

BLIND CURVE

I would hazard a guess that amongst the TISA community there would be some who would know who Marillion are and others would not have a clue. Those that know will recognise the rock band. Why has this blog a musical theme? Well, it links to crowdfunding!

The modern version of crowdfunding has come a long way since Marillion fans used it as a way to finance the rock band's concerts in the late 1990s.

The concern has always remained around crowdfunding in that, for many years, it has been seen as an unregulated fringe financing option. This has usually been an alternative way to raise money for creative and web-based projects. The return, if any, has usually been rewards rather than riches, such as free tickets or promotional gifts. However in today's web-savvy world entrepreneurs are shunning bank finance and crowdfunding is fast becoming a mainstream way of raising money.

You will have read in previous blogs of TISA's current project with the Treasury to look at finding a way this asset class can be housed within an ISA wrapper. In order to do this and attract attention from sophisticated and institutional investors it will need an oversight from the FCA. The regulator, which already regulates equity-based funds, has announced new rules for equity-based (also known as security based) and loan-based crowdfunding (often referred to as peer-to-peer lending) and will regulate loan based Crowdfunding from 1st April.

The new rules allow anyone to invest up to 10% of available assets in equity-based crowdfunding, with those who have sought advice or those with investing knowledge or experience able to invest more. In the current market, returns of up to 12% are being estimated, however the truth is that the sector is still so young that few people have come close to making their fortunes yet, although gradually it is becoming less alternative and more progressive - just ask Marillion!

Nesta estimates equity based crowdfunding in which funds are exchanged for a stake in a business project grew by 618% between 2012 and 2013 with £28 million raised in the UK last year. The companies now getting involved often have an established product or service and have shown traction with customers who have a growth story, which is attractive to investors. One word of caution however, only about 25% of businesses that apply to crowdfunds make it through to launch.

There is now however, in this market, input from institutional investors including private equity and venture capital funds. Even pension funds are starting to show an interest. Those individuals who would have invested £500-£1,000 a few years ago are now investing £10,000 encouraged by tax incentives such as the Enterprise Investment Scheme and Seed Enterprise Investment Scheme.

Those of you who commute via St Pancras station will probably walk past the Sourced Market. This business recently raised £750,000 for the farmer's market style delicatessen from Crowdbank. The capital raised will be used to refit the store and acquire a second site.

This market will develop and TISA will update its community as things progress.

Who said rock 'n' roll is dead!

Peter Smith, Head of Distribution Engagement