

CROWDFUNDING & P2P LENDING

1. INDUSTRY OVERVIEW

Crowdfunding is a segment of the fintech industry focused on funding of projects, ventures, and firms via online crowdsourced fundraising. In recent years, a specialised ecosystem of specialised platforms has emerged as underlying infrastructure to the crowdfunding landscape. In principle, there are several different types of crowdfunding business models, which make up the crowdfunding segment of the fintech industry.

1.1 DONATION-BASED CROWDFUNDING

In principle, all crowdfunding in which there is no financial return to contributors can be characterised as donation-based crowdfunding. This type of crowdfunding is done principally by non-profits, often in connection to specific causes, events, or disasters.

1.2 REWARDS-BASED CROWDFUNDING

Rewards-based crowdfunding involves crowdfunding based around tangible “rewards” distributed to contributors. Typically, these involve goods or services, which furthermore can be customised, or offered on an early-access basis. The recipient motivation behind rewards-based crowdfunding is often to use product prototypes and customisation possibilities to both finance further product development while also generating market promotion and visibility.

1.3 EQUITY CROWDFUNDING

Equity-based crowdfunding (also called investment-based crowdfunding, or securities crowdfunding) is a



crowd-based approach to securities issuance that gives small entrepreneurs access to the general investing public. Equity crowdfunding allows contributors to become part-owners of a company by trading for equity shares.

1.4 DEBT CROWDFUNDING AND P2P LENDING

Debt-based crowdfunding (also called peer-to-peer lending, fintech lending, or crowdlending), connects borrowers and lenders directly (although lending can also be structured in bundles or as bonds), offering borrowers direct access to loanable funds and lenders access to credit markets.

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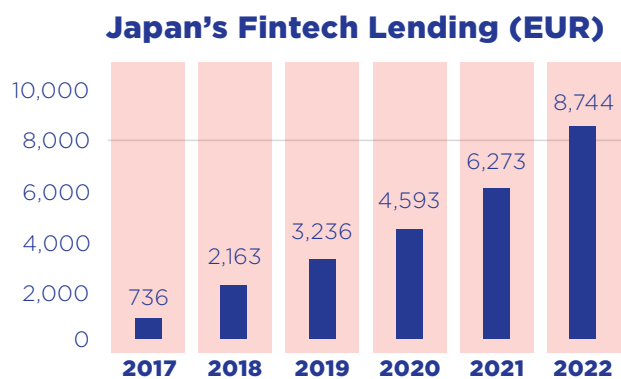
2. CROWDFUNDING IN JAPAN

Crowdfunding is relatively new to Japan, with equity-crowdfunding having been legalised in 2015. Nevertheless, FY2016 figures estimate the size of Japan’s crowdfunding market at 74.5 billion yen, with around 90% concentrated in the debt-crowdfunding segment.^[1]

Additionally, cross-border P2P lending platforms exist in Japan, allowing users to invest in lending both domestically and on Australian and European markets. This is a popular investment option which allows small and individual Japanese investors access lending markets abroad. Japan’s market hosts a relatively large share of private sector credit availability. Compared to OECD member nations, a sizable share of Japan’s loanable funds is available on the fintech lending market.

JAPAN’S P2P FINTECH LENDING LANDSCAPE SCALE AND GROWTH^[2]

Available data indicate a high, but steadily tapering growth rate for Japan’s debt crowdfunding and P2P lending landscape going forward, as the market matures.

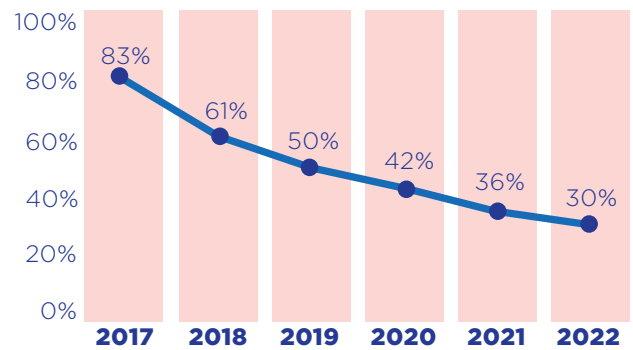


[1] Yano Research Institute

[2] Statista Data

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Japan's Fintech Lending Growth



While given the market realities, an EU-based crowdfunding platform or crowdfunded project would find it financially lucrative to extend participation offers to Japan-based investors, contributors, or creditors, Japan’s regulatory landscape has also recently reformed to facilitate cross-border crowdfunding.

2.1 REGULATORY LANDSCAPE IN JAPAN

- The 2010 Payment Services Act, non-financial institutions were allowed to offer money-transfer services up to a maximum of 1 Million JPY, effectively lowering regulatory barriers for crowdfunding firms, projects and platforms.
- The 2014 Amendment of Financial Instruments and Exchange Act relaxes restrictions on equity offerings by privately held companies and on involvement of non-accredited investors. This allows equity fundraising, setting the stage for companies to raise investment capital through online crowdfunding platforms.
- In 2017, the Banking Act was amended to define Electronic Payment Intermediate Services (EPIS) as businesses that either as intermediaries, electronically delivering a depositor’s instructions to its bank to transfer funds between accounts. This provides an operational framework along which crowdfunding platforms can organise their operations.





3. EU-JAPAN EPA AND TRADE IN SERVICES

3.1 COVERAGE OF THE CROWDFUNDING AND P2P LENDING MARKET:

- **EPA 8.59 a (ii) (B)** establishes all lending, including consumer credit, mortgage credit, factoring and financing of commercial transactions as “banking and other financial services” for the purposes of the EU-Japan EPA.
- **EPA 8.59 a (ii) (F) and (G)** establish any involvement with securities trading and issuing & underwriting respectively as “banking and other financial services” for the purposes of the EU-Japan EPA.
- **EPA 8.59 a (ii) (J)** establishes settlement and clearing services for financial assets (including securities and derivatives) as “banking and other financial services” for the purposes of the EU-Japan EPA.
- **EPA 8.59 (C)** designates “new financial services” for financial services existing in Europe, but not yet in the other.



3.2 WHAT THIS COVERAGE PROVIDES:

- **EPA 8.8** protects EU SMEs against discrimination by regulators while **EPA 8.62** protects against discrimination concerning self-regulatory organisation membership, privileges or advantages. EU-based crowdfunding operations and firms can now invest in the Japanese market on equal footing with local domestic crowdfunders.
- **EPA 8.60** establishes the right of European financial service providers to offer new financial services in Japan (although this might still require licenses and regulatory authorisation).
- **EPA 8.65** can result in European financial service suppliers engaged in P2P lending or equity crowdfunding to become subject to Japanese prudential regulation.
- **EPA 9.2** protects the free movement of capital and of transactions (which can be temporarily interfered with during times of external financial difficulties). This will make cross-border P2P lending and cross-border crowdfunding mechanically viable.

3.3 CHALLENGES

While the EU-Japan EPA offers EU financial-sector businesses more opportunities to participate in Japan's financial market landscape. EU SMEs should take into consideration that other factors, such as cultural, linguistic, and regulatory barriers will need to be addressed in order to take full advantage of the EU-Japan EPA.

While new financial services to the Japanese market cannot be impeded by regulators on novelty grounds, regulators can require authorisation, refuse on prudential grounds, or determine the judicial form under which the financial service can be supplied. EU SMEs in the business of supplying new financial services should still expect regulatory oversight. Likewise, Japanese SMEs can still be subject to regulatory authorisation, licensing requirements, macroprudential regulation, and competition policy regulations and thresholds.

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MORE INFORMATION

EU-Japan EPA's **main text and annexes** can be found on European Commission's DG Trade website:
<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

EU-Japan EPA's Chapter on **financial services** is also available on the European Commission's DG Trade website:
http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf#page=281

Annex 8-A on **financial services regulation** is also available on the European Commission's DG Trade website:
http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157232.pdf#page=1



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