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Intermediating Crowdfunding: A Foundational Assessment

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Chapter 2
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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 sometimes overlapping, roles in the offering process. Their work is recognized as important in various aspects

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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 help frame the vocabulary and attributes of intermediation in crowdfunding in a way that fosters better decision-making in the emergent crowdfunding environment and enables more targeted empirical theoretical and empirical scholarship and industry research on crowdfunding intermediation. For instance, the chapter may facilitate a more complete understanding of the types of intermediaries involved in crowdfunding and the roles they play, enabling crowdfunding participants to better determine whether (and, if so, which) crowdfunding opportunities best meet their needs. Along similar lines, policymakers may be able to use the information in this chapter to begin to identify possible areas for regulation, enforcement agents may find the information in this chapter useful in spotting lapses in legal compliance, and researchers may choose to found their research in the observations made in this chapter. Much remains to be done, but the information provided in the chapter is a start.

LITERATURE REVIEW OF CROWDFUNDING AND FINANCIAL INTERMEDIATION

Having reportedly been identified and labeled by Jeff Howe in a 2006 magazine article and 2008 book, Internet-based crowdfunding has not yet completed its first decade of verified public existence as a business financing method. Consequently, the literature is still relatively undeveloped as a whole (Danmayr, 2014, p. 2). While first-generation studies and analyses—among them, Agrawal, Catalini, & Goldfarb (2011, 2013), Belleflamme, Lambert, & Schwienbacher (2010, 2013), Harms (2007), and Hemer (2011)—have not altogether ignored the role of intermediation in crowdfunding, they have focused primary attention on three general topics:

- The venturers (principals or promoters) seeking funding for businesses or projects (often referred to, for ease of reference, as "crowdfunders" or "entrepreneurs," regardless of the stage of development and risk level of their business or project);
- The prospective and actual funders of those businesses and projects (often referred to as "backers," a term used as a label for funders in a number of early crowdfunded financings); and
- The overall phenomenon of crowdfunding.

Early academic work on crowdfunding has provided an important foundation for industry innovation, regulation, research, and further analysis. These academic contributions offer reviewers many (sometimes conflicting) typologies of crowdfunding and provide preliminary data and case studies that illustrate aspects of the industry, its principal players, and specific crowdfunded financings (individually and in the aggregate).

Less has been said in academic and popular circles about crowdfunding intermediation (Hass, Blohm, & Leimeister, 2014, p. 2). To the extent that the extant academic literature has been attentive to intermediaries in crowdfunding, the principal emphasis has been on crowdfunding platforms—the websites through which crowdfunding often is conducted (Agrawal et al., 2011, 2013; Bradford, 2012a; Danmayr, 2014; Hemer, 2011; Heminway, 2013; Moritz & Block, 2014). Yet, even the literature on crowdfunding platforms is under-developed generally and as compared to the literature on businesses and projects seeking crowdfunding and prospective and actual providers of crowdfunding (Belleflamme & Lambert, 2014; Moritz & Block, 2014). Popular literature on crowdfunding also emphasizes the role of platforms in describing crowdfunding intermediation (Lennon, 2014, Chapter One; Neiss, Best, & Cassady-Dorion, 2013, Chapter 7; Young, 2013). Heminway (2014) has provided but a brief accounting of the activities of legal counsel in crowdfunded offerings.

Overall, scholarly work on intermediation in crowdfunding (like accounts in the popular press) is relatively narrowly focused and begs for expansion. Lehner (2013, pp. 301-02), for example, notes the need for more scholarly work on the role of crowdfunding platforms in light of existing explorations of networking theory in the crowdfunding context. Danmayr (2014, pp. 104-05) follows suit by offering many avenues for future research on crowdfunding platforms.

There certainly is room for growth in the study of crowdfunding intermediaries. Although some early commentators do mention other intermediaries in their work, these references are fleeting and there are few of them. Moritz & Block (2014, pp. 15-16, Table 3) provide a summary of identified research on crowdfunding intermediation. Hemer (2011, p. 10, Figure 3), for example, recognizes the platform's role in engaging micro-payment providers and banks in crowdfunding. Moreover, in explaining the exclusion of certain web-based initiatives from his sample of crowdfunding platforms, Danmayr (2014, p. 78) notes the existence of "crowdfunding related services" outside the realm of these specialized crowdfunding websites. "It is an interesting insight," he observes, "that there are already evolving new business models, based upon a likewise revolutionary concept like crowdfunding." He suggests future research in this area as the market for crowdfunding intermediaries expands (2014, p. 105).

The lack of literature on crowdfunding intermediaries other than platforms, while unfortunate, is to be expected. The visibility and centrality of the platform's role in crowdfunding make it a major subject for academic study and commentary. The overall youth of the crowdfunding industry, the less central roles of non-platform intermediaries, and the underdeveloped nature of the related literature combine to render the study of secondary intermediaries a lower-priority (yet still important) task.

Fortunately, intermediation in securities offerings and other capital-raising transactions has been broadly addressed in academic literature and the popular press. Scholarship from a variety of areas of academic pursuit provides a series of lenses through which crowdfunding intermediaries can be viewed. These lenses help contextualize intermediation in financing transactions and provide useful frameworks for a broad-based analysis of crowdfunding intermediation.

Legal scholarship on financial intermediation, for example, focuses most closely on the agency roles played by, and fiduciary relationships involving, financial intermediaries (Barnett, 2012; Choi, 2004; Choi & Fisch, 2003; Laby, 2006; Orcutt, 2005). Reputational intermediaries have received specific attention in the law literature (Coffee, 2002; Laby, 2006). Very little has been done to apply this work to crowdfunding intermediation (Heminway, 2013).

Business administration (e.g., finance, accounting, management) and related economics scholarship on financial intermediation spans a wide range of methodologies and issues. Financial economists commonly address, among other things, intermediation's power to correct information asymmetries in transactions. Thus, the focus is on the capacity of intermediaries to play an informational role based on their superior knowledge and experience (Lizzeri, 1999; Pacces, 2000). Other important work in this area has concentrated on two-sided network theory (in which the "money side" values the attraction of contributors from the "subsidy side") and related questions (Eisenmann, Parker, & Van Alstyne. 2006). This work has begun to be considered in analyses of crowdfunding intermediation (Hass et al., 2014; Salomon, 2014; Tomczaka & Brem, 2013).

INTERMEDIATION IN CROWDFUNDING

Intermediation is a broad concept susceptible of many definitions. The term most often is used to describe "a middleman, a conduit, or a go-between." (Heminway, 2013, p. 179). *Black's Law Dictionary*, for example, defines an intermediary as "[a] mediator or go-between; . . . . Cf. FINDER." (Garner, 1999, p. 820). Types of intermediaries and ways of classifying intermediaries differ based on, among other factors, the relevant industries, transactions, and academic traditions of the observer. This chapter takes a broad view of intermediation consistent with the definitions offered in this paragraph.

Based on that broad definition, this part of the chapter describes a variety of significant intermediaries involved in crowdfunding. It proceeds in three subparts. First, it labels and briefly describes these key crowdfunding intermediaries. Next, it identifies the roles played by them in crowdfunded financings and classifies them consistent with labels used in the literature on securities intermediation. Finally, this part of the chapter makes basic observations deriving from the described crowdfunding intermediation landscape. Solutions and recommendations, as well as future research directions, follow.

Types of Crowdfunding Intermediary

Crowdfunding intermediation has developed organically to include a number of distinct participants. Some are new and unique to crowdfunding. For example, as described below, U.S. law has established a new form of regulated intermediary in securities crowdfunding called a "funding portal." (Securities—or investment—crowdfunding typically involves the openly public offer or sale to the crowd of equity, debt, or other investment interests that constitute securities under applicable law.) Some crowdfunding intermediaries are standard transactional intermediaries in business finance transactions. These include professional advisors like lawyers, accountants, investment advisors, and insurers. Crowdfunding intermediaries comprise those with central roles—positions that are essential to the crowdfunding enterprise—as well as those with subsidiary, discretionary functions and responsibilities. As crowdfunding develops, the market is likely to welcome new intermediary entrants on a regular basis to serve the market's emerging needs.

Set forth below is a brief description of existing (and, in some cases, anticipated) crowdfunding intermediaries. In each case, the portrayal of the particular intermediary includes information about its actual or anticipated roles in crowdfunding a business or project. Examples of each type of intermediary (including website urls for specific websites, as applicable) are offered to illustrate the various intermediation attributes. Because of the distinctive nature of the services provided by some intermediaries and because of variations among crowdfunded financings, not every intermediary described below plays a role in every crowdfunding campaign. In addition, the description of crowdfunding intermediaries set forth below omits a separate, individual description of certain applications and tools (including social media websites like Facebook and Twitter and weblogs) that have intermediation roles in crowdfunding when used with or in substitution for crowdfunding platforms. As a key component of Web 2.0, social media websites have been described elsewhere and do not require additional explanation here. Suffice it to say, these and other social networking sites do not provide unique services in the context of crowdfunding.

Platforms/Specialized Websites

The most obvious, central intermediation in a significant crowdfunding involves the interposition of a platform (a facilitating website) between the venture for which funding is sought and prospective and actual funders. "Crowdfunding platforms match projects owners (or proponents), who seek capital for their proposition, and supporters (investors or contributors), who decide to provide funding." (Viotto, 2015, p. 2) They have been identified as multisided platforms through which business or project principals and promoters, on the one hand, and potential funders, on the other hand, each mutually dependent for its success on the others, connect to conduct transactions more efficiently than may be achieved through bilateral relations (Belleflamme & Lambert, 2014, pp.8-9).

Although firms can (and do) seek funding from the crowd through their own proprietary websites and through weblogs and social media websites, Danmayr (2014) observed that 20% of crowdfunded businesses and projects use third-party platforms constructed for the purpose of hosting crowdfunding campaigns. Other estimates indicate that platform-based crowdfunding now is the rule rather than the exception (Belleflamme & Lambert, 2014, p. 3), and the growth in crowdfunding through platforms is significant. "[A]cademic interest is motivated by the steep growth in the volume of financial transactions on crowdfunding platforms: according to the most recent estimations, around US$5.1 billion were transacted on crowdfunding platforms in 2013, a 240% increase from 2011." (Viotto, 2015, p. 2).

Crowdfunding platforms provide a standardized template through which venturers can broadly solicit funding for their business or project. "In addition to providing a standardized process, platforms act as an information, communication and execution portal." (Moritz & Block, 2014, p. 15) They typically host funding pitches for a large variety of ventures and serve as key transactional intermediaries in soliciting financing from the crowd. Crowdfunding platforms typically conduct their operations through specialized websites that combine features of social media websites (commonly referenced as a core element of Web 2.0) and ecommerce websites in a business finance context Platforms also may use third-party social networking tools (for example, social media websites and weblogs) as adjuncts to their own websites.

The crowdfunding market has been actively and rapidly developing to include a number of different kinds of platforms built to serve the needs of businesses and projects seeking funding through donation, reward, pre-sale, securities, and other types of crowdfunding. Some exclusively promote or specialize in particular kinds of ventures (profit or non-profit, music, film or other creative arts, software applications, etc.). For example, CrowdRise (www.crowdrise.com) and JustGiving (home.justgiving.com) are charitable donation platforms, PledgeMusic (www.pledgemusic.com) helps music projects to obtain funding, Slated (www.slated.com) offers a financing platform for films, and AppsFunder (www.appsfunder.com/us) connects application developers with funders. Some perform or contract for other forms of pre-screening of the businesses and projects that seek funding through them. Kiva (www.kiva.org) and Quirky (www.quirky.com) are examples of this kind of platform. Some engage in individualized promotion of ventures featured on the platform. The "staff picks" on Kickstarter (www.kickstarter.com) and the "trending" and "featured" projects on Indiegogo (www.indigogo.com) are notable examples of this aspect of a platform's business model.

In all, the attributes of the individual platforms vary from firm to firm (Danmayr, 2014), although each crowdfunding website typically includes certain key features. These include:

- Separate specialized webpages that outline the benefits, rights, and responsibilities of the venturers and funders;
- Designated webpages or areas for each venture's "pitch" to funders;
- An "About Us" page that highlights key information about the platform's history and operations;
- Website use policies; and
- Help and other similar user information pages, including portions of the website devoted to frequently asked questions (FAQs) and instructions on how to reach someone from the platform to answer a question (e.g., a "Contact Us" page).

Some platforms also offer a user rating or comment system, one or more weblogs, and other communitarian features. Perhaps unsurprisingly, many of the features on crowdfunding websites borrow from and mimic social media and ecommerce websites.

Categorizing crowdfunding platforms has been a challenge given the lack of standardization. Danmayr (2014, pp. 96-98) classifies platforms based on the type of crowdfunding conducted on the platform. He notes that the approaches of the platforms in these different settings vary significantly. He concludes that 'it seems too early to suggest archetypal crowdfunding platform settings." (Danmayr, 2014, p. 99) Hemer (2011, pp. 15-17) identifies five basic categories of platform business model:

- **"Threshold Pledge":** I.e., "all-or-nothing," in which a crowdfunded business or project must reach a targeted minimum level of funding before any funds are released to the promoters;
- **Micro-Lending:** In which small loan commitments and repayments are processed;
- **Investment:** I.e., equity, in which the platform collects processes the sale and purchase of profit-sharing interests in businesses or projects;
- **Holding:** In which the platform sets up subsidiaries for each business or project seeking funding and offers shares of those subsidiaries to putative funders; and
- **Club:** In which groups of investors prequalified as investors.

Hemer (2011) notes that the threshold pledge model can be (and often is) combined with one of the other business models, that certain crowdfunding platform business models may trigger the application of securities regulation in some countries, and that the club business model is a reaction to that undesired regulatory effect—designed to avoid the application of this regulatory regime.

The identity and attributes of crowdfunding platforms may respond to various legal requirements. For example, under the Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act (2012), known as the "CROWDFUND" Act, in the United States (Title III of the Jumpstart Our Business Startups Act (2012)), crowdfunding websites must be registered securities brokers or funding portals. Both types of regulated entity must meet certain regulatory requirements, and their functions are limited. For example, under the CROWDFUND Act, funding portals cannot "offer investment advice or recommendations," "solicit purchases, sales, or offers to buy the securities offered or displayed on its website or portal," "compensate employees, agents, or other persons for such solicitation or based on the sale of securities displayed or referenced on its website or portal," or "hold, manage, possess, or otherwise handle investor funds or securities." These and other applicable legal constraints shape the business model for and potential profitability of these platforms.

Payment Processors for Crowdfunding Platforms

Platforms typically commit to collect, hold, and distribute funds provided to businesses and projects in crowdfunded financings. Most platforms do not have their own proprietary payment processing systems. They contract for these services from others. Applicable regulation may dictate whether platforms can process funds. For example, under the CROWDFUND Act, funding portals (a specific kind of registered platform for securities crowdfunding covered under that law), by definition (15 U.S.C. § 78c(a)(80)(D) (2012)), cannot accept funds from crowdfunding investors.

Perhaps the most well-known payment processing business used in U.S. crowdfunding is PayPal (www.paypal.com). Other examples in the United States include WePay (www.wepay.com) and Amazon Payments (payments.amazon.com/home). MangoPay (www.magopay.com) is a popular multi-currency European payment processor for crowdfunding. Because financial transactions are regulated on a country-by-country basis, payment systems can vary from country to country.

Payment systems may all look alike to the uninitiated, but they have different attributes and have built-in optional capabilities from which crowdfunding platforms can choose. These attributes and capabilities may be more or less advantageous to different types of platforms and different types of crowdfunding. The use of online payment processing systems may require customized software solutions to integrate the payment system into the crowdfunding website in a manner that provides the desired functionality. As a benefit to crowdfunding platforms, payment systems may undertake some or all of the legal compliance services associated with the acceptance, retention, and distribution of funds committed to crowdfunding campaigns.

Due Diligence Service Providers

Venturers may desire or need to have (and may determine to disseminate) specific information about themselves—their principals, operations, finances, plans, etc.—in order to incentivize funders to offer them financing dollars. Funders will not invest without receiving the type and level of information they desire before making the decision to fund. And intermediaries want to ensure they are paid for their work and create and sustain a good reputation in the market. Applicable law may mandate or incentivize the disclosure of facts by and to specific crowdfunding participants. For example, provisions of the CROWDFUND Act (2012) mandate various disclosures by securities issuers and intermediaries. All of this involves generating or assembling and interpreting information. Although venturers, funders, and intermediaries may perform their own investigations or reviews of the operations and finances of each other before engaging in crowdfunding transactions with each other, they may lack the internal expertise or resources to accomplish some or all of that work.

As a result, independent providers of due diligence services have begun to emerge to provide services to principals and intermediaries in the crowdfunding space. Crowdfunding participants that desire to get tailored information about crowdfunded offerings may be willing to retain the services of a third-party expert to get that information for them where contracting for those services is cost-effective. For example, those investing larger amounts in long-term profit-sharing or interest-producing instruments presumably would be more likely to engage a due diligence provider than funders providing small amounts to fund the next album for their favorite indie band. Moreover, the wisdom of the crowd itself may provide enough assurance to its members to forestall the need for funders to obtain due diligence assistance. In any event, those crowdfunding participants desiring the due diligence services (e.g., entrepreneurs, funders, platforms, etc.) contract for them directly with the provider of their choice.

CrowdCheck (www.crowdcheck.com) is one such firm. The services provided by CrowdCheck can be customized to serve entrepreneurs, funders, or intermediaries in crowdfunding and other online financings. Founded by a former staff member of the U.S. Securities and Exchange Commission and managed and staffed by, among others, a team of experienced securities lawyers, CrowdCheck was an early entrant into the crowdfunding intermediary marketplace in the United States.

Business models for due diligence providers vary based on the crowdfunding markets and participants they serve and the types of services they provide. For instance, a service provider that caters its business to helping securities crowdfunding intermediaries meet their legal compliance obligations is likely to provide different services and assume different levels of responsibility for the accuracy and adequacy of its procedures than a firm providing legal compliance due diligence services to principals and promoters engaged in reward-based crowdfunding to finance their businesses or projects. The responsibility of platforms under applicable securities laws and those of business principals and project promoters under consumer protection laws differ significantly. Accordingly, the diligence needed for legal compliance in these circumstances also differs, as does the need for guaranteed or otherwise verifiable quality control in the research methods and output.

Industry Research Suppliers

Due diligence providers are not the only crowdfunding intermediaries seeking to locate, generate, compile, and distribute information about crowdfunding campaigns and participants. Crowdfunding constituents and commentators are thirsty for information about the crowdfunding market. This information might include, for instance: attributes of particular sites and campaigns (including what works and what doesn't work); general trends; relevant political, economic, and social conditions; statistical summaries of market activity. While the crowd may be able to identify, assemble, and process information on its own to some degree in crowdfunding's Web 2.0 environment, it is likely that traditional research suppliers will continue to play an important role for at least some crowdfunding participants.

Market research firms exist for almost all industries, and crowdfunding has spawned its own set of specializer researchers. These researchers may not serve individual clients as to individual offerings. Rather, they more typically serve a larger populace—specific market sectors or product or service industries engaging in crowdfunding, association members, or even the public at-large. Some of this general research is widely available on the Internet free of charge. However, the most sophisticated research typically is conducted on a customized basis by consulting firms using proprietary data.

The public face of crowdfunding industry research is largely characterized by organizations focused on crowdfunding research as the core of their operations. The CrowdfundingCentre (thecrowdfundingcentre.com), which incorporates the Crowd Data Center, exemplifies this type of intermediary. Geared to many different audiences (including, by the organization's own accounting, government regulators and policymakers, as well as crowdfunding principals and intermediaries), the CrowdfundingCentre authors and publishes data-driven periodic reports and schematics and offers information about relevant regulatory news and initiatives. In addition, the CrowdfundingCentre produces daily and weekly charts featuring popular crowdfunding campaigns. Another example of a crowdfunding industry research provider is TheCrowdCafe (www.thecrowdcafe.com), which boasts a research-oriented resources page, news pages, and a list of platforms hosted around the world. Crowdsurfer (www.crowdsurfer.com) essentially bridges the gap between due diligence providers and industry research providers by offering proprietary analyses of broad-based data to individual clients.

Platforms and general crowdfunding-oriented websites also may conduct and report research (themselves or through others) on a less formal or routine basis. Kickstarter reports basic data and statistics relating to the campaigns conducted on its site (www.kickstarter.com/help/stats). Shopify (www.shopify.com), an ecommerce site, hosts ecommerce university (ecommerce.shopify.com), which has produced *Crowdfunding 101: Insights from 400k Kickstarter and Indiegogo Campaigns*, as well as *The Ultimate Guide to Crowdfunding*, as free, online research and information resources. Crowdfund Insider (www.crowdfundinsider.com) is a general crowdfunding news and information site that reports research data generated by others.

As illustrated by these examples, crowdfunding industry research suppliers have the potential to cover a broad array of topics, methodologies, and dissemination channels. These suppliers may range from think tanks generating proprietary databases using established academically tested research methods to specialized journalists and even bloggers. Wide-ranging research from a variety of perspectives and sources is likely to generate, in the aggregate, a more accurate and complete picture of the emergent crowdfunding industry. However, having said that, crowdfunding research activity is likely to provide uneven coverage in the short term.

Good data is hard to come by. There is little required disclosure in the crowdfunding industry, with notable exceptions existing in, e.g., the CROWDFUND Act (2012), as referenced previously; none has been mandated on an international level. Moreover, a detailed, uniform, voluntary public disclosure regime is unlikely to take hold in the near future (if at all). As a result, standardized, broad-based publicly available data on crowdfunding is scarce. Although some researchers in private industry have been able to compile proprietary data sets and employ them in their work, they are unlikely to make this data widely available except to fee-paying clients. Some of these private industry researchers even may be reluctant to share their research methodology in any great detail. This makes generalized, public consumer-oriented research on crowdfunding almost impossible unless academic research can fill the void. Rigorous, peer-reviewed academic studies may have the capacity to generate a high quality of information for consumers and others, but academic researchers will be plagued by data deficiencies without the benefit of mandatory disclosure or proprietary data, and their work, in any case, may not be widely available to or accessible by those outside their field of endeavor.

Industry Standard Certifiers

As crowdfunding grows, the demand for heuristics-based decision-making—in which market participants rely on short-cuts to overcome information deficits in their struggles to determine whether, when, and how to participate in crowdfunding—likely will increase. Certifiers, commonly referred to in relevant literature as certification intermediaries, have begun to emerge in the crowdfunding services market to serve that need. They specialize in assessing and verifying the compliance of an industry participant with applicable industry standards. The classic example of a certification intermediary cited in many commentaries on the subject is UL—formerly known as Underwriters Laboratories and founded in 1894 as Underwriters' Electrical Bureau, the Electrical Bureau of the National Board of Fire Underwriters. This organization tests and certifies the safety of consumer products.

Given the relative lack of transparency of Internet-based business models and a shortage of uniform comparative data on crowdfunding participants and crowdfunded ventures, crowdfunding certifiers have begun to proliferate. Their claims at expertise and reputational advantage are many and varied. Crowdsourcing.org (www.crowdsourcing.org), an industry resource providing information and support for both crowdsourcing and crowdfunding, offers certification to crowdfunding platforms. The certification provides crowdfunding websites with Crowdfunding Accreditation for Platform Standards based on an interview and review process. The certification is intended to promote and signal crowdfunding platform best practices. Both crowdfunding venturers and funders are the asserted audience for and beneficiaries of this certification. There also is a Crowdfunding College (www.crowdfundingcollege.com) that markets itself as providing education, training, and certification as a crowdfunding professional.

Other certifiers are in the process of organizing their programs as this chapter is being completed. The Crowdfunding Professional Association (www.cfpa.org), a membership organization for crowdfunding professionals, announced late in 2014 that it would provide two certifications: one for crowdfunding investors—designed to address compliance with the CROWDFUND Act (2012)—and one for professionals providing education and other services to crowdfunding participants. The National Crowdfunding Association (www.nlcfa.org), a trade association serving crowdfunding industry professionals, has announced its intention to offer Certified Crowdfund Advisor certification through an examination process. In addition, the Crowdfund Intermediary Regulatory Advocates (www.cfira.org) has been formed to work with "governmental and quasi-governmental entities to help establish industry standards and best practices" for U.S. securities crowdfunding. This organization also may evolve to play a certifying role.

The utility, credibility, and overall benefit of the endorsements provided by these certification programs will remain to be seen. The overall industry is, as noted throughout, in its early stages of development. Moreover, if one believes that the crowd has the capacity to vet the accuracy and adequacy of information available to market participants and, in general, to regulate the crowdfunding market (as many crowdfunding proponents assert), there may be a reduced need for crowdfunding certifiers.

Professional Advisors

Crowdfunding, like other business finance transactions, may involve traditional professional advisors in various capacities. Most crowdfunding platforms will engage professional advisors. Fewer entrepreneurs and other venturers will do so. Very few funders will deem it necessary or advisable to engage professional advisors in connection with their crowdfunding participation.

The types of professionals that may participate in crowdfunding, depending on the nature and size of the crowdfunding campaign undertaken, include auditors and other financial accountants, legal counsel, investment advisors, and insurers. These intermediaries are considered gatekeepers—providers of trustworthy assessment, observation, and (sometimes) disclosure or support for disclosure. Their presence in securities crowdfunding is ubiquitous; their engagement in other types of crowdfunding is more episodic.

Accountants may be a required or desired part of crowdfunded financings, especially securities crowdfunding. As a general rule, crowdfunded financings (registered securities offerings being among the most notable) do not require that a venturer or promoter furnish financial statements audited by a certified public accountant as part of the funding process. However, under the CROWDFUND Act (2012), to obtain an exemption from federal registration of the offering, issuers in crowdfunded offerings of securities in the United States valued in excess of $500,000 are required to present audited financial statements to investors, and issuers in offerings of securities exceeding $100,000 are required to produce and disseminate financial statements reviewed by an independent public accountant in accordance with specified professional standards and procedures. Moreover, other businesses desiring to crowdfund their operations also may voluntarily engage accountants as auditors to prepare or review financial statements summarizing their financial condition and results of operations. Funders seeking advice regarding their finances also may ask for that assistance from accountants.

Venturers seeking financing through crowdfunding and crowdfunding platforms are always wise to seek legal advice in connection with their crowdfunding activities. Moreover, in certain circumstances, funders may engage lawyers to advise them in committing funds to crowdfunding campaigns. Legal advisory assistance most commonly is sought in securities crowdfunding, but also occurs in other crowdfunding contexts. Legal services requested may include counsel in connection with securities regulation, entity formation, contract drafting and negotiation, intellectual property protection and use, consumer protection, and other matters relating to legal status and compliance.

Participants in securities crowdfunding also may include investment advisors. Although funding portals are not permitted to offer investment advice under the CROWDFUND Act (2012) and crowdfunding websites, in general, may not be allowed to provide those services under other legal regimes, absent regulatory constraints, crowdfunding platforms may be free to offer funding guidance of this kind in other crowdfunding contexts. Independent investment advisors, including government-regulated service providers in the securities industry, also may be engaged to provide information and guidance on or in connection with crowdfunded financings, although this is most likely to occur in larger securities crowdfunding.

Insurers began to realize they would have an important role in crowdfunded financings. By assuming some of the risk of crowdfunding participants through insurance contracts, they could incentivize participants to become involved in crowdfunding. Venturers, platforms, other intermediaries, and even some investors all are or may be in a position to purchase insurance—either in the form of a new policy or as a rider to an existing policy—to cover risks of losses created by crowdfunding. In fact, these insurance policies may be mandated in some crowdfunding circumstances. Proposed rules under the CROWDFUND Act (2012) would have required platforms to purchase a fidelity bond of at least $100,000 (Sec's and Exch. Comm'n, 2013). The final rules omit this requirement (Sec's and Exch. Comm'n, 2013). Most crowdfunding insurance would be optional, however. Venturers may seek insurance to cover potential legal actions arising out of the failure of the business or project for which crowdfunding is sought. Crowdfunding websites would be well advised to consider insurance or to establish adequate reserves to self-insure, given the multifaceted risks of their operations (which would include everything from embezzlement and other employee-related activities to fraud claims made by funders). Innovative delivery systems for insurance are being tested. At the end of 2014, for example, Indiegogo announced a pilot program to provide optional insurance to funders participating in a particular campaign (Newman, 2014).

Categorizing Intermediation in Crowdfunding

Crowdfunding intermediaries may serve a number of different functions in providing their services. The roles played by these intermediaries in crowdfunded financings may be mapped to existing classifications that have been employed to label financial intermediaries. This part of the chapter identifies a number of the functional roles provided by crowdfunding intermediaries and categorizes them in accordance with a four-part classification system derived from legal scholarship on securities transaction intermediation.

Intermediation Functions

The distinct types of crowdfunding intermediary described above each serve—or may serve in the future—many functions in crowdfunded financings. Thoughtful consideration of the nature of the services various crowdfunding intermediaries may provide (either alone or together with other crowdfunding intermediaries) reveals functions, most of which are identified in various ways in the literature, that include:

- **Interconnection:** Linking transaction principals with each other and with additional transaction partners; acting as a middleman for money and information;
- **Expertise:** Contributing specialized, tested know-how or experience;
- **Standardization:** Supplying a predictable, uniform, off-the-rack set of processes and tools;
- **Aggregation:** Coordinating or consolidating information for, or exercising responsibilities or rights of and for, crowdfunding participants;
- **Curation:** Verifying, vetting, or selectively endorsing businesses and projects seeking funding;
- **Disclosure:** Mitigating information asymmetries;
- **Promotion:** Marketing or publicizing businesses and projects listed on the site;
- **Actualization:** Conveying venturers' vision to the crowd;
- **Attraction:** Drawing the crowd to the crowdfunding website and, as a result, the featured businesses or projects; and
- **Safeguarding:** Shielding investors from harm and providing business and projects relief from liability.

Some of these functions overlap. For example, interconnection may involve disclosure, and some forms of curation may constitute promotion. A number of the functions comprise embedded sub-functions. For instance, curation may include verifying, vetting, and endorsement and may require expertise. Moreover, an individual crowdfunding intermediary may serve in one or more of the roles represented by these functions. The list of functions is no doubt incomplete and some of the labels may be unfamiliar or are inapt, but the inventory serves as a useful touchstone for key crowdfunding intermediary activities.

Intermediary Classification by Type

Classifying crowdfunding intermediaries presents challenges. However, because their functions in financing transactions are most like those of intermediaries involved in securities offerings, it seems appropriate to use labels from securities intermediation as a guide. Over time, scholars and other commentators have classified these intermediaries and their intermediating roles in securities transactions into key categories (Barnett, 2001; Choi, 2000, 2004; Choi & Fisch, 2003; Coffee, 2002; Gilson & Kraakman, 1984; Heminway, 2013; Laby, 2006). These classifications, when compiled, can be reduced to a simple, useful, taxonomy featuring four categories of intermediary: distributional conduits, information intermediaries, collectivizing intermediaries, and reputational intermediaries (Heminway, 2013). As with the list of functions set forth above, these categories of intermediation are somewhat fluid. Intermediaries may fit into more than one category. Nevertheless, this taxonomy provides a useful framework for the classification of crowdfunding intermediaries.

Distributional conduits, information intermediaries and collectivizing intermediaries are classifications based on the functional role played by the intermediary in its market-related operations. Distributional conduits serve as middlemen between transaction principals. They may convey cash, securities, or other assets or information between or among transacting principals. Public offering underwriters are a classic example of a distributional conduit.

Information intermediaries also represent a functional category of intermediary. They supply information to or interpret information for use by transaction participants and others. Information intermediaries need not be formal go-betweens for the transaction principals. Rather, they may provide services to one or more of the transaction participants (principals or intermediaries). They may, but need not, be certifiers. Proxy advisors and rating agencies are typical examples of information intermediaries.

Collectivizing intermediaries serve the aggregated interests of a particular class of transaction participant by acting as agents, monitors, or knowledge repositories. In one or more of these roles they may, for example, consolidate action on behalf of transaction participants or conduct inquiries for, and provide guidance to, segments of transactional constituents. These aggregation efforts may resolve or limit collective action problems. Institutional investors typify collectivizing intermediaries. A purchaser representative for unsophisticated investors in a private placement of securities also would be classified as a collectivizing intermediary.

Reputational intermediaries lend their status and appearance of trustworthiness—their reputational capital—to the transaction. This means that it often is more *who they are* than *what they do* that impacts crowdfunding transactions. They also are commonly referred to as gatekeepers and can be divided into

Table 1. Classifying crowdfunding intermediaries

Intermediary Classification	Function/Role	Example
Distributional Conduit	• Interconnection • Expertise • Standardization • Disclosure • Promotion • Actualization • Attraction	• Platform/Website • Payment Processor
Information Provider/ Interpreter	• Expertise • Standardization • Curation • Disclosure	• Platform/Website • Due Diligence Service Provider • Industry Research Supplier • Certifier
Collectivizer	• Interconnection • Expertise • Standardization • Aggregation • Disclosure	• Platform/Website • Industry Research Supplier
Reputational Intermediary • Independent	• Expertise • Standardization • Aggregation • Disclosure • Safeguarding	• Platform/Website[1] • Certifier • Auditor • Insurer[1]
• Dependent	• Expertise • Standardization • Aggregation • Disclosure • Promotion • Safeguarding	• Platform/Website[1] • Legal Counsel • Insurer[1]

dependent and independent reputational intermediaries. A dependent intermediary is an agent or servant of its clients' interests who owes a fiduciary or fiduciary-like duty to the client. An independent reputational intermediary acts in a unbiased fashion—more for its own benefit or the benefit of transactional participants as a whole than in a selfless way for and on behalf of a client.

Table 1 classifies crowdfunding intermediaries based on these categories.

This summary demonstrates the importance of certain intermediary functions. Table 1 shows that expertise, standardization, and disclosure play significant roles in crowdfunding intermediation because these functions may be common to all four categories of intermediary—distributional conduits, information providers/interpreters, collectivizers, and reputational intermediaries—depending on the particular intermediary and the context of its participation in the crowdfunding space or a specific crowdfunded financing. Accordingly, these functions evidence core roles played by crowdfunding intermediaries.

Table 1 also illustrates that crowdfunding platforms may provide any or all of the identified intermediating functions, depending on the circumstances. As such, they may find themselves serving various crowdfunding participants in a number of different capacities. They are conduits that provide information and a consolidated approach to issues involving venturers, funders, and other intermediaries. In addition, a platform may lend its reputation (which reflects, among other things, the platform's attentiveness to its legal responsibilities and its operating track record) to the campaigns featured on its site.

Preliminary Observations about Intermediation in Crowdfunding

A more complete understanding of the type and functions of crowdfunding intermediaries, when viewed through the lens of legal scholarship on financial intermediation, allows for the classification of those intermediaries into categories based on their role in crowdfunding—what they do for or crowdfunding participants from a transactional perspective or how they impact participation in crowdfunded financings. The overall picture substantiates intuitions about the significance of certain intermediating functions and reveals that, absent regulatory constraints, platforms have the capacity to provide comprehensive intermediation in crowdfunding.

These findings are significant to crowdfunding participants. They can use this information to better understand the types of intermediaries that contribute to crowdfunding and the roles they may serve. Their enhanced ability to differentiate among intermediaries and their functions should help determine the crowdfunding partnerships that best meet their needs.

For instance, a better knowledge of the benefits—and especially the core common values of expertise, standardization, and disclosure—offered by different forms of crowdfunding intermediation may assist a venturer in deciding whether to use crowdfunding to finance his or her business or project and, if crowdfunding is a viable financing option, to guide that venturer in the choosing whether to use a platform or other intermediary in its financing (and if so, which one or ones). Similarly, a funder may use information about the types of crowdfunding intermediaries and the roles they play to be better understand the risks of his or her participation in particular crowdfunding campaigns. And a platform or other intermediary may find the information provided in this chapter helpful, for instance, in establishing its business model and in deciding which services to provide itself and which to contract for from third parties. In particular, platforms may be incentivized, in recognition of their capacity to fill myriad roles in crowdfunding, to use the information provided in this chapter to differentiate themselves from competitors and create unique market niches based on the nature of the services they provide.

Policymakers and enforcement agents, including government regulators, also should find this information of value. Too often, calls for regulation come from self-interested or otherwise biased sources. Government officials may be under pressure to take action and be unfamiliar with the crowdfunding industry and those who take part in it. Well-developed factual information about the nature of crowdfunding intermediation should enable the development of more nuanced, targeted regulatory objectives, interpretations, and actions. Informed governance is more likely to result in the exercise of sensible regulatory power and enforcement discretion that supports an efficient, fair crowdfunding industry.

Intermediaries commonly are conceptualized as risk-reduction mechanisms in transactions. They "typically exist in a transaction as a means of increasing its overall efficiency; the benefits an intermediary offers to transaction participants or the markets in which they operate are expected to exceed the aggregate costs of their participation. In financial transactions, intermediaries often serve to address or balance informational asymmetries that may negatively impact the market in which those transactions occur. They do this in various ways, depending on the circumstances in which the intermediation occurs. For example, intermediaries may supply, construe, or confirm information, or they may serve a signaling function." (Heminway, 2013, p. 180) Yet, the costs and benefits of crowdfunding intermediation are difficult to determine at this early stage in the market's development. New players in the crowdfunding game continue to be introduced as the market innovates. And the two-sided nature of the crowdfunding market is not yet well understood.

As a result, the description of crowdfunding intermediation provided in this chapter is a preliminary assessment, and it is very general. For some, it may not be specific enough to provide guidance or support. A static identification of different types of intermediaries and what they do provides a necessary, yet likely insufficient, basis for making essential judgments about crowdfunding participation and regulation. This information does not, for example, permit a qualitative judgment to be made about intermediaries or their services. Intermediaries serving in the same roles may provide skills or support of varying quality, and in an emerging industry with a nascent set of intermediaries, quality may be especially hard to benchmark and determine. And the perceived quality of a particular intermediary may differ based on factors endemic to the individual crowdfunding participant accessing its services. These are real challenges for crowdfunding intermediation and those who study it.

SOLUTIONS AND RECOMMENDATIONS

To better inform and facilitate decision making by crowdfunding participants, policymakers, and enforcement agents, it would be beneficial if crowdfunding intermediation could be described with more clarity and precision. Specifically, it would be useful to understand the circumstances in which the benefits of crowdfunding intermediation exceed its costs. This would enable us to benchmark intermediary success and failure as a means of determining the efficiency and effectiveness of various intermediaries and forms of intermediation. In addition, the identification or development of quality metrics for the various types of crowdfunding intermediaries would be a worthy objective. If we understand what quality is in various intermediation functions, then we can assess, foster, and signal it.

Defining crowdfunding intermediation in a more consequential way along these lines requires both creativity and planning. The foundational descriptive matrix provided in this chapter isolates expertise, standardization, and disclosure as core values in crowdfunding intermediation and highlights the capacity of platforms to play a commanding role in crowdfunding intermediation. These discoveries provide food for further thought.

One type or level of expertise, standardization, or disclosure in crowdfunding intermediation may be more beneficial or costly than another. Pinpointing the relative and interactive costs and benefits of these intermediation functions therefore may be significant. Particular attention to the capability and desirability of engaging a crowdfunding platform to deliver the required type or level of expertise, standardization, or disclosure also should be useful. This type of information could help us to describe and predict intermediary success and failure, and take action to promote the former and prevent the latter.

Similarly, the notion of quality—what constitutes quality intermediation—as across the various types of intermediary and their functional roles may be susceptible of definition. Expertise, standardization, and disclosure provide focal points for analysis. These functions, properly defined, might constitute and, if promoted effectively, signal intermediary quality to the market. Each role that an intermediary plays and the way the intermediary carries out that role are likely to be material to understanding quality crowdfunding intermediation.

Understanding what makes for efficient, effective crowdfunding intermediation is at the heart of ensuring the success of the crowdfunding industry. Of course, further academic research also is essential to a better appreciation of crowdfunding intermediation and the development of a healthier, better informed market for crowdfunded finance. The foundational typologies and taxonomy provided in this chapter afford us basic information from which we can work. The next part of the chapter explores how to use that knowledge and salient observations made in legal and business scholarship to approach some of the unresolved questions in crowdfunding intermediation.

FUTURE RESEARCH DIRECTIONS

The challenges associated with describing crowdfunding intermediation in a way that gives it meaning in a practical context are palpable. Yet, there are possible paths forward. Successful progress in surmounting the challenges will require significant amounts of further academic and non-academic research—theoretical and empirical.

The need for continuous engagement by scholars and other researchers will be critical given the rapidly developing crowdfunding industry. As a preliminary matter, it will be vital that academics and others be in a position to continue to identify and catalog new intermediaries as they emerge. Sustained attention to the functions provided by the various crowdfunding intermediaries also will be needed. These research tasks will enable expansion of the model provided in this chapter and the suggestion of alternative models to illustrate distinct market attributes.

These ongoing changes in crowdfunding intermediation make the task of designing a research agenda in the area complex. The centrality of expertise, standardization, and disclosure to crowdfunding intermediation and the important role played by crowdfunding platforms as intermediaries are key touchstones based on the depiction of crowdfunding intermediation in this chapter. Grouped research questions emanating from those touchstones include the following:

- What makes a platform or other crowdfunding intermediary efficacious as a distributional conduit, information intermediary, certifier, or reputational intermediary in the two-sided crowdfunding market? What does expertise mean in this context? What level of standardization is desirable? What level of disclosure is optimal?
- How many roles should a platform serve? Is crowdfunding better off if other intermediaries are crowded out or supported? What do theories of financial intermediation (the potential for conflicting interests, the application of fiduciary principles generally, and the operation of cognitive biases) and two-sided markets have to say about those questions?
- What is the optimal combination of intermediation activities for different types of crowdfunding? How should these activities be allocated among different types of crowdfunding intermediaries capable of performing the relevant functions? Should regulators or the market make these determinations?

In addition, the roles and benefits of intermediaries other than platforms are an important area for future research. This area has barely begun to be explored. Yet each type of crowdfunding intermediary and the clients it serves can be expected to be interested in better understanding—and motivated to better understand—the advantages and disadvantages of providing and using services in the crowdfunding environment.

In fact, actual and potential crowdfunding participants, policymakers, and enforcement agents all can be expected to be engaged by these questions and to rely on the related research in their decision making. This research can and should be approached by academics from a number of different scholarly traditions using a variety of methodologies. Moreover, private research firms are likely to engage in the analysis of issues relating to crowdfunding intermediation to serve their clients who are interested or engaged in crowdfunding. Danmayr (2014) aptly concludes that "ongoing scientific discourse will help to clarify the crowdfunding picture…[C]rowdfunding deserves greater attention, both in science and society."

CONCLUSION

This chapter (1) describes and categorizes crowdfunding intermediation based on salient teachings from the generalized academic literature on intermediation in financial transactions, (2) offers solutions and recommendations arising from that commentary, and (3) suggests further relevant avenues for research relevant to crowdfunding participants, policymakers, and enforcement agents. The resulting picture is an incomplete one, but provides a foundation for further analysis and testing. As the crowdfunding market further develops and matures, this analysis and testing will become both more possible and more important.

This chapter agrees with the assessment of Hass et al (2014, p. 2) when they offer: "In order to understand the dynamics of crowdfunding, one has to understand how crowdfunding today actually works, and what the constituent parts are, as well as how crowdfunding intermediaries differentiate. Without this knowledge, the dynamics in this context cannot be traced. Information systems are responsible for enabling crowdfunding and an in-deep understanding about this topic helps to develop better solutions for the effective and efficient utilization of this new way of funding."

The extant literature has only begun to explore the depths and richness of crowdfunding, which is (as an emergent approach to financing ventures) becoming a deeper, richer area for research with each passing day. Although the ventures seeking financial backing from the crowd and the funders constituting that crowd are, themselves, deep, rich subjects for further study, the intermediaries are critical lynchpins in better understanding the crowdfunding phenomenon.

Despite its relative youth and modest manifestations, crowdfunding intermediation is more complex than it would first appear—and than many scholars and other commentators have admitted to date. Although crowdfunding platforms have received some attention from researchers and theorists, that attention has been relatively recent and limited. However, crowdfunding platforms—while central to the enterprise and of critical importance—are not the only intermediaries that serve (and promise to serve) important roles in crowdfunded financings of businesses and projects. Crowdfunding participants partner with a variety of intermediaries to incentivize their participation in crowdfunded finance. Moreover, the landscape of crowdfunding intermediation is constantly changing. Market innovations bring new players and roles to the industry, including especially new intermediaries and forms of intermediation.

Thus, crowdfunding intermediation is in flux at present. While certain observations and claims can be made that aid crowdfunding participants, policy makers, and enforcement agents in understanding the current and possible future crowdfunding intermediation landscape, these reflections are a mere beginning. Expertise, standardization, disclosure, and the fulcrum-like role played by crowdfunding platforms all appear to be important pieces in the crowdfunding intermediary puzzle. When viewed through the lens of existing scholarship on intermediation, these factors may help solve the puzzle, affording us a clearer, more comprehensive picture of optimized intermediation in crowdfunded finance. That optimization may involve regulation or be driven by market forces (including, for example, agreement on and compliance with industry best practices). More research is required to determine whether and how attention to these considerations may provide a partial or complete solution.

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KEY TERMS AND DEFINITIONS

Certifier: An individual who or entity that assesses and verifies the compliance of a business, product, or service with industry or other applicable standards.

Financing: A solicitation of funding; the process of soliciting monetary backing for a business, project, or transaction.

Intermediary: An individual or entity serving as a go-between, distributor, or other agent in a transaction between or among principals.

Offering: A transaction in which funding is solicited for business activities; a financing transaction, especially (but not exclusively) one involving a proposal to sell, or the solicitation of a proposal to buy, a security or other investment or financial instrument.

Platform: A website through which crowdfunded financing campaigns are conducted over the Internet; a website that connects investors with businesses or projects needing funding.

Portal: Synonymous with a platform; used in U.S. federal securities law in the term “funding portal” to refer to one of two kinds of regulated intermediaries (the other being brokers) that must participate in securities (investment) crowdfunding.

Venture: A business or project, whether or not conducted through a legal entity or firm.

Venturer: A founder, creator, entrepreneur or other principal who undertakes or participates in the establishment or execution of a business or project; an individual who or entity that bears the fundamental burden in launching and carrying forward a for-profit or not-for-profit business or project.

ENDNOTE

1. Platforms and insurers may be deemed to have duties to their clients in some contexts. Accordingly, they may be classified, depending on the circumstances, as either independent or dependent reputational intermediaries.