

## The Status Situation and Future Development of China's Equity Crowd-funding

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**Keywords:** Internet finance; Equity crowd-funding; Risk

**Abstract.** With the deepening reform of China's economic system and the promotion of financial innovation, Internet finance has been rising. Today, Internet finance, including crowd-funding, P2P, securities, Internet banking, financial holding company, third-party payment, etc. In recent years, as one of the most important manifestations of crowd-funding, equity crowd-funding have been developed rapidly. Because of the problems of our country's economic system, China's crowd funding is still in the exploration stage. Faced with the lack of professionalism, financial supervision is not standardized, information oversight, legal risks and other issues. The rapid development of China's equity crowd-funding plays a huge role in solving the difficulties of financing in the innovative companies, small or micro enterprises, which has been broad space in the future.

### Introduction

Equity crowd-funding is carried out based on a model of Internet channels, the company sell a certain percentage of the shares, for the average investors, the investors obtain future income through investment shares company. In recent years, the rapid development of Internet banking, in full swing, more typical pattern is P2P net loan. In contrast, equity crowd-funding is not whether the public to raise transaction size, extent and financing platform quantity it not match P2P, with its contrast, development has been tepid.

Equity crowd-funding is not simply 'equity investment and financing and Internet technology' But organic integration of both, in a sense, can be called a combination of both ecological gene. The core of equity crowd-funding is equity investment, as the core of the Internet banking is financial, as the key to success is to find the value and overcome risks. Equity raises public as a new financing model for investors with a strong appeal.

### The classification of equity crowd-funding

According to country-specific laws, regulations and policies, equity crowd-funding of china is broadly divided into circulation of proof, membership type and angel type.

#### (a)Circulation of proof

Circulation of proof mainly refers to on the Internet by the forms of selling equity and bundled to raise funds, investors pay money to obtain the relevant certificate, the certificate is directly linked to the equity or project start-up, but investors do not become shareholders. In accordance with the provisions of the Securities Law, the insurance of securities to non-specific or issue securities to specific objects accumulated over 200 people belong to the public offering, subject to regulatory approval. Once beyond the SFC, will face punishment. Circulation of proof with financing fast, low threshold, risk diversification characteristics, can be more effective to focus the power of tiny folk.

#### (b)Membership type

Membership formula to raise public equity mainly refers to on the Internet through acquaintances, investors pay money to be invested directly into the corporate shareholders. 3W coffee is the most famous case, is the public to raise equity successful example, but this membership-style cafe, there is little investors saw its financial profitability, while the majority of shareholders are more concerned about is to provide the network of value, exchange value, transaction value, social value and investment opportunities.

#### (c)Angel type

Different circulation of proof and membership type, angel type is the closer to the angel investment or VC investment model, investors looking for investment business or project through

the Internet, pay funds directly or indirectly becomes shareholders of the company, while investors often accompanied by a clear financial return requirements. Angel type is the typical representative of equity crowd-funding, will be published on the internet venture, invested by the collar and put into a joint venture with financing, and investors in proportion to their respective shares of start-up companies financed possession, and then transferred to line handle limited partnership established under the investment agreement and other formalities. Because of the Internet to many potential investors with investment opportunities, and on the investment threshold is very low, so this mode is also called the 'National Angel'.

### **The development of equity crowd-funding**

#### **(a)The development of foreign equity crowd-funding**

In recent years, the United States vigorously promote the development of equity crowd-funding. Promulgated JOBS Act (Jump-start Our Business Start-up Act) to establish legal status of the equity crowd-funding in 2012. The Act allow companies to announce financing information. This bill open the limit for private offerings which can be disseminated through the Internet, television and other public channel.

This JOBS have different requirements for demanders of funds and investor. The demanders of funds can raise funds less than \$1 million through equity crowd-funding for every years. For the investors, individual cumulative investment at most \$2000 or 5% of annual earnings if annual income less than \$100000. If their annual income exceed \$100000, they can invest 10% of the earning.

According to statistics, in the first half of 2014, the United States were raised funds nearly 5600 cases about equity financing mode. There on to, in the number of nearly 2.81 million people participate in crowd-funding. The USA expect collected funds about a total of \$104.2699 million, in fact, they collect funds up to \$215.0861 million, their success rate is 206.28%.

According to the International Organization of Securities Commissions(IOSCO) September 2014 monthly statistic, Italy, Britain, France and Japan have launched a new chip for all regulations, South Korea, Canada and other eight countries issued a new law draft.

#### **(b)The development of equity crowd-funding in China**

In recent years, China's crowd-funding market has grown up rapidly. The rise of crowd-funding in our country arises from the crowd-funding that the micro media launched in Taobao at 2012, and the development of the equity-based crowd-funding take the development of Angel Crunch, Yuanshihui and Dajiatou for a typical example. 2014 is the first year of crowd-funding, the World Bank forecasts that the scale of global crowd-funding market will reach \$3000 billion, of which \$500 billion in China. According to QingKe, in the first half of 2014, 1432 financing events occurred in china's crowd- funding field, raising funds 1.88 billion, in which the proportion of equity crowd- funding accounted for more than thirty percent, and the crowd- funding industries in China development prospects is still sustained. Although the rapid development of domestic crowd-funding is the model, but it is still far from the Europe, Unites States and other developed countries.

### **Risk of equity crowd-funding**

#### **(a)Legal risk**

Equity crowd-funding mostly conducts public petty equity financing mode by the internet. As Chinese equity crowd-funding which is on the period of exploration does not form an entire system relatively and laws and regulations in reference are deficient even vacant, still have many problems.

The financing mode exists the risk of illegal financing, according to available institution, if it does not have the public approval of the regulatory authorities, funds are collected by social unstable targets without authorization, or promise to get corresponding repay within a period, so these are supposed to illegal financing. The crowd-funding platform equals to the stock exchange, by comparison, it simplifies the listing review process of the traditional financing mode, and to a considerable degree, threshold is lowered to the investors, at the same time, information disclosure cost of newly-established firm and SMEs is on the decrease. Equity crowd-funding exists moral risk when conducted, demanders of funds, in order to their benefits, collect funds which they demand as soon as possible, even package in description of projects and financial statement, release untrue

information, exaggerate advertise, to get favour of investors, so these make the legal rights of investors have no way to be protected effectively.

(b) Intellectual property risk

Crowd-funding is a campaign of collecting funds they demand, which use spreading property of the internet, making newly-established firm and SMEs show their innovation in public and get recognition. However, without applying for intellectual property, in order to get funds of innovation projects, they show their innovation in crowd-funding platform, during this period, then their innovation project is possibly embezzled by others maliciously, so damage the benefits of investors.

(c) Innovation risk

Equity crowd-funding, which is a new collected-funding mode, has conducted many years in market, but it does not have a standard to measure risks which exists. Its excessive innovation results in risk focus.

First, as crowd-funding platform which examines projects has not demands of threshold and attitude, official certification, and people have reasons which doubt that ability authority. Then, equity crowd-funding exists two collected-funds modes, the leading investment and following investment. However, whether the latter leading investment represent the benefits of following investors, this is a question. Finally, during the starting period of development, there appears many crowd-funding platforms, the survival of fittest, survival of fittest, there appears many closures of platforms in competition. These result in relief more risk, then lead to turbulence of financial order.

(d) Risk of protection of rights and interests

Investors in equity crowd-funding are disadvantaged group, until now, crowd-funding profession has not clear regulatory guidelines and it is easy to be cheated by investors and investing platforms. Funding platforms as intermediary organization, their main benefits root in percentage and service commission from success of funding-collected. With immature of financial regulation, demanders of funds, in order to innovation projects and collect funds they demand smoothly and as soon as possible, they surpass limitation to varnish their project, exaggerate advertisement to mislead investors. However, crowd-funding platform, in order to get benefits, attracts SMEs to collect funds, lower threshold of crowd-funding project, even they together with demanders of funds conduct insider dealing to cheat investors. After the success of funds -collected, newly-established firm, in order to achieve maxi of self benefits and avoid unnecessary risk is possible to conduct former project according to plans, go against rules to use funds collected, so projects are delayed, and damage the benefits of investors directly.

### **The future development trend of equity crowd-funding**

(a) The multi-level market is going to be the important complementarity of equity crowd-funding

Under the background of innovation, business has become a boom, equity crowd-funding will become the important supplement of the multi-level capital market and financial innovation of the important areas, It is very important to service the real economy and macro lever control.

In 2004, our social financing scale has been accumulated to 16.46 trillion Yuan, with the creditor's rights financing accounted for 94.03%, insurance and others accounted for 2.0%, non-financial corporations in equity financing of 435 billion Yuan, account for only 2.64%. To micro enterprises as a whole, they have the difficulties of financing difficulties and expensive conditions. It is not just because of financial problem has certain inhibition, there are also great demand in the following of the hyper-scale. Then it is of great significance about developing the level of capital market. The equity crowd-funding will serve as a state in the capital market to a new level of financial innovation.

The abundance of investment demands from multi-level investors, the difference between risk preference investors of capital market, The difference investment forms, investment project of less level markets for investors are limited. Not only the financial investment of investors can not be meet, but also the market information is also easy to distortion and the asset prices are vulnerable to manipulation. If the multi-level needs of investors are not being met, it will lead to passive savings. As can be seen from this, our country is not a lack of capital supply, but the lack of multi-level capital market system. We need to develop the financial innovation in our country, to meet the

needs of issuers and investors through the crowd-funding mode. Financial innovation is helpful to enrich the level of financial markets and products, and carry out the equity and the raise of pilot, explore and standardize the development of the Internet financial service innovation actively, financial innovation can play the role of technological innovation effectively. Financial innovation can be divided into five levels: the innovation of financial products, financial services, financial organization system innovation, the innovation of the financial rules of the game, the innovation of the financial talent, innovation of financial legal system environment. Under this way of thinking, developing capital market in multi-levels, making the equity raising become the important supplement of the traditional financial markets, then equity crowd-funding to be the important channel to meet the small micro enterprises financing and playing a certain role to control the leverage ratio during the period of much starker choices-and graver consequences-in.

(b)Equity raise should play the ‘new five board’ of China's capital market

People's bank of China financial institute, Mr. Yao said for many times ‘if fewer children you have, then go to equity crowd-funding, if not equity crowd-funding today, the day after tomorrow will leverage the sorrow’. And the development of equity and the raise of ‘54321’ plan was put forward. Plan of the ‘five’ is to change the equity crowd-funding into ‘new five boards’ in China's capital market, the motherboard is mainly services in large and medium-sized enterprises, small and medium-sized board and gem services in innovative enterprises, enterprises. The new third board service to small and medium-sized enterprises in the domestic science and technology park zone. The fourth board market and the government work report to define to develop regional markets, property rights trading market. Equity crowd-funding will serve as the new five plate, as an extension of the multi-level capital market, the future may be directly docking National Equities Exchange and Quotations, breaking the space of financing obstacles through internet technology to better serve the domestic small micro enterprise equity financing.

### **Conclusion**

Equity crowd-funding can not only increases the financing channels, reduce the cost of micro and small and medium enterprises financing, and investors can make equity investment directly by the raised platform for small and medium-sized enterprise .But now due to the lack supervision of laws and regulations about equity crowd-funding, there are many risks and disadvantages in operation, but it is because of its regulatory lack leads to the more innovative and more broad space for development. This article will described raise the stakes in the overview, research status at home and abroad, risk and the future development trend is described. I think China's regulators should improve the equity and the raise of the regulatory system as soon as possible, make it develop in a healthy and stable environment and escort for the continuous development of industry.

### **ACKNOWLEDGEMENT**

This work has been funded by Humanities and Social Science Foundation of Ministry of Education of China (12YJA630102) and National Statistical Research Project of China (2013307).

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