overseas entrepreneurs and fraud groups. Once you transmit some money, it will be quite difficult to recover the damage.

(Measures considered necessary)

Participation requirements shall be decided for sound and appropriate mediation

Requirements shall be ingeniously set to prevent misuse by vicious entrepreneurs

To avoid posting of false information or information against the facts, the issuer shall be obliged to provide correct information; the broker shall be clearly responsible for assuring the correctness of information, and the person who breaches these provisions shall be subject to criminal punishment and civil compensation for damage.

Measures shall be taken so that the broker can check whether the investor sufficiently understands the significance, characteristics, liquidity risk and default risk in the investment into unlisted stocks and funds or not before making judgment for investment.

Uninvited solicitation by telephone or visit shall be prohibited.

Measures to avoid damage shall be studied.