When Do Market-Based Mechanisms Work in Crowdfunding? The Residual Role of the Law

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Résumé

Economic and entrepreneurship literature with a crowdfunding focus has extensively analysed ways in which fundraisers convey information to prospective investors voluntarily, both via information disclosure and signaling. In addition, substantial research has been done to explain signaling that originates from other investors on the platform assuming different roles. To a lesser extent, an investigation has been done on the role of platforms in mitigating information asymmetries. However, legal scholarship primarily uses a doctrinal approach in analysing crowdfunding regulations, largely neglecting the implications of economic theory and empirical findings. To bridge this gap, the paper systematically reviews the relevant literature to provide a comprehensive account of the success and failure of market-based mechanisms in crowdfunding. The findings are then used to explain the residual role of the law, which should further strengthen some of the proven market mechanisms and replace the failing ones. The paper provides a new perspective on how to regulate disclosure practices of issuers, platform gatekeeping obligations, and investor protection requirements (e.g., risk warnings). Special consideration is given to different platform business models.

Mots-Clés: market based mechanisms, platform regulation, crowdfunding regulation, P2P lending, equity crowdfunding

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