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Exemptions Featured in the 2015 German Small Investor Protection Act[1]

This article investigates the effects of the exemptions of the Small Investor Protection Act, introduced in the summer of 2015. By imposing increased regulations, the Small Investor Protection Act aims to improve transparency for investors in the so-called "grey capital market". Nonetheless, the act entails a number of exemptions. Firms financed via crowdinvesting platforms, as well as social, charitable and religious projects financed via so-called investments are exempt from the prospectus requirement. We base our investigation of these exemptions on a crowdinvesting-database, a survey of social and charitable organisations and interviews with experts in the field. In short, one year after the introduction of the Small Investor Protection Act no strong visible impact can be seen on the market for crowdinvesting in Germany. The data also shows that investment behaviour has not changed significantly due to the newly introduced self-disclosure requirements concerning the investor´s income and assets. However, the preferred types of investments in the market for crowdinvesting have recently changed from silent partnerships to profit-participating loans and subordinated loans. Both social and charitable organisations do not seem to be making use of the exemptions in the newly implemented act, since they can follow simpler rules and regulations to gain exemption from the prospectus requirements.

The Small Investor Protection Act ("Kleinanlegerschutzgesetz", short: KASG), introduced on the 3 July, 2015, includes numerous amendments to the regulation of financial markets. The legislative initiative was largely triggered by the insolvency of the energy firm PROKON, which affected approximately 75,000 small investors. The aim of the KASG was to improve investor protection in the so-called "grey capital market", which is a market for less-regulated financial products. The KASG amended the German Investment Act ("Vermögensanlagengesetz", short: VermAnlG) by expanding its regulatory outreach to encompass types of investments (Vermögensanlagen) that were not previously covered by the VermAnlG, and by introducing prospectus requirements and subscription limits for publicly offered investments.

[1] This article is an abbreviated version of Hainz, Hornuf and Klöhn (2017a) and was published in the ifo Schnelldienst as Hainz et al. (2017b).

When regulating the financial market, the legislator faces a trade-off between the interests of investors and those of the issuers of investments. The investors primarily seek to protect their investments, while issuers request easy and affordable access to capital. Since providing a prospectus involves high costs for some issuers, the adjustments made by the KASG include exemptions.[2] Under certain conditions, crowdinvestments, as well as social, charitable and religious projects, are exempt from the VermAnlG. The goal of such exemptions is "to preserve the diversity of social and benevolent engagements in Germany" (BT-Drs. 18/4708, p. 60) with respect to social, charitable and religious projects. Crowdinvesting facilitates access to funding and therefore allows companies, especially at an early stage, to overcome barriers to financial access (Carpenter and Petersen 2002; Cassar 2004; Lopez de Silanes et al. 2015). By using online platforms, start-ups can promote both their innovative business ideas, as well as the issuing of investments to a wider audience. The investments are designed for small investors since the minimum thresholds are generally low, with some portals offering investments starting at one euro (Hornuf and Schwienbacher 2014). Furthermore, crowdinvesting can be seen as a form of advertisement for the issuing company and may be used as an indicator of the success of the business idea in the market (Colombo and Shafi 2016).

This article focuses on the effect and implementation of the KASG exemptions approximately one year after its introduction. To carry out our investigation, we use a crowdinvesting-database, data from a self-conducted survey of social, charitable and religious projects carried out in July 2016, as well as inputs from expert-interviews.

CHANGES DUE TO KASG IN DETAIL

The statutory amendments of the KASG mainly apply to the VermAnlG, which regulates the public offering of non-securitised investments.[3] The application area of the VermAnlG was broadened to profit-participating loans and subordinated loans; however, the extension of the VermAnlG only applies if non-securitised investments (see Table 1) are offered publicly (§ 1 VermAnlG). An offer is public if it is not restricted to a certain group of people. In the case of an existing personal connection between investor and issuer, an offer cannot be considered public (Zwissler 2013).

The duties and liabilities of the VermAnlG are presented in Table 1, with Figure 1 summarising the various exceptions. Prior to the introduction of the KASG, § 2 VermAnlG already featured several exceptions.

[2] The DICE-database includes an international comparison of the regulation of crowdinvesting from Hornuf and Schwienbacher (2017), available at: https://www.cesifo-group.de/de/ifoHome/ facts/DICE/Banking-and-Financial-Markets/Financial-Markets/Financial-Market-Regulation/overview-crowdfunding-regulatory-frameworks.html, which is explained in Hainz and Hornuf (2016).

[3] Further changes are carried out for investor protection in the WpHG and the FinDAG, see Buck-Heeb (2015) for example.


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Table 1

Types of Investments and Their Regulation under the VermAnlG

Investment (see § 1 para. 2 VermAnlG)	Regulation
• shares that grant a participation in the company's earnings [a)] • shares of trust assets • profit participating loans • subordinated loans • profit participating subordinated loans • participation rights • registered bonds • other assets [b)]	• minimum term and termination of investment (§ 5a VermAnlG) • prospectus requirement (§§ 6 ff. VermAnlG) • liability concerning information contained in the prospectus (§§ 20 ff. VermAnlG) • financial accounting (§§ 23-25 VermAnlG)

[a)] Cooperative shares, silent partnerships, shares in business partnerships (GbR, OHG, KG), GmbH-shares and shares in foreign businesses of different legal forms.

[b)] Especially direct investments into real assets, e.g. purchase of shipping containers, good wagons or commodities. However, there has to be a right of interest yield and payback or a mediation of a cash clearing claim in exchange for temporary relinquishments of money.

Source: VermAnlG (German Investment Act), authors' illustrations.

Investments covered by § 2 VermAnlG are not subject to the obligations in §§ 5a to 26 VermAnlG[4], and especially to the prospectus requirement (§ 6 VermAnlG). In practice, exemptions for public offering are particularly important. Such exemptions exist for the public offering of cooperative shares without performance-based compensation for distribution (No. 1), for cooperatives offering profit-participating loans, subordinated loans or other investments without performance-based compensation for distribution (No. 1a)[5], for private placements offering a maximum amount of 20 shares (No. 3 lit. a) and for investments with an aggregate value not exceeding 100,000 euros within 12 month (No. 3 lit. b). In addition, the exemptions apply to investments if the price per investor is at least 200,000 euros (No. 3 lit. c), or if they are only offered to a limited group of people (No. 6). However, the last exemption has very limited practical relevance.

Similar to § 2 VermAnlG, the KASG introduced additional exemptions for certain markets like crowdinvesting, as well as for social, charitable and religious projects. The catalogue of exemptions is not as comprehensive as in § 2 VermAnlG, but it does include important regulations like the prospectus requirements.

§ 2a VermAnlG privileges projects that are financed via crowdinvesting platforms. In addition to the exemption from prospectus requirements, § 2a VermAnlG reduces requirements regarding the minimum duration of investments (§ 5a VermAnlG) and financial accounting and reporting (§§ 23-25 VermAnlG). Nonetheless, the application of the § 2a VermAnlG is subject to the fulfilment of certain requirements. Firstly, the aggregate value of the investments issued by the issuer must not exceed 2.5 million euros. Secondly, the issuer must only offer profit-participating loans, subordinated loans or other investments according to § 1 para. 2 No. 7 VermAnlG. Silent partnerships and profit-participation rights, which were commonly used in the initial days of crowdinvesting, are not covered by the exemptions. Instead, unless they fulfil the exemptions in § 2 VermAnlG, they are subject to the prospectus requirement. Thirdly, the investor must stay within the subscription limit and must self-report income and wealth to the platform if the overall value of one investment exceeds 1,000 euros. If the investor's income or wealth exceeds a certain threshold, the maximum allowed investment is set at 10,000 euros. These limits do not apply to corporate entities.

§ 2b VermAnlG also largely exempts the issuer from VermAnlG regulations. Most importantly, prospectus requirements are omitted. These privileges are only applicable to projects whose constitution entails a social objective (§ 2b para. 2 p. 1 VermAnlG). What social means is not further defined in the law. The original draft of the legislation from the federal government argued that this rule is designed for "projects in order to create

[4] With the exception of § 18 para. 2 and § 19 para.1 Nr.3 VermAnlG.

[5] Newly introduced by the KASG.

Figure 1

Important Exemptions According to §§ 2-2c VermAnlG

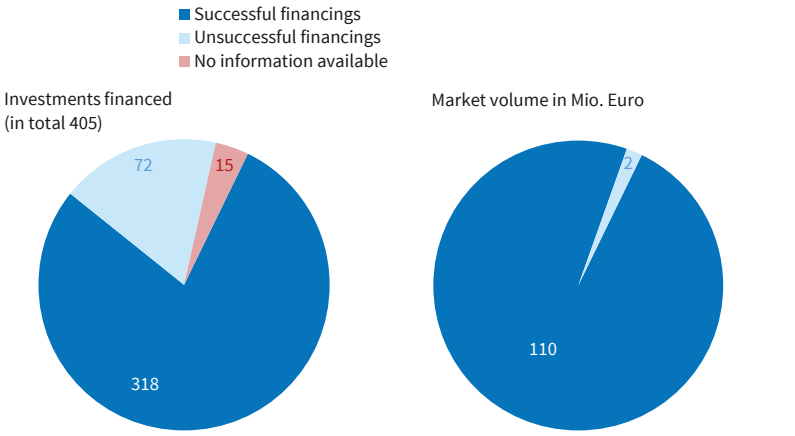
Exclusions § 2 (1)		Exemptions (if investment = profit-participating loan or subordinated loan)				
		§ 2a Crowdinvesting[2]		§ 2b Social projects		§ 2c Charitable projects / religios communities
No. 1	Cooperative shares[1]	(1)	Aggregate value ≤ 2.5 million €	(1)	If no performance-based reimbursement for distribution has been paid	(1) If no performance-based reimbursement for distribution has been paid
No. 1a	Investment products of cooperatives under certain conditions*	(3)	Investment counselling or mediation via online platform	(1)	Aggregate value ≤ 2.5 million €	(1) Aggregate value ≤ 2.5 million €
No. 3a	Shares of the same investment product ≤ 20	(3)	Maximal investment volume (not for capital companies) • 1,000 € • 1,000 €–10.000€ with self-disclosure • Freely available wealth > 100,000 or • Investment < 2x average monthly net income	(1)	Debit interest rate < max. {1.5; issue yield mortgage bond}	(1) Debit interest < max. {1.5; issue yield mortgage bond}
No. 3b	Total sales price of investment ≤ 100,000 €			(2)	Statutory social objective and total assets, turnover ≤ 10 million €	(2) Corporate body who is recognized as non-profit or Domestic church or religious group with the legal form of a public body
No. 6	Investment that is only offered to certain groups					
§§ 5a – 26 [3] do not apply		§§ 5a – 26[3] do not apply in parts (especially in terms of minimum duration, prospectus requirement and accounting standards)				

[1] If no performance-based compensation for distribution is paid.
[2] Also for other investments according to § 1 para. 2 Nr. 7.
[3] Regulation on minimum duration and duty to inform.
Source: Vermögensanlagegesetz (VermAnlG), authors' illustration.

affordable living space and space for micro-businesses or to create and operate nurseries at affordable rates" (BR-Drs. 638/14, p. 46). Throughout the subsequent debates in the Bundestag, it was "emphasised that these regulations should be broadened to encompass social projects with all legal forms. By implementing these legal changes, many projects are supported and thus the diversity of these projects in Germany can be maintained and fostered" (BT-Drs. 18/4708, p. 57).

Figure 2

Successful and Unsuccessful Financings as well as Realised Volume of Issues between 1 August 2011 and 1 June 2016



Source: Crowdinvesting-database; authors' calculation. © Ifo Institute

§ 2b VermAnlG only covers profit-participating loans and subordinated loans. In contrast to § 2a VermAnlG, other investments according to § 1 para. 2 No. 7 VermAnlG are not covered by this regulation. Additionally, according to § 2b para. 1 p. 1 VermAnlG, performance-based compensation may not be financed via the distribution of these investments. The aggregate value of the investment must not exceed 2.5 million euros and the yearly interest rate (§ 489 para. 5 Bürgerliches Gesetzbuch (BGB)) is limited to the higher value of either 1.5% or the normal market issue yield for investments of the same duration in the capital market in the form of mortgage bonds. Additionally, the issuer has to comply with certain turnover and balance sheet requirements (§ 2 para. 2 p. 1 VermAnlG).

§ 2c VermAnlG completes the newly-introduced exemptions. Like § 2a and § 2b VermAnlG, § 2c provides exemptions from the rules of the VermAnlG. The regulation is aimed at charitable projects and religious communities and was included in the KASG only shortly before the end of the legislative procedure. The legislator was guided by the following consideration: "regarding charitable organisations, it is important to release their honorary activities from bureaucratic and often costly constraints. By doing so, the leap of faith for the millions of citizens in Germany doing honorary work of public utility is strengthened" (BT-Drs. 18/4708, p.57).

The issuer must either be a corporation that is recognised as charitable and non-profit in accordance with § 52 para. 2 p. 1 AO (Abgabenordnung), or it must be a domestic church or religious community fitting into the legal form of a public corporation. § 52 AO considers a corporation to be charitable if its activities focus on advancing the general public in a material, intellectual or moral way (§ 52 para. 1 p. 1 AO). Support of the public is not prevalent if the group of persons benefitting from the support is limited, for example, through family, workforce or company affiliations, or if the group of persons is restricted based on geographical or occupational characteristics (§ 51 para. 1 p. 2 AO). Corporations are legal subjects according to § 52 AO if they are captured by the corporate tax law. That includes corporate entities, cooperatives, associations, institutions and foundations. § 2c para. 2 Nr. 2 VermAnlG also applies to non-Christian religious groups. Some Muslim communities, for example, have changed their legal form to that of a public corporation in recent years.

In contrast to § 2a and § 2b VermAnlG, § 2c VermAnlG entails no obligation to issue an investment information sheet ("Vermögensanlagen-Informationsblatt") (§ 13 VermAnlG). There are further extensive exemptions from accounting regulations if the aggregate value of the investment does not exceed 250,000 euros (§ 2c para. 1 p. 3 VermAnlG). Apart from that, requirements are similar to § 2b VermAnlG, except that requirements regarding the turnover or balance sheet thresholds do not exist.

In accordance with § 2d VermAnlG, investors who invest into projects covered by §§ 2a to 2c VermAnlG obtain a right of withdrawal, which was newly introduced by the KASG.

EXEMPTIONS FOR CROWDINVESTMENTS: § 2A VermAnlG

Database

The evaluation of § 2a VermAnlG is based on a crowdinvesting-database, which was established and has been updated by Lars Hornuf and Lars Klöhn 1 August 2011.[6] The database includes information on start-up financing, real-estate financing, financing of ecological projects and movie financing on 37 German crowdinvesting platforms. Out of these 37 platforms, 22 were still operating in 2015, which means that they offered at least one investment opportunity over the preced-

[6] Early publications, based on this crowdinvesting-database have already been published in Klöhn and Hornuf (2012), Klöhn and Hornuf (2015), Hornuf and Neuenkirch (2017), Klöhn, Hornuf and Schilling (2016a; 2016b; 2016c).

ing 12 months. This evaluation covers nearly the entire market for crowdinvestings under the exemptions of § 2a VermAnlG. The analysis covers the observation period between 1 August 2011 and 1 June 2016, which means that all crowdinvestings since the set-up of this new form of financing are taken into consideration.

DEVELOPMENT OF THE CROWDINVESTING MARKET BETWEEN 2011 AND 2016

Prior to the 1 July 2016, 405 investments were offered by German crowdinvesting portals like Companisto, Exporo or Seedmatch, of which 318 were brokered successfully (see Figure 2). With 238 successfully brokered investments, the majority of these crowdinvesting projects fall into the area of corporate finance. Another 33 projects were in the field of real-estate financing, and 47 cases of financing were ecological and social projects or movie financing. Overall, the market volume amounts to 110 million euros. Of this amount, 66 million euros were used to finance (start-up) businesses, 36 million euros to finance real-estate and eight million euros for ecological and social projects, as well as movie financing. Although several new crowdinvesting portals have been founded since 2011, larger and successfully brokered investments are mostly limited to a select group of portals. The market leader Companisto brokered over 27 million euros on its platform, with Seedmatch brokering close to 27 million euros. The real-estate funding platform Exporo has brokered around 17 million euros of investments since 2014. In total, the German market for crowdinvesting has grown between 2011 and 2015 at an annual rate of 220%. The funding process takes 68 days on average. Most of the issuers are start-up businesses. Out of the 405 issuers, 310 were founded after 2009. A quarter of the issuers were founded less than three years before funding started.

Looking at the economic sectors, crowdinvestments are often conducted for businesses that operate in the field of information and communication; or that are active in the commerce sector. This may be because most of the companies have an online-based business idea. The highest investment volume to date has been achieved within the real-estate sector.

SIZE AND TYPE OF INVESTMENT PRODUCT

An evaluation of total sales prices shows, as depicted in Figure 3, that 253 out of 318 issuers collected less than 500,000 euros. Nonetheless, these issuers only account for approximately one third of the entire market volume. Thus, a mere 65 issuers represent 66% of the market volume. Of those 65 issuers, six individual issuances were each worth over 2.5 million euros. Within eleven months of the KASG coming into force, the portals were able to broker only 24 million euros of funding. In the eleven month before the KASG this figure totalled 31 million euros.

The investments used for crowdinvesting have changed from silent partnerships to profit-participating loans and subordinated loans in recent years (see Figure 4). In general, profit-participating loans are the most frequently used type of investments, followed by silent partnerships and subordinated loans. Securities were offered by five issuers. The market volume of profit-participating loans with 65 million Euros and subordinated loans with 30 million Euros adds up to 85% of the entire issue volume. Issuers from real-estate offer mostly subordinated loans. Profit-participating loans and silent partnerships are used by three real-estate issuers only. Two real-estate issuers offered securities.

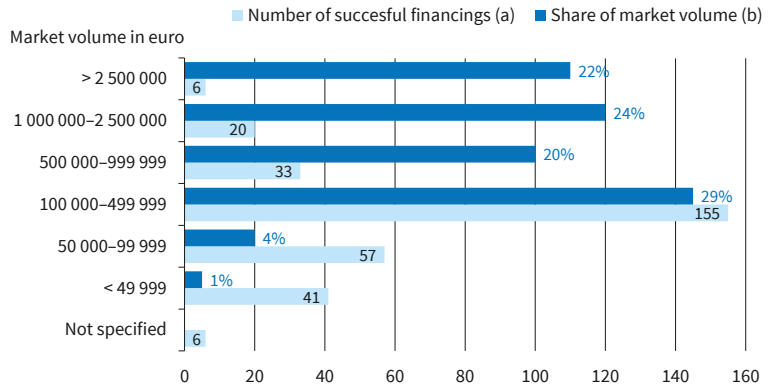
CHARACTERISTICS OF INVESTORS

On average, investors in the market for crowdinvesting are 40 years old. Across all platforms, the majority of investors are male. For 270 out of 318 successful crowdfundings, the exact number of investors is known. Here we can observe an average of 289 investments per issue.

The KASG includes a subscription limit. If an investment exceeds 1,000 euros, investors have an obligation to self-report their private wealth. If investors tried to avoid self-reporting, we would expect to see a high number of investments of exactly 1,000 euros. Furthermore, the KASG limits the investment of a single investor to 10,000 euros per investment. If this threshold were binding, we would expect to observe an increase in observations at exactly this level. To analyse the distribution of invested amounts, we evaluate 54,456

Figure 3

Successful Financings and their Share on Total Market Volume between 1 August 2011 and 1 June 2016

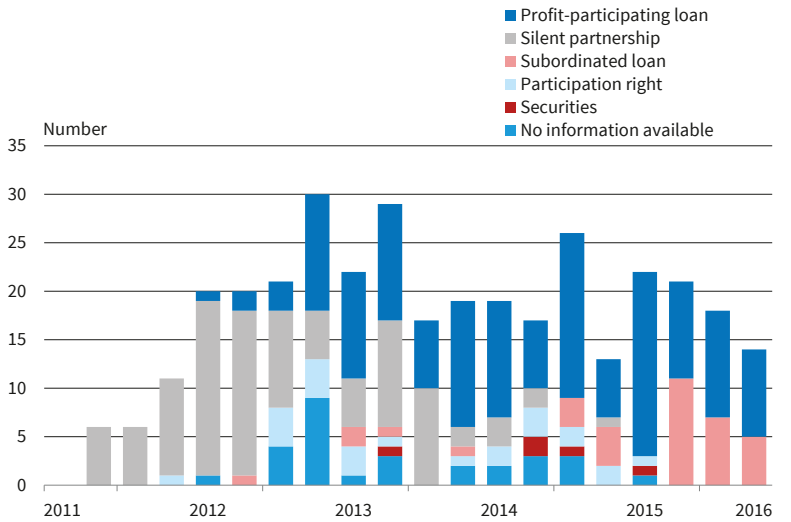


(a) In total 318. (b) In total 110 Mio. euros.

Source: Crowdinvesting database; authors' calculations.

Figure 4

Types of Investment Products Offered[a]
Per quarter



[a] In total 351. From 4th quarter 2011 until 2nd quarter 2016.
Source: Crowdinvesting-database; authors' calculations.

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investments by 137 issuers on four different crowdinvesting platforms. While investors who invest in excess of 1,000 euros account for just 15% of investors in the market for crowdinvesting, they raise 72% of the market volume and thereby make up the lion's share of the market. In the period 11 months before and 11 months after the implementation of the KASG, 13% of all investors invested over 1,000 euros. The number of investors who invested exactly 1,000 euros did not change after the KASG came into force. The number of investors who invested more than 10,000 euros decreased after the KASG came into force from 0.6% to 0.1%. By contrast, the number of investors who invested exactly 10,000 euros increased slightly from 0.9% to 1.1%. These observations suggest that investment behaviour did not materially change because of the newly-introduced self-disclosure requirements.

MARKET CONSOLIDATION AND FOREIGN CROWDINVESTING PLATFORMS

To date, no German crowdinvesting platform has relocated its registered office abroad. However, two German crowdinvesting platforms have merged with the Austrian portal Conda. In 2014, the Munich-based platform Mashup Finance merged and in 2016 the platform Bankless24 followed suit. In general, German issuers can finance themselves via large portals abroad. For Austria, Switzerland and the United Kingdom, we evaluated seven platforms and identified a total of four German issuers for Austria and Switzerland.

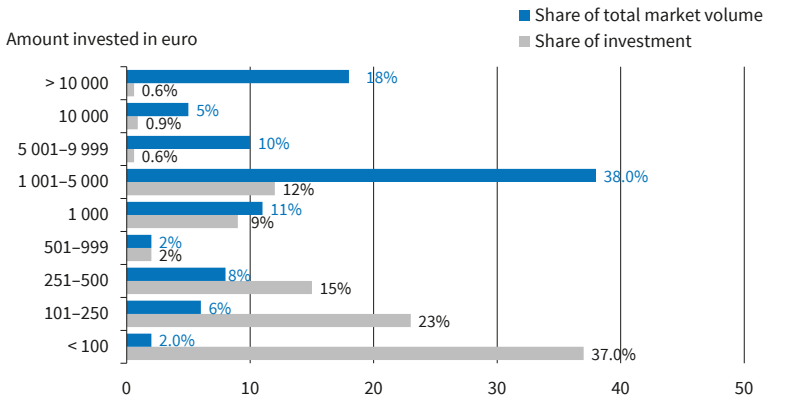
METHODICAL APPROACH AND DATA COLLECTION

Unlike with the market of crowdinvesting, the market for financing social and charitable projects is substantially less transparent. We therefore employ a different methodical approach to identifying and characterising issuers who could potentially be covered by the exemptions in § 2b and § 2c VermAnlG. In the first stage, we identify relevant sectors drawing on expert interviews with associations and practitioners. Via a comprehensive online search we identify relevant issuers from the previously identified sectors. In the second stage, we collect survey data on both of the projects conducted and issued investments of the previously identified issuers.

Relevant areas for social projects include energy, housing, village shops and community and work partnerships. The social and charitable projects include churches and religious communities, independent schools (e.g. "Waldorf" schools), as well as foundations and care facilities (e.g. hospices). We sent out a total number of 507 questionnaires. By the end of the investigation period we received 45 responses (32 from social projects, 13 from charitable projects). Since we did not receive any replies from religious communities, the following analysis will focus on social and charitable projects when looking at exemptions according to § 2c VermAnlG.

Figure 5

Amounts Invested in the Market for Crowdinvesting[a]



[a] n = 56 456, N = 137 issues by Companisto, Innovestment, Seedmatch and United Equity.
Source: Crowdinvesting database; authors' calculations.

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When interpreting the results, it is important to bear in mind the potential limitations related to data collection. Since there is no comprehensive database for organisations that may be affected by §§ 2b and 2c VermAnlG as there is for crowdinvesting, we were unable to resort to a total population. Instead, we attempted to learn about the population through an intense and comprehensive investigation. Furthermore, there may be selection problems due to voluntary participation in the survey, since there may be reasons influencing willingness to participate that are also related to the financing of a project or the investments. Furthermore, the sample size is relatively small with 45 observations. Although the collected data may not be considered representative, this study is the first in the field that investigates the investment structure of social and charitable projects and offers initial insights into the investment behaviour of such projects.

Moreover, we are not able to compare projects before and after the introduction of the KASG since there are only three observations for the period after its introduction in July 2015. However, the data provides evidence of the choice of certain investments prior to the introduction of the KASG when issuers were not yet influenced by the regulations of the KASG.

ORGANISATIONAL FORM AND TARGETS OF THE ISSUERS

While social projects are mostly organised as cooperatives or companies with limited liability ("Unternehmergesellschaft [haftungsbeschränkt]"), charitable projects tend to be organised as registered societies or trusts. Social projects mostly use sale revenues from investments to acquire, build, renovate or run real-estate projects, followed by building up or maintaining energy generation facilities. Charitable projects mostly use revenues to build or renovate schools. At the same time, schools use the so called "parental loan" ("Elterndarlehen") to finance parts of their working capital.

For social projects the average total investment sum lies slightly below 2.5 million euros. On average, just over 50% of the project volumes of social enterprises are covered by revenues from issuing investments. The same holds for the investments of charitable projects, where the average investment volume lies slightly below two million euros and therefore below the average for social projects. At the same time, the coverage of the total project volume through revenues from investments is about 47% and is therefore slightly lower than for social projects.

TYPE OF INVESTMENT

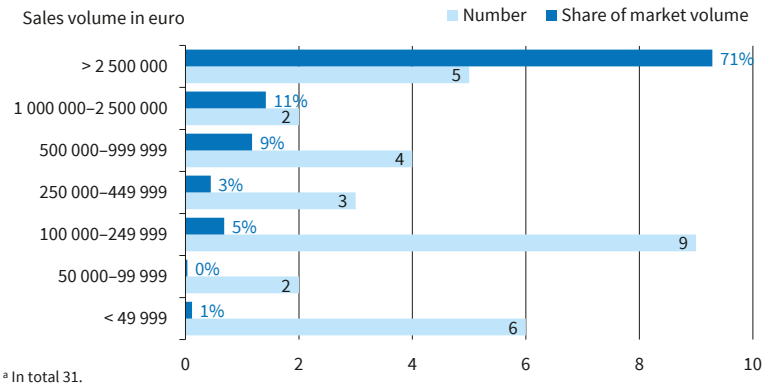
Social projects mostly employ subordinated loans. Furthermore, shares granting a participation in the company's earnings (mainly cooperative shares and silent partnerships) are employed relatively often. Similarly, a large part of the charitable projects use subordinated loans for financing. However, a similar number of projects are financed by instruments that are not characterised as investments according to § 1 para. 2 VermAnlG, such as interest-rate free loans and loans against bank guarantees. For issuers in the social sector we have data on the interest rate for 14 subordinated loans and one profit-participating loan. For one subordinated loan no interest rate was declared. The remaining interest rates range from 0.1% to 4.5%. In many cases an interest rate range is provided. For four of the seven subordinated loans for charitable projects, the parties did not define an interest rate. This suggests that subordinated loans in the charitable sector, as opposed to the social sector, frequently remain non-interest-bearing. For the other three subordinated loans the interest-rate spectrum ranges from 0% to 4%. Overall, we cannot identify any time trend for the interest rates.

In the social sector most investments have a value of up to 250,000 euros. One third of the issues have a value of between 100,000 euros and 250,000 euros. 20% of the investments have a value of up to 50,000 euros. However, 16% of the issues have a value of over 2.5 million euros.

For the charitable projects, nearly one half realised funding's of a total value exceeding 250,000 euros. However, none of the issues for charitable projects realised investments of over one million euros. Even in the range between 250,000 euros and one million euros the majority of issues (around one

Figure 6

Value of Investments Issued by Social Projects[a]



[a] In total 31.

Source: Survey about practical experiences with the Small Investor Protection Act; authors' calculations.

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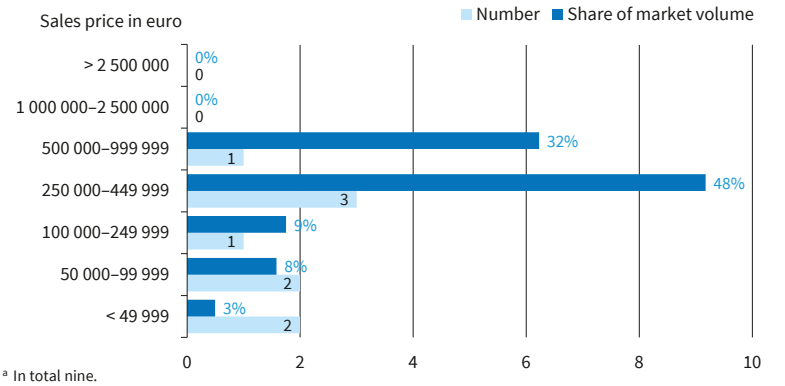
Figure 7

Value of Investments Issued by Charitable Projects[a]



[a] In total nine.

Source: Survey about practical experiences with the Small Investor Protection Act; authors' calculations.

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third) realised a total value between 250,000 euros and 500,000 euros. Based on these figures, it can be argued that issues for charitable projects seem to have lower volumes than issues for social projects.

COMPLIANCE WITH EXEMPTION RULES

None of the investments in our survey were sold with performance-based compensation for the distribution. For 30 of the social projects we have sufficient information to evaluate the applicability of the exceptions and exemption rules of the VermAnlG. Four of them would have been subject to all duties and liabilities of the VermAnlG if they had been issued after the KASG came into force. All of the remaining projects would have been subject to the exemptions. All projects except for one, which could have made use of the exemption according to § 2b VermAnlG, would not have been covered by the VermAnlG because of § 2 VermAnlG. Out of the 13 charitable projects, 12 would not have been subject to the regulations of the VermAnlG. One project would have benefited from the exemptions in § 2c VermAnlG. Another project would possibly have been subject to § 2c VermAnlG. Six investments would not have been classified as investments according to § 1 para. 2 VermAnlG.

In short, for social and charitable projects we can conclude that for nearly all of those projects that issued an investment, the exemption of § 2 para. 1 Nr.3 lit. a and b VermAnlG would have been applicable and the VermAnlG would not have applied.

PERCEPTION QUESTIONS

In our questionnaire, we also ask questions that assess the general financing situation and evaluate investments. Overall, the data exhibits a relatively high degree of heterogeneity in the usage of different sources of financing. Classical bank financing is evaluated very differently. Some survey participants see bank financing as an important and accessible source of financing. Other projects emphasise that they make no use of bank financing. Furthermore, there are projects that use the investments to increase their equity and thus gain access to bank financing.

Most respondents indicate a high level of satisfaction with the choice of a certain investment (e.g. silent partnership or subordinated loan). Taxes and the absence of shareholder involvement are considered unimportant when deciding on the type of funding. With respect to the prospectus requirements, 50% of respondents indicate that the potential exemption from this requirement is irrelevant to their decisions over the investment type, while 27% consider it relevant.

EXPERT INTERVIEWS

To obtain a more detailed picture of the practical relevance of §§ 2a-2c VermAnlG, we conducted interviews with experts who may have important information on the exemptions introduced by the KASG because of their prominent market position. The experts are representatives of issuers, investors, platform operators, industry organisations, regulation authorities and financial service providers.

All experts agreed that the exemptions are of great importance to crowdinvesting, which is in line with our data analysis of the German crowdinvesting market.

As far as the practical relevance of § 2b VermAnlG is concerned, the expert interviews also give a coherent impression. They conclude that the exemptions of § 2b VermAnlG are not used by market participants, since they utilise the exemptions of § 2 VermAnlG instead. This view is underpinned by information from the securities regulator ("Bundesanstalt für Finanzdienstleistungsaufsicht", short: BaFin) that has not yet received any investment information sheet for projects according to § 2b VermAnlG.

Furthermore, experts agree that § 2c VermAnlG is also of no practical relevance. Nonetheless, since there is no obligation to submit investment information sheets to the BaFin, this conclusion cannot be confirmed as for the case of § 2b VermAnlG.

CONCLUSION

Before the introduction of the KASG, market participants feared that it would constitute a barrier to the

growth potential of crowdinvesting in Germany and a harsh limitation of financing opportunities for social and charitable projects.

The market growth of crowdinvesting cannot be said to have fallen since the introduction of § 2a VermAnlG. Prior to 1 June 2016, all active crowdinvesting platforms brokered financings worth 110 million euros. Although market growth recently decreased, this decline began back in 2014. One reason for this tendency may be the negative returns in the market segment of start-up crowdinvesting (Hornuf and Schmitt 2016). It seems unlikely that these negative returns will become positive for investors in the future, although fixed interest rates and repayments at the end of the investment period may mitigate the negative returns somewhat. According to our data, the introduction of subscription limits and self-disclosure requirements did not induce a change in investment behaviour. However, the preferred instrument for financing seems to have changed in the market for crowdinvesting from silent partnerships to profit-participating loans and subordinated loans. Due to the relatively small size of the market, there are currently no systemic risks of crowdinvesting activities (Dorfleitner et al. 2017). The market leaders Seedmatch and Companisto brokered 46% of the financed volume until 2015, which points towards a high market concentration.

Our survey of the Small Investor Protection Act (KASG) amongst social and charitable organisations delivers first insights into their funding behaviour. Data clearly shows that virtually no social or charitable organisation would be covered by the regulations of the Small Investor Protection Act. The investments issued by most project initiators would be subject to the exemptions in § 2 VermAnlG. Therefore, the newly-introduced exemptions in §§ 2b, 2c VermAnlG are of practically no relevance. Comments in the questionnaires, however, show that there is a high level of uncertainty regarding the newly-introduced regulations for social as well as charitable projects. The decision-makers in these projects seem to be insufficiently informed of the exemption provision.

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