

## Chapter 56

# Intermediating Crowdfunding: A Foundational Assessment

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### ABSTRACT

*The principals in business finance transactions most typically are the focus of commentaries and studies. Intermediaries often are forgotten—or at least are of secondary concern. The growing academic and popular literature on crowdfunding exemplifies these larger trends. This chapter focuses broadly on a description of crowdfunding intermediation in a preliminary effort to address this imbalance. Specifically, the chapter focuses most closely on (a) identifying and categorizing the types of intermediaries involved in crowdfunded financings of businesses and projects and (b) making related observations. This exploration of crowdfunding intermediaries: isolates expertise, standardization, and disclosure as key values in crowdfunding intermediation; exposes the central role and critical nature of the crowdfunding platform as a crowdfunding intermediary; and notes certain resulting concerns and considerations. Ultimately, additional research is needed to provide better information and guidance to potential and actual crowdfunding participants, policymakers, and enforcement agents.*

### INTRODUCTION

The media and academic literature pay close attention to the ventures seeking funding and the funders in capital-raising transactions. This is logical. Without a willing and able seller and buyer, there would be no capital formation.

Yet, in most cases, business ventures and those who finance them cannot (and do not) proceed with financings on their own. For instance, offerings of securities may involve many different kinds of intermediaries—transaction participants that, as conduits or otherwise, bridge gaps between and among transaction principals. Securities transactional intermediaries include stock exchanges and other securities markets, underwriters or placement agents, dealers, research analysts, proxy advisors, rating agencies, financial advisors, lawyers, and accountants. These intermediaries may play vastly different, yet some-

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times overlapping, roles in the offering process. Their work is recognized as important in various aspects of corporate finance and securities regulation. In fact, intermediaries may be critical to the success of a particular securities offering. Yet, they may be marginalized in new market studies and popular press accounts. Perhaps, then, it is relatively unremarkable that intermediation in crowdfunding campaigns (some, but not all, of which involve the offer or sale of a financial instrument classified as a security) has received little sustained public attention.

Crowdfunding is, after all, a relatively new method through which a venture—a business or a project—may be financed. Crowdfunded financings are described and may be conducted in a variety of ways. However, at the heart of all crowdfunding models is the solicitation of funding from the undifferentiated masses (i.e., the public at-large), typically over the Internet.

Although some forms of Internet-based financing are labeled crowdfunding, they may target their offers or sales to only a portion of the overall crowd. Examples of U.S. funding campaigns of this kind are so-called “intrastate crowdfunding” (in which offers and sales of securities are fundamentally local in nature—made wholly within the state of organization of the issuing firm) and “506(c) crowdfunding” (private placements of securities in which offers may be made publicly but sales may only be made to accredited investors—investors with a certain level of sophistication or wherewithal that justifies less regulation of the offering process). For purposes of this chapter—which addresses crowdfunding broadly to include securities offerings (whether involving debt, equity, or other securities) conducted through crowdfunding as well as other types of crowdfunding (e.g., donation, pre-sale, and reward-based crowdfunding)—these more limited campaigns are considered to be crowdfunding.

The overall definition of crowdfunding used in this chapter is broad; however, the chapter focuses on depicting crowdfunding in a specific context—financing businesses and projects through campaigns conducted over the Internet using a crowdfunding website, commonly referred to as a “platform” (or sometimes a “portal”). More specifically, this chapter addresses types of crowdfunding intermediation present in that kind of financing, noting the actual and possible ways in which crowdfunding platforms and other intermediaries participate in crowdfunding and the implications of that participation for the future of crowdfunding. Among other things, these descriptions and observations offer insights to participants, policymakers, and enforcement agents and suggest future research directions.

In light of the descriptive nature of this chapter, the research method relies almost exclusively on an analysis of secondary sources. Because crowdfunding is a comparatively new form of financing with relatively fluid market entrances and exits, the observations in the chapter rely on the analysis of existing scholarship from other areas of corporate finance as applied to observed crowdfunding practices documented in the emerging literature on crowdfunding. The results of this previous research are then distilled and interpreted and several open research questions are identified.

Accordingly, the chapter progresses through several distinct succeeding parts. It begins by providing a review of relevant extant literature on crowdfunding and corporate finance intermediation. Next, the bulk of the chapter explains the nature of intermediation, describes and illustrates a number of different ways in which crowdfunding involves intermediation, identifies and categorizes the roles that may be played by intermediaries in crowdfunded financings, and makes observations about crowdfunding intermediation based on theory and practice. Then, the chapter articulates solutions and recommendations. Finally, the chapter pinpoints future research directions.

The need to fill gaps in the descriptive literature on crowdfunding intermediaries is becoming increasingly vital as crowdfunded financings and crowdfunding research continue to grow and innovate. This chapter begins to undertake that gap-filling assignment. This contribution to the literature is designed to

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