

EBA/RTS/2022/05

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# Final Report

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Draft Regulatory Technical Standards

on credit scoring and pricing disclosure, credit risk assessment and risk management requirements for crowdfunding service providers under Article 19(7) Regulation (EU) 2020/1503

# Contents

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<b>1. Executive summary</b>	<b>3</b>
<b>2. Background and rationale</b>	<b>4</b>
<b>3. Draft regulatory technical standards</b>	<b>10</b>
<b>4. Accompanying documents</b>	<b>29</b>
4.1 Draft cost-benefit analysis / impact assessment	29
4.2 Views of the Banking Stakeholder Group (BSG)	34

# 1. Executive summary

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Over recent years, crowdfunding has become a significant means through which start-ups and SMEs can finance their projects. The Regulation (EU) 2020/1503 on European Crowdfunding Service Providers (ECSPR) was issued with the aim of ensuring uniform conditions for crowdfunding service providers across the Union (thus fostering cross-border provisions of these services) and to provide a robust framework for investor protection.

Article 19(7) of ECSPR contains a mandate for the EBA to develop – in close cooperation with ESMA – draft technical standards to address a few subjects, related mainly to the disclosure of information to investors and to the existence of prudential requirements for crowdfunding service providers:

- a) the elements, including the format, that are to be included in the description of the method to calculate credit scoring and to suggest loan pricing;
- b) the information and factors that crowdfunding service providers need to consider when carrying out a credit risk assessment and conducting a valuation of a loan;
- c) the factors that a crowdfunding service provider must consider when ensuring that the price of a loan it facilitates is fair and appropriate;
- d) the minimum contents and governance of the policies and procedures required for information disclosure and of the risk management framework for credit risk assessment and loan valuation

The EBA has developed these draft regulatory technical standards with the view of addressing the potential information gap between crowdfunding service providers and investors, through the disclosure of an adequate amount of information. While ECSPR already requires crowdfunding service providers to disclose a substantial amount of information on loans to investors, the proposals in these draft RTS are directed at informing investors of the existence of sound and adequate processes for credit scoring and loan pricing. Moreover, these draft regulatory technical standards aim at ensuring that the due diligence undertaken by crowdfunding service providers on project owners and crowdfunding projects is carried out according to uniform and common standards, without impairing the possibility for each platform to develop their own methodology to assess the creditworthiness of project owners. In line with the mandate of Article 19(7)(d) ECSPR, the draft technical standards also define the governance requirements that crowdfunding service providers should have in place to support a sound due diligence process.

## Next steps

- The draft regulatory technical standards will be submitted to the Commission for endorsement [following which they will be subject to scrutiny by the European Parliament and the Council] before being published in the Official Journal of the European Union.

## 2. Background and rationale

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### 2.1 Background and mandate

1. In order to ensure uniform conditions for crowdfunding service providers across the Union, foster a proper functioning of the internal market and enhance investor protection requirements, the Regulation (EU) 2020/1503 on European Crowdfunding Service Providers (ECSPR) has been issued<sup>1</sup>. The ECSPR sets out a number of common rules to ensure adequate information is provided to investors and allows crowdfunding service providers to apply for an EU passport.
2. The ECSPR contains two specific mandates for the EBA to develop – in close cooperation with ESMA – two draft regulatory technical standards (RTS) on:
  - a. adequate disclosure of information to investors and appropriate policies and procedures for contingency funds, with regard to individual portfolio management of loans (Article 6(7) of ECSPR); and
  - b. the requirement for crowdfunding service providers to disclose adequate information to investors with regard to their credit scoring and loan pricing methods, to have in place an appropriate framework for credit risk assessment, and sound risk management practices and arrangements (Article 19(7) of ECSPR).
3. The EBA has already finalised the draft RTS on point a) above<sup>2</sup>, and the present Consultation Paper puts forward a proposal for the draft RTS from Article 19(7) of ECSPR, which requires the EBA to specify:
  - a. the elements to be included in the information to investors with respect to the description of the method to calculate credit scores and pricing assigned to crowdfunding projects (Article 19(7)(a));
  - b. the information and factors that crowdfunding service providers shall consider when carrying out credit risk assessment and when conducting a loan valuation, as referred in Article 4(4) (Article 19(7)(b));
  - c. the factors that crowdfunding service providers shall take into account to ensure that the price of loans facilitated on its platform are fair and appropriate (Article 19(7)(c));
  - d. the content and governance of the policies and procedures required for the requirement specified in Article 19 and the risk management framework related to credit risk assessment as referred to in Article 4(4)(f).

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1503&from=EN>

<sup>2</sup> <https://www.eba.europa.eu/eba-publishes-final-draft-technical-standards-individual-portfolio-management-crowdfunding-service>

## 2.2 Rationale and purposes of the draft RTS

4. Over recent years, crowdfunding has become a significant means through which start-ups and small and medium enterprises (SMEs) can finance their projects. Through crowdfunding, a service provider usually operates a digital platform to match or facilitate the matching between prospective investors on the one side, and owners of projects that need financing on the other. However, differently from banking intermediation, the crowdfunding service provider does not take any risk of its own, which instead is borne entirely by the investor. To this extent, if a crowdfunding service provider is not required to conduct adequate due diligence on the projects that are advertised on its website, and this fact is not properly disclosed, investors may assume that these projects have already been subject to an appropriate risk assessment.
5. Moreover, as crowdfunding is particularly relevant for small businesses and start-ups, often with little or no credit history, investors using crowdfunding platforms may frequently be exposed to the risk of having less information compared to project owners.
6. Against this backdrop, the purpose of the draft RTS will be twofold:
  - a. reducing potential asymmetries of information between project owners, crowdfunding service providers (CSPs) and investors with respect to credit scoring and loan pricing;
  - b. ensuring a minimum set of common standards in terms of credit risk assessment, governance, and risk management structures.

### Addressing information asymmetries in credit scoring and pricing of crowdfunding offers

7. Article 23 of the ECSPR requires CSPs to provide prospective investors with a Key Investment Information Sheet (KIIS), which defines the set of information needed to make an informed investment decision. To this extent, the draft RTS developed by ESMA pursuant to Article 23(16) ECSPR elaborate the requirements and models for presenting the information in the KIIS, including the presentation of certain risks, financial ratios and costs and charges. In addition, the draft RTS developed by ESMA on the disclosure of default rates pursuant to Article 20(3) ECSPR further aim to reduce asymmetric information and to enhance the ability of investors to understand the nature and type of risk involved in the investment they make<sup>3</sup>.
8. However, there are other aspects related to the potential asymmetry of information between CSPs and prospective investors that need to be addressed.
9. The first one relates to the method applied by CSPs for credit scoring. To this extent, Article 19(7)(a) ECSPR requires the EBA to specify the elements, including the format, that must be included in the description of the method referred in Article 19(6), i.e., the method that CSPs use to calculate credit scores that are applied to crowdfunding projects.

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<sup>3</sup> See the Final Report on Technical Standards (RTS and ITS) published by ESMA: <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-technical-standards-crowdfunding>

10. Therefore, Chapter I of the draft RTS requires CSPs to disclose to investors appropriate levels of information about the existence of a robust credit scoring mechanism to assign each project owner to a risk category reflecting its inherent credit risk, on the type of input used to feed credit scoring models and the information that shall be provided to investors about the output of such models. Moreover, it will be important that investors are also informed about how scoring models are relevant in the classification of project owners and crowdfunding projects in terms of their riskiness and how such a classification is relevant for the outcome of the credit approval procedure.
11. A second asymmetry of information relates to the way crowdfunding offers are priced, both at loan origination and afterwards. Differently from the traditional credit market, where the possibility for arbitrage and misalignments in loan pricing are relatively limited, the pricing of a loan in the crowdfunding market is conducted directly by the CSPs. Therefore, faced with an opaque pricing structure, prospective investors may be misled and take suboptimal investment decisions.
12. In that respect, Article 19(7)(a) also requires the EBA to develop draft RTS to specify the elements to be included in the description of the method referred to in Article 19(6), i.e., the method that CSPs use to calculate the prices that they suggest on their platform for crowdfunding offers. To address that, Chapter II sets a number of requirements for CSPs to inform investors about the existence of an adequate pricing mechanism and disclose enough information on the different components of the price of a loan, both when it is originated and during its lifetime.
13. Moreover, in addition to this disclosure provision, Article 19(7)(c) defines a prudential requirement as well and requires the RTS to specify the factors that CSPs must consider to ensure that the price of loans they facilitate on their platforms is fair and appropriate as referred to in Article 4(4)(d) ECSPR, which in turn clarifies that this also includes situations where the CSP determining the price of the loan is also facilitating an exit for a lender before the loan reaches its maturity.
14. To this extent, the EBA observes that the pricing structure adopted by crowdfunding platforms is likely to be different from the one commonly used by banks, as the latter need to take into account the cost of capital (both regulatory and economic capital) as well as the cost of financing to raise funds to lend (through customer deposits or through various money or capital markets). As CSPs do not hold capital of their own and do not need to raise funds to finance loans, these two components are not part of the pricing strategy. Nevertheless, in order for a pricing strategy to be fair and appropriate, Article 11 of the draft RTS requires that the price of a crowdfunding offer must reflect the risk profile of the loan, and that the CSP has considered prevailing market conditions at the point of loan origination and during the lifetime of the loan.

## Ensuring common standards and procedures for credit risk assessment

15. Prospective investors must rely on the due diligence process carried out by the CSPs when they assess the creditworthiness of project owners and the sustainability of crowdfunding projects as well. Therefore, they also need to be reassured that this assessment is carried out based on consistent standards across different platforms. On the other hand, CSPs should not be prevented from innovating and developing their own models to assess the risks of project owners.
16. To this extent, Article 19(7)(b) requires the draft RTS to specify the factors that CSPs must consider when carrying out a credit risk assessment as referred to in Article 4(4)(a) and Article 4(4)(b) ECSR. These provisions require that (Article 4(4)(a)) the credit risk assessment is carried out before the crowdfunding offer is made, including the consideration of the risk that the project owner will not repay its debt in full. Another requirement (Article 4(4)(b)) is that the credit risk assessment must be based on audited accounts (if available) and on information obtained by the project owner as well as by other sources.
17. Therefore, it is important that the credit risk assessment must be carried out according to robust and consistent approaches, relying on a common set of elements, as this will allow investors to compare different loans (either offered on the same platform or on different ones). While preserving the possibility for each CSP to adopt their own methodology, such assessments must take into account the same underlying elements of credit risk, in order to ensure consistency and comparability.
18. Therefore, Chapter III of the draft RTS follows an approach that can be considered consistent with the one defined by the EBA Guidelines on loan origination and monitoring<sup>4</sup>, requiring CSPs to have in place a sound and effective framework to assess the credit risk of crowdfunding projects based on a number of factors. In particular, Articles 14-18 of the draft RTS set forth the factors that CSPs shall consider in their credit risk assessment with respect to:
- a. the financial position of the project owner;
  - b. the business model and the strategy underlying the crowdfunding project;
  - c. any credit protection arrangement established by the project owner, both funded and unfunded.
19. It should be noted that the approach adopted with respect to the requirements of Article 19(7)(b) is different from the one underlying Chapter II of the draft RTS from Article 6(7) ECSR on individual portfolio management of loans<sup>5</sup>. While the latter follow a 'process/methodological' perspective, requiring that investors must be informed about the existence of a sound process to assess credit risk, the current draft RTS are instead focused on ensuring that the same set of information and factors are taken into account by CSPs when assessing credit risk.

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<sup>4</sup> <https://www.eba.europa.eu/regulation-and-policy/credit-risk/guidelines-on-loan-origination-and-monitoring>

<sup>5</sup> <https://www.eba.europa.eu/regulation-and-policy/consumer-protection-and-financial-innovation/regulatory-technical-standards-individual-portfolio-management-loans-offered-crowdfunding-service>

20. Article 19(7)(b) also requires that the draft RTS shall specify the elements that CSPs shall consider when carrying out a loan valuation as referred to in Article 4(4)(e) ECSPR. In turn, Article 4(4)(e) requires CSPs to conduct a valuation of the loan both at the point of loan origination, but also when the CSP considers that the project owner is unlikely to fulfil its obligations, in case of a default on a loan, and when the CSP is facilitating an exit for the lender. Therefore, Article 20 of the draft RTS identifies the information that CSPs must consider when carrying out the valuation of a loan during the different stages of its lifetime (e.g., at origination, after origination and following a default).
21. Finally, one essential element to ensure that adequate due diligence is carried out on the quality of project owners and that CSPs operate according to sound internal governance arrangements is the presence of an appropriate risk management framework, which should be consistent and proportionate to the complexity of the business model of the CSP and the type of lending facilitated. Similarly, the principles guiding the disclosure of information to investors shall rely on common standards. In this respect, Article 19(7)(d) ECSPR requires that the draft RTS shall specify the minimum contents and governance of the policies and procedures required under Article 19 and of the risk management framework referred to in point (f) of Article 4(4).
22. The formulation of the mandate in Article 19(7)(d) implies that CSPs shall have in place adequate policies and procedures to guide the disclosure of information to investors (Article 19 (1)-(5)) and a risk management framework that shall ensure compliance with the requirements in Article 4(4)(f). In turn, Article 4(4)(f) refers to points a)-e) of the same article, which address requirements for the credit risk assessment and loan valuation.
23. Therefore, Chapter IV of the draft RTS defines the essential elements that CSPs shall include in:
- i. the policies for the disclosure of information (Article 21-22), with the purpose of establishing common standards to enhance transparency and appropriateness of the information that is disclosed to investors;
  - ii. a framework for risk management (Article 23-25), aimed at promoting a robust and appropriate credit risk assessment and monitoring, credit approvals and loan valuation throughout the life cycle of a crowdfunding loan. In particular, the risk management framework shall include the set-up of adequate risk categories for crowdfunding projects and project owners, which are key in the pricing of a loan;
  - iii. policies and procedures in relation to the credit risk assessment (Article 26-28), including the process for loan granting and for the use of automated models.

## 2.3 Structure of the draft RTS

24. The organisation of the content of the draft RTS is relatively straightforward, as the mandate set out in Article 19(7) of ECSPR already identifies the specific areas of analysis. Therefore, the draft RTS have been developed according to the following structure:

- a. Chapter I sets out the elements to be included in the description of the method to calculate credit scores, focusing on i) the methodology employed (i.e., the models); ii) the input to these models (i.e., the information and factors to be considered) and iii) the output of these scoring models;
- b. Chapter II specifies the elements of the pricing strategy provided to investors, and how to ensure that such pricing is indeed fair and appropriate;
- c. Chapter III requires crowdfunding service providers to consider the adequate amount of information when conducting the creditworthiness assessment of project owners and crowdfunding projects;
- d. Chapter IV sets out the requirements that crowdfunding service providers need to have in place with respect to those policies and procedures that are necessary to ensure that investors are adequately informed and that the credit risk assessment and loan valuation are conducted in a sound and consistent manner.

### 3. Draft regulatory technical standards

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COMMISSION DELEGATED REGULATION (EU) No .../..

of **XXX**

[...]

**supplementing Regulation No 2020/1503 of the European Parliament and of the Council with regard to regulatory technical standards for information provided to investors on credit scoring and pricing, and requirements for credit risk assessment and a risk management framework and policies for crowdfunding service providers**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,  
Having regard to Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937, and in particular Article 19(7) thereof,

Whereas:

- (1) Investors funding projects financed through crowdfunding platforms may be exposed to asymmetric information, because they may not be aware of the real quality of project owners and have the full understanding of how the due diligence of crowdfunding projects and prospective project owners is actually carried out by the crowdfunding service providers.
- (2) The need to provide adequate information to investors is addressed in Article 23 of Regulation (EU) 2020/1503 requiring crowdfunding service providers to provide prospective investors with a Key Investment Information Sheet (KIIS), which defines the set of information needed to make an informed investment decision. Nevertheless, it is important that other aspects implying a potential misalignment between the adequacy of information available to investors and the one available to crowdfunding service providers are properly addressed.
- (3) Firstly, some asymmetries may be found in the information about credit scoring, as innovative approaches based on artificial intelligence and machine learning are now progressively used, alongside more traditional statistical techniques. In order to mitigate this potential information asymmetry, it is essential that crowdfunding service providers disclose appropriate levels of information to prospective and current investors about the existence of a robust credit scoring mechanism to assign

each project owner to a risk category reflecting its inherent risk. This appears particularly significant in relation to SMEs without a long credit history, for which innovative approaches based on granular transactional data may prove more useful than methods based on traditional balance sheet data.

- (4) Secondly, the pricing of a crowdfunding offer in the crowdfunding market is suggested directly by the crowdfunding service provider. In order to limit the possibility for arbitrage and misalignments, it is important that crowdfunding service providers inform investors about the existence of an adequate pricing mechanism and disclose adequate information to ensure that loans are priced in a fair and appropriate manner. This should imply that the price reflects the risk profile of the loan, and that the service provider has considered how pricing compares to loans with similar conditions.
- (5) Investors must also rely on the due diligence process carried out by the crowdfunding service providers when they assess the creditworthiness of project owners and the sustainability of crowdfunding projects. The existence of common standards to assess credit risk by crowdfunding service providers is an essential element to ensure that crowdfunding projects and project owners are assessed consistently and comparably across the Union. Therefore, it is desirable that crowdfunding service providers have in place an appropriate framework to assess credit risk, considering both financial and non-financial factors, and any mitigating effects from credit protection arrangements.
- (6) The existence of a robust and uniform framework for credit risk assessment is important also for the fair and appropriate valuation of loans. However, while valuation at the point of origination should reflect mainly the initial assessment of credit risk, valuation during the life of the loan is impacted by other factors. Therefore, crowdfunding service providers shall also have in place an appropriate framework when conducting the valuation of a loan.
- (7) One of the essential elements to ensure that adequate due diligence is carried out on the quality of project owners is the presence of an appropriate risk management framework, which should be consistent and proportionate to the complexity of the business model of the crowdfunding service provider and the type of lending facilitated. In addition, there should be policies in place regarding the information and documentation needed to assess credits, to ensure appropriate loan valuation and pricing.
- (8) This Regulation is based on the draft regulatory technical standards developed by the EBA in close cooperation with the ESMA and submitted to the Commission.
- (9) The EBA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010<sup>6</sup>,

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<sup>6</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

HAS ADOPTED THIS REGULATION:

## CHAPTER 1

### **Elements to be included in the description of the method to calculate credit scores**

#### *Article 1*

##### *Quality and format of information provided to investors*

1. Crowdfunding service providers shall ensure that the information provided to investors on the method to calculate credit scores, pursuant to Article 19(7)(a) of Regulation (EU) 2020/1503, is accurate, reliable and regularly updated.
2. The information provided to investors referred in paragraph 1 shall be:
  - a. easily available in a dedicated section of the website of the crowdfunding service provider that is clearly distinguishable from marketing communications;
  - b. presented in a way that is easy to read and expressed in a manner that facilitates its understanding.

#### *Article 2*

##### *Use of models*

1. The description provided to investors of the method to calculate credit scores of crowdfunding projects shall provide appropriate information on the models used when performing such calculation.
2. In accordance with paragraph 1, crowdfunding service providers shall indicate whether the following techniques are employed when calculating credit scores of crowdfunding projects:
  - a. statistical models;
  - b. judgement-based models, where statistical techniques are integrated with discretionary elements of decision-making;
  - c. automated models;
  - d. other models.
3. Crowdfunding service providers shall disclose to investors appropriate information on the following elements:
  - a. the existence of appropriate governance arrangements for the design and use of models used to determine credit scores;

- b. the framework to ensure that the quality of the model output is regularly assessed and monitored;
- c. the use of models developed by third-party providers

### *Article 3*

#### *Nature of information used to feed credit scoring models*

1. The description of the method to calculate credit scores applied to crowdfunding projects shall include appropriate information on the source of data used, indicating:
  - a. The information that is received from the project owner;
  - b. The information that is obtained from external credit registers;
  - c. The information that is obtained from publicly available sources;
  - d. The information obtained from other sources.
2. Crowdfunding service providers shall disclose to investors adequate information on the reliability of the information in paragraph 1(a), when it is based on non-audited accounts.

### *Article 4*

#### *Factors to be considered in credit scoring models*

1. The description provided to investors of the method to calculate credit scores of crowdfunding projects shall include information on the factors that are used as input in the scoring model.
2. For the purpose of paragraph 1, the description shall provide an explanation of how the following financial factors relating to the project owner and to the crowdfunding project are considered in the method to calculate credit scores:
  - i. profitability of the crowdfunding project;
  - ii. cash flow generated by the crowdfunding project;
  - iii. leverage, level of indebtedness and solvency of the project owner;
  - iv. credit history of the project owner;
  - v. availability of collateral and guarantees.
3. For the purpose of paragraph 1, the description shall provide an explanation of how the following non-financial factors relating to the project owner are considered in the method to calculate credit scores:

- a. macroeconomic conditions of the jurisdiction where the project will take place;
  - b. degree of competition of the industry where the project will be developed;
  - c. the project owner's knowledge and experience of the specific sector of its business activity;
  - d. the project owner's reputation.
4. The description provided to investors of the method to calculate credit scores shall include:
- a. the weights assigned to financial and non-financial factors, as referred to in paragraphs 2 and 3;
  - b. the relevant metrics that are considered in relation to all the factors in paragraphs 2 and 3.
5. The description of the method for credit scoring shall include an explanation of how risks stemming from money laundering and terrorist financing activities are taken into account when assigning credit scores.

#### *Article 5*

##### *Output of the scoring models*

1. The description of the method to calculate credit scores of crowdfunding projects shall include the description of the output of the scoring model.
2. For the purpose of paragraph 1, the description of the output of the scoring model shall include a table indicating the credit score steps, and in relation to each step, it shall indicate:
  - a. the credit rating;
  - b. the probability of default;
  - c. a qualitative interpretation of the credit score step;
  - d. the acceptance or rejection of the funding of the project by the crowdfunding service.
3. The crowdfunding service provider shall indicate whether credit scores that are obtained using automated models can be corrected manually and the conditions for such corrections.
4. The crowdfunding service provider shall indicate how the output of the scoring model referred in paragraph 2 is considered in the determination of:
  - a. maximum loan amount offered to a prospective project owner;

- b. maximum duration of the loan offered to a prospective project owner.
5. The description of the method to determine credit scores shall indicate how often the scores and the corresponding ratings of the crowdfunding project are updated during the lifetime of the loan financing the project.
6. The crowdfunding service provider shall inform investors when a change in the method to determine credit scores leads to material changes in the results of the scoring model.

## CHAPTER 2

### Pricing

#### *Article 6*

##### *General requirements*

When crowdfunding service providers suggest the price of crowdfunding offers, they shall have in place an adequate pricing framework, supported by appropriate documentation and governance structures responsible for taking pricing decisions.

#### *Article 7*

##### *Quality and format of information provided to investors*

1. Crowdfunding service providers shall ensure that the information provided to investors on the method to suggest the price of crowdfunding offers, pursuant to Article 19(7)(a) of Regulation (EU) 2020/1503, is accurate, reliable and regularly updated.
2. The information provided to investors referred in paragraph 1 shall be:
  - a. easily available in a dedicated section of the website of the crowdfunding service provider that is clearly distinguishable from marketing communications;
  - b. presented in a way that is easy to read and expressed in a manner that facilitates its understanding.

#### *Article 8*

##### *Elements of pricing strategy*

The description provided to investors of the method used by crowdfunding service providers to suggest the price of a crowdfunding offer shall include an explanation of how the following elements of the loan are considered in the pricing strategy:

- a. the principal amount of the loan;

- b. the maturity of the loan;
- c. the time structure of repayment instalments;
- d. the results of the scoring models.

#### *Article 9*

##### *Pricing of a crowdfunding offer at loan origination*

The description provided to investors of the method used by crowdfunding service providers to suggest the price of a crowdfunding offer shall indicate how the following elements are considered at the point of loan origination:

- a. the risk-free interest rate used;
- b. the risk category of the project owner as defined in Article 25;
- c. the presence of collateral or guarantees;
- d. operating and administrative costs, and fees levied by the crowdfunding service provider for services provided in connection with the loan;
- e. any other risk associated with the loan, when relevant.

#### *Article 10*

##### *Pricing of a crowdfunding offer after loan origination*

The description provided to investors of the method used by crowdfunding service providers to suggest the price of a crowdfunding offer shall indicate – in addition to elements indicated in Article 9 – how the following elements are considered after the point of loan origination:

- a. fees for loan administration and monitoring;
- b. fees in relation to collateral re-evaluation;
- c. fees for changes of loan agreement terms or restructuring conditions, including following a default of the project owner;
- d. fees for the sale of the loan by the investor;
- e. fees for the early repayment of the loan;
- f. fees for contingency funds as referred to in Article 6(5) and Article 6(6) of Regulation (EU) 2020/1503.

## *Article 11*

### *Fair and appropriate pricing*

1. For the purpose of Article 19(7)(c), and in accordance with Article (4)(4)(d) of Regulation (EU) 2020/1503, in order to ensure that the price of a loan is fair and appropriate, crowdfunding service providers shall take into account:
  - a. the risk profile of the project owner or the crowdfunding project, as defined in the risk categories in Article 25;
  - b. the net present value of the loan;
  - c. the prevailing market conditions at the point of loan origination and during the lifetime of the loan;
  - d. their business strategy.
2. For the purpose of calculating the net present value referred in paragraph 1(b), the crowdfunding service provider shall consider the following factors:
  - a. the principal amount of the loan;
  - b. the maturity of the loan;
  - c. the frequency of instalments of the loan;
  - d. an appropriate interest rate to discount future repayments.

## **CHAPTER 3**

### **Credit risk assessment**

#### *Article 12*

##### *General requirements on credit risk assessment*

1. For the purpose of Article 19(7)(b) and in accordance with Article 4(4)(a) of Regulation (EU) 2020/1503, when crowdfunding service providers undertake an assessment of the credit risk of crowdfunding projects or project owners, they shall assess the current and future ability of the project owner to meet the financial obligations established under the loan agreement.
2. For the purpose of this chapter, the crowdfunding service provider shall:
  - a. adopt suitable methods and approaches that are proportionate to the size, type and maturity of the loan and to the characteristics of the project owner;
  - b. ensure that the creditworthiness assessment is carried out using accurate, reliable and up-to-date information and data.
3. Crowdfunding service providers shall ensure that decisions on creditworthiness assessment are well documented and maintain this documentation for a period of at least five years after the repayment of the final instalment of the loan.

### *Article 13*

#### *Information to be considered for the creditworthiness assessment*

When conducting the credit risk assessment of crowdfunding projects and project owners, crowdfunding service providers shall consider the following information:

- a. a description of the crowdfunding project;
- b. the purpose of the loan;
- c. the ownership structure of the project owner;
- d. the business plan underlying the crowdfunding project;
- e. the existence of guarantees or collateral.

### *Article 14*

#### *Factors to be considered for the assessment of the financial position*

1. When conducting the credit risk assessment of crowdfunding projects and project owners, crowdfunding service providers shall consider the following information in relation to the respective financial position of the project owner and of the crowdfunding project:
  - a. the income and cash flow generated by the crowdfunding project over the past two years, when available;
  - b. the expected income and cash flows of the crowdfunding project in different scenarios;
  - c. the current and projected financial position of the project owner, including any existing liabilities;
  - d. the availability of collateral and other guarantees.
2. For the purpose of paragraph 1(c), the crowdfunding service provider shall consider the following factors when assessing other loans and liabilities that the project owner may have in place at the time of the loan request:
  - a. the amount of loans or liabilities;
  - b. the currency in which the loans or liabilities are issued;
  - c. the maturity of the loans or liabilities;
  - d. the repayment schedule of the loans or liabilities;
  - e. the interest rate or any other compensation defined in the loans or liabilities contract.

3. In order to support the assessment in paragraphs 1 and 2, crowdfunding service providers shall consider appropriate financial, asset class-specific or product type-specific indicators, in line with the policies and limits set out in Chapter 4.
4. If available, such financial ratios shall be provided for the last three financial years and shall be calculated in accordance with the International Financial Reporting Standards (IFRS) or local Generally Accepted Accounting Principles (GAAP).
5. Relevant financial ratios may include, but are not limited to, the items listed in the Annex.
6. When using financial projections to conduct the credit risk assessment, crowdfunding service providers shall ensure that these projections are based on solid and prudent assumptions and are consistent with historical data and reasonable market expectations.

#### *Article 15*

##### *Information to be considered for the assessment of the business model and strategy*

When conducting the credit risk assessment of crowdfunding projects and of project owners, crowdfunding service providers shall consider the following information in relation to the business model and business strategy of the crowdfunding project:

- a. the project owner's knowledge of the business sector related to the crowdfunding project and the experience in similar projects;
- b. the feasibility and sustainability of the business plan linked to the crowdfunding project;
- c. an analysis of the strengths and weaknesses of the crowdfunding project;
- d. the degree of competition of the business sector of the crowdfunding project;
- e. the type of customers and their geographical location.

#### *Article 16*

##### *Information on credit protection arrangements*

1. When a loan granted to a project owner is secured by credit protection arrangements, the crowdfunding service provider shall take all reasonable steps to gather information on:
  - a. the accuracy of the valuation of the collateral and guarantees;
  - b. the effectiveness and enforceability of the collateral and guarantees.

2. Crowdfunding service providers shall periodically evaluate and monitor the value of collateral and guarantees, and take appropriate action if the value of collateral materially decreases.

#### *Article 17*

##### *Information on funded credit protection*

1. When the loan is guaranteed by collateral, the crowdfunding service provider shall ensure that its valuation takes into account at least the following information:
  - a. the maturity of the collateral;
  - b. for financial collateral, the last available price and the average price over the previous 12 months of the collateral on a liquid and traded market;
  - c. for physical collateral, the latest available market value;
  - d. the existence of a market to liquidate the collateral readily;
  - e. a measure of the volatility of the value of the collateral.
2. In the absence of a market to establish objectively a price or market value of the collateral, the crowdfunding service provider shall consider at least the following information:
  - a. the assumptions that have been used to assess the value of the collateral;
  - b. the frequency with which the value can readily be obtained, including a professional appraisal or valuation.
3. For the purpose of paragraphs 1 and 2, crowdfunding service providers shall have in place policies and procedures to monitor the value of collateral.

#### *Article 18*

##### *Information on unfunded credit protection*

When the loan is guaranteed, the crowdfunding service provider shall ensure that the valuation of the guarantee takes into account at least the following information:

- i. the identity of the guarantor;
- ii. the type of guarantee;
- iii. the enforceability of the guarantee;
- iv. the level of protection provided by the guarantee;
- v. the amount that the protection provider has committed to pay in the event of the default or non-payment of the project owner.

#### *Article 19*

##### *Accounting information*

1. For the purpose of Article 4(4)(b)(i) of Regulation (EU) 2020/1503, the analysis of the financial situation of the project owner shall be based on audited financial statements covering the latest two financial years, where available.

2. When audited financial statements are not available for the latest two financial years, the assessment of the financial situation of the project owner shall be based on documents to be prepared by a certified person who is subject to a professional quality assurance system including, but not limited to, tax advisors and sworn accountants.

### *Article 20*

#### *Information to be considered for loan valuation*

1. For the purpose of Article 19(7)(b) and in accordance with Article 4(4)(e)(i) of Regulation (EU) 2020/1503, crowdfunding service providers shall:
  - a. carry out a valuation of the loans granted to project owners taking into account adequate and updated information;
  - b. perform the valuation in a timely manner, so that it is not older than three months at the time of granting the loan.
2. For the purpose of paragraph 1, at the point of loan origination, crowdfunding service providers shall consider at least the following factors:
  - a. the maturity of the loan;
  - b. the frequency of instalment payments, and the expected future cash flows;
  - c. any option of prepayments envisaged in the loan contract;
  - d. a risk-free interest rate to discount the payments made out of the loan;
  - e. the interest rate set out in the loan agreement;
  - f. the probability of default of the project owner as defined in Article 1(1) of the Delegated Regulation xxx/XXX with regard to regulatory technical standards specifying the methodology for calculating the default rates referred to in Article 20(1) of Regulation (EU) 2020/1503;
  - g. the value of any collateral that the project owner has used as part of the loan agreement;
  - h. the presence of guarantees and the level of protection provided by these guarantees.
3. For the purpose of paragraph 1, after the point of loan origination, the crowdfunding service provider shall consider – in addition to the information indicated in paragraph 2 – the following information:
  - a. the time to maturity of the loan;
  - b. expectation of future losses.
4. When the valuation of a loan is carried out following a default of the loan, in accordance with Article 4(4)(e)(iii) of Regulation (EU) 2020/1503, crowdfunding service providers shall consider the following factors:
  - a. a conservative valuation of collateral and guarantees;
  - b. other fees and expenses related to debt collection.

## CHAPTER 4

### **Policies and procedures to ensure adequate information to clients, enable credit risk assessments, loan valuation and pricing**

#### *Article 21*

##### *Governance arrangements for information to investors*

1. For the purpose of Article 19(7)(d) and in accordance with Articles 19(1-3) of Regulation 2020/1503, crowdfunding service providers shall have in place an adequate governance framework to ensure the appropriate disclosure of information to investors, and shall have a written description of it.
2. For the purpose of paragraph 1, crowdfunding service providers shall ensure that:
  - a. all information provided to clients is complete, updated and not misleading;
  - b. internal governance arrangements, processes and mechanisms to ensure the disclosure of information to clients are proportionate to the size and complexity of the crowdfunding service provider.
3. All quantitative disclosures shall be accompanied by a qualitative narrative and other supplementary information that may be necessary to enable investors to gain a full understanding of the quantitative disclosures.

#### *Article 22*

##### *Policies for disclosure of information to investors*

1. The policies for disclosure shall ensure that all the information provided to investors is presented in a way that is easy to read, and expressed in a manner that facilitates its understanding, in particular by prospective non-sophisticated investors; where ordinary words can be used, technical terms shall be avoided and, when used, they should be explained.
2. Crowdfunding service providers shall ensure that the policies to provide adequate information to clients include the following elements:
  - a. the frequency for updating the information provided to clients;
  - b. the internal functions in charge of preparing the information to be provided to clients;
  - c. the treatment of price sensitive information, i.e. the information that may impact the pricing of a loan;
  - d. the validation process for the information to be disclosed to investors.

3. The policies and procedures and the organisational arrangements related to the disclosure of information to clients shall be approved by the management body of the crowdfunding service provider and shall be in written form, regularly updated, and well documented.

### *Article 23*

#### *Establishment of a risk management framework*

1. In accordance with Article 4(4)(f) and Article 19(7)(d) of Regulation (EU) 2020/1503, crowdfunding service providers shall implement an adequate risk management framework to support robust and appropriate credit risk assessment and monitoring, credit approvals and loan valuation throughout the life cycle of a crowdfunding loan.
2. For the purpose of paragraph 1, the risk management framework shall:
  - a) be integrated into the crowdfunding service provider's overall organisational and decision-making structure;
  - b) be adequate and proportionate to the complexity of the crowdfunding service provider business operating model.
3. Within their risk management framework, crowdfunding service providers shall define the functions that are responsible for performing the tasks related to the credit risk assessment, the credit approval and monitoring process, and the loan valuation.
4. Crowdfunding service providers shall establish transparent reporting mechanisms so that their management body and all relevant functions are provided with adequate information to allow the measurement, assessment and monitoring of credit risk. The reporting framework shall be well defined and documented.
5. The management body of the crowdfunding service provider shall oversee the implementation of the governance and organisational arrangements regarding also the establishment, maintenance and publication of policies and procedures relating to the credit risk framework.

### *Article 24*

#### *Functions within the risk management framework*

1. The functions established within the risk management framework shall be responsible for:
  - a. performing an assessment of the creditworthiness of crowdfunding projects and project owners for scoring purposes in accordance with Chapter 3;
  - b. assigning loans to appropriate risk categories;
  - c. designing adequate processes for credit risk monitoring and reporting;

- d. defining appropriate processes to deal with situations when the project owner is not able to fulfil its obligations or is in default, as defined by Article 1(1) of the Delegated Regulation xxx/XXX with regard to regulatory technical standards specifying the methodology for calculating the default rates referred to in Article 20(1) of Regulation (EU) 2020/1503.
2. When crowdfunding service providers perform tasks of individual portfolio management of loans in accordance with Article 6 of Regulation (EU) 2020/1503, the crowdfunding service providers shall have in place a defined and documented process to allocate investors' funds among crowdfunding projects.

#### *Article 25*

##### *Risk categories*

1. When assigning loans to specific risk categories in accordance with Article 24(1), crowdfunding service providers shall ensure that the assignment of loans to risk categories reflects:
  - a. the levels of risk of the respective crowdfunding projects as defined by the output of internal credit scoring models in accordance with Chapter 1;
  - b. specific factors that are related to the loan, including, but not limited to, the interest rate, the maturity of the loan and the frequency of payment instalments.
2. Crowdfunding service providers shall ensure that:
  - a. the risk management framework includes adequate procedures to review the assignment of loans to the respective category and to re-assign them to a new risk category whenever there is a change in the respective credit scoring or in other factors related to the loan;
  - b. each risk category is associated with a probability of default.

#### *Article 26*

##### *Credit granting and approval*

1. Within the risk management framework, crowdfunding service providers shall establish clear and well-documented credit granting processes to approve crowdfunding projects to be proposed to investors.
2. The processes established in accordance with Article 1 shall define the responsibilities of the relevant functions within the organisational structure of the crowdfunding service provider.

3. When credit granting powers are delegated to members of staff, crowdfunding service providers shall ensure that these staff members are adequately trained and hold relevant expertise and seniority in relation to the specific authority delegated to them.

#### *Article 27*

##### *Use of automated models*

1. When automated models are used for creditworthiness assessment and for credit granting purposes, crowdfunding service providers shall ensure that:
  - a. the relevant functions have a good understanding of their methodology, input data, assumptions and limitations;
  - b. the management body has a sufficient understanding of the use of technology-enabled innovation;
  - c. the models are fit for purpose, and their use is proportionate to the size and complexity of the activity of the project owner and the amount of the loan.
2. For the purpose of paragraph 1, crowdfunding service providers shall have in place policies and procedures and set out appropriate governance arrangements for the design and use of such models.
3. The policies and procedures in paragraph 2 shall be aimed at:
  - a. ensuring the quality of data used as input for the models;
  - b. ensuring that the quality of output is regularly assessed;
  - c. establishing criteria to define when the outcome of such models can be overruled within the regular credit granting framework.
4. Crowdfunding service providers shall have in place adequate documentation covering the methodology, the data input and the criteria automated models use for credit risk assessment, credit granting and credit monitoring.

#### *Article 28*

##### *Policies for credit risk assessment*

1. Within their credit risk management framework, crowdfunding service providers shall set out appropriate policies and procedures aimed at defining the criteria for the assessment and monitoring of credit risk.
2. Crowdfunding service providers shall have in place policies and procedures in relation to credit risk management to specify at least the following matters:

- a. the process of credit granting and approval;
  - b. the process of assignment of crowdfunding projects and project owners to risk categories in accordance with Article 25;
  - c. the definition of information and factors to be used for the creditworthiness assessment of crowdfunding projects and project owners in accordance with Chapter 3;
  - d. the criteria for the acceptance and use of credit risk mitigation measures;
  - e. the conditions for the use of automated decision-making in the credit-granting process;
  - f. the circumstances in which deviations from standard credit procedures and credit-granting criteria are possible;
  - g. the process of credit risk monitoring after the point of loan origination;
  - h. the processes to deal with project owners experiencing delays in repaying their loans.
3. For the purpose of paragraphs 1 and 2, credit risk policies and procedures shall:
- a. be proportionate to the size and complexity of the crowdfunding projects offered on the crowdfunding platform;
  - b. identify clearly the functions that are in charge of carrying out the relevant tasks;
- and shall be documented and kept updated.
4. The policies in paragraph 1 shall specify:
- a. how crowdfunding service providers identify, assess and manage the money laundering and terrorist financing (ML/TF) risks to which they are exposed as a result of their credit-granting activities;
  - b. how crowdfunding service providers include ESG risks in the credit risk assessment of crowdfunding projects.

## ANNEX – Key financial indicators to be considered in the creditworthiness assessment

### A) Profitability indicators

- a. Annual Net Income
- b. EBITDA
- c. Return on Equity (RoE) -  $RoE = (EBIT - Tax - Interest\ Paid) / (Average\ Equity)$
- d. Return on Assets (RoA) -  $RoA = (EBIT - Tax) / (Average\ Total\ Assets)$
- e. Net Profit Margin (NPM) -  $NPM = (EBIT - Tax) / (Average\ Total\ Assets)$
- f. Sales to Total Assets (STA) -  $STA = Sales / (Average\ Total\ Assets)$

### B) Leverage and debt indicators

- a. Debt to Equity Ratio (DER) -  $DER = (Debt + Value\ of\ Leases) / Equity$
- b. Debt Ratio (DR) -  $DR = (Total\ Debt) / (Total\ Assets)$
- c. Debt Yield (DY) -  $DY = EBITDA / Loan\ Amount$
- d. Loan to Cost (LC) -  $LC = (Loan\ Amount) / (Construction\ Cost)$
- e. Loan to Value (LV) -  $LV = (Loan\ Amount) / (Value\ of\ the\ Property)$

### C) Liquidity indicators

- a. Interest Coverage Ratio (ICR) -  $ICR = EBIT / Interest\ Expenses$
- b. Debt Service Coverage Ratio (DSCR) -  $DSCR = EBITDA / (Principal\ Amount + Interest\ Amount)$
- c. Cash Flow to Debt Ratio (CFD) -  $CFD = (Cash\ Flow) / Debt$
- d. Cash Ratio (CR) -  $CR = (Cash + Marketable\ Securities) / (Current\ Liabilities)$
- e. Net Working Capital to Total Assets (NWCTA) -  $NWCTA = (Current\ Assets\ (Cash, Short-Term\ Securities, Receivable, Inventories, Other\ Current\ Assets)) / Assets$

### D) Capital indicators

- a. Capitalisation Rate (CR) -  $CR = (Net\ Operating\ Income) / Capital$
- b. Profit Yield (PY) -  $PY = (Net\ Income) / Capital$



This Regulation shall be binding in its entirety and directly applicable in all Member States.  
Done at Brussels,

*For the Commission  
The President*

*[For the Commission  
On behalf of the President*

*[Position]*

## 4. Accompanying documents

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### 4.1 Draft cost-benefit analysis / impact assessment

25. The ECSPR in its Article 19(7) mandates the EBA to develop draft regulatory technical standards to further specify the elements that crowdfunding service providers must include in the description of the methodology used for credit scoring and for loan pricing. The mandate also indicates that the EBA shall specify further the information and factors that crowdfunding service providers must consider when conducting the creditworthiness assessment, as well as the risk management framework and the policies that they need to have in place in relation to credit risk assessment and disclosure to investors.

26. As per Article 10(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any RTS developed by the EBA shall be accompanied by an Impact Assessment (IA) annex which analyses 'the potential related costs and benefits' before submitting to the European Commission. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

27. The EBA prepared the IA included in this Consultation Paper analysing the policy options considered when developing the guidelines. Given the nature of the study, the IA is qualitative in nature.

#### A. Problem identification

28. One important difference between crowdfunding and banking intermediation is that the crowdfunding service provider does not take any risk of its own. Rather, the risk remains entirely on the investor. Moreover, the asymmetric information between investors and project owners may increase the chance that the former underestimate the risks of an investment, assuming that every project proposed on a platform is subject to an adequate risk assessment process. In this situation, it is necessary to develop a framework that ensures the protection of investors and provides enough transparency to inform investment decisions. While the ECSPR provides the basis for such a framework, more detailed instructions and technical guidance are needed to create a comprehensive framework.

29. Additionally, in the absence of a comprehensive framework at EU level for crowdfunding platforms, during the past years some Member States have introduced their own national regimes, with the risk of creating a fragmented framework and the lack of uniform conditions for crowdfunding platforms operating in different Member States. In turn, this lack of a uniform framework creates uncertainty, which ultimately may discourage investors from providing funds.

## B. Policy objectives

30. As a general objective, the RTS aim to contribute to enhancing transparency, providing investors with appropriate tools to take well-informed decisions, and ensuring them an adequate and consistent degree of protection, also requiring some common standards for creditworthiness assessment.
31. As a main objective, the RTS aim to comply with the mandate in Article 19(7) of the ECSPR with regard to information to clients. The mandate can be divided into two parts. The first one gives the EBA the task of specifying the elements that crowdfunding service providers need to disclose to investors as part of their methods for the credit scoring and pricing of crowdfunding offers, and to ensure that the pricing is fair and appropriate. The second part is of a more 'prudential' nature and mandates the EBA to specify the factors that crowdfunding platforms must consider in their creditworthiness assessment, as well as the risk management framework and governance policies and procedures to follow in relation to their risk-assessment and disclosure processes.
32. The RTS have the following specific objectives as described in the mandate:
- a. to specify the elements that need to be included in the disclosure of the credit scoring and pricing method employed by the crowdfunding service provider;
  - b. to specify the factors the crowdfunding service provider needs to consider when carrying out its credit risk assessment and loan valuation;
  - c. to define the minimum content that crowdfunding platforms need to have in place in relation to the existing governance policies and procedures for their risk-assessment and disclosures.

## C. Baseline scenario

33. Article 19 of the ECSPR establishes the minimum disclosure requirements that crowdfunding platforms need to follow. In particular, paragraph 6 specifically refers to the disclosure of the description of the method for the credit scoring and pricing of crowdfunding offers. Nevertheless, the ECSPR does not define which elements shall be considered by the crowdfunding service provider when disclosing such description.
34. Similarly, Article 4(4) of the ECSPR requires the crowdfunding service provider to carry out a creditworthiness assessment of the crowdfunding project or project owner, as well as a loan valuation. However, the ECSPR does not specify either the elements to be included in the assessment of credit risk and in the loan valuation, or the level of detail of the information to be considered for that matter.

35. Finally, Article 4(4) requires also crowdfunding service providers to set up a risk management framework to achieve compliance with the requirements on credit risk assessment and loan valuation, although it does not provide further details on the content of such framework.

#### D. Options considered

36. When drafting the present guidelines, the EBA considered different policy options under two main areas.

##### a. Definition of factors that need to be considered in the credit risk assessment method

37. The EBA has assessed different alternatives for various issues that were discussed with regard to the definition of factors for the credit risk assessment method.

- a. Alignment with the principles of the EBA Guidelines on loan origination
  - **Option 1: To follow the same principles and approaches set out in the EBA Guidelines on loan origination and monitoring when determining the factors to consider in crowdfunding platforms' risk assessment methods.**
  - **Option 2: To define a credit risk assessment approach completely independent from the principles in the EBA Guidelines on loan origination and monitoring.**
- b. Alignment with the level of granularity of the EBA Guidelines on loan origination
  - **Option 1: To follow the same level of granularity of the EBA Guidelines on loan origination and monitoring when establishing the factors to consider in the method to assess credit risk.**
  - **Option 2: To follow a lower level of granularity than the EBA Guidelines on loan origination and monitoring when establishing the factors to consider in the method to assess credit risk.**

##### b. Definition of the points in time for the matter of specification of factors to be considered in pricing of crowdfunding offers and in loan valuation

- **Option 1: Define the factors to be considered in pricing and loan valuation for several points in time during the life of the loan.**
- **Option 2: Define the factors to be considered in pricing and loan valuation at the point of origination of the loan and after the point of origination of the loan.**

## E. Assessment of the options and the preferred option(s)

### a. Definition of factors that need to be considered in the credit risk assessment method

#### a) Alignment with the principles of the EBA Guidelines on loan origination and monitoring.

38. While there are significant differences in the scope and purpose of the EBA Guidelines on loan origination and monitoring and those of the current draft RTS, the underlying approaches are in both cases based on a similar set of objectives:

- a. establish a uniform set of information and data for the purposes of project owners' creditworthiness assessments;
- b. establish a minimum requirement for the due diligence that crowdfunding service providers need to carry out when granting or facilitating a loan;
- c. specify the internal governance arrangements, processes and mechanisms for the granting and monitoring of credit;
- d. ensure that a prudent approach to credit risk is also coupled with an adequate level of investor protection.

39. For these reasons, while applying a proportionate approach that could cater for simpler and more innovative firms, like crowdfunding service providers, consideration was also given to the need to ensure a level playing field among financial market participants and provide comparable requirements for comparable financial products. To this extent, Chapter III of the draft RTS requires CSPs to have in place a sound and effective framework to assess the credit risk of crowdfunding projects based on financial and non-financial factors, while Chapter IV requires that a number of governance arrangements are set up to ensure that due diligence on projects and prospective project owners is conducted in a sound and prudential manner.

40. Therefore, the preferred option is Option 1, i.e. to follow the same principles set out in the EBA Guidelines on loan origination and monitoring when determining the factors to consider in crowdfunding platforms' risk assessment methods.

#### b) Alignment with the level of granularity of the EBA Guidelines on loan origination and monitoring.

41. The EBA Guidelines on loan origination and monitoring are characterised by a detailed level of granularity, both when determining the factors to be considered for credit risk assessment methods and when setting up the framework for credit risk management and monitoring. In the first case, the Guidelines set up very granular provisions for the different types of borrowers (i.e., consumers, micro and small-sized firms, medium and large firms, commercial real estate firms, leveraged transaction, shipping finance). In the second case, the Guidelines provide very detailed requirements for robust and effective credit risk management and internal control

frameworks, as well as for credit risk policies and procedures and credit decision-making processes.

42. However, by their nature, and also bearing in mind the different binding nature of guidelines as opposed to technical standards that are directly applicable regulations in all Member States, adopting the same level of granularity as in the EBA Guidelines on loan origination and monitoring would possibly lead to a very restrictive framework for crowdfunding service providers, possibly even more than the one applied to more complex financial institutions, which does not seem justified due to the nature and scope of their activities. Therefore, the preferred option is Option 2: To follow a lower level of granularity than the EBA Guidelines on loan origination and monitoring when defining the factors to be considered in the credit risk assessment method.

**b. Definition of the points in time for the matter of specification of factors to be considered in pricing and in loan valuation**

43. Article 19(6) ECSPR requires crowdfunding service providers to disclose the description of the method used for the pricing of crowdfunding offers; in turn, Article 19(7)(a) mandates the EBA to specify the elements to be included in such description. However, no details are provided about the points in time during the life cycle of the loan when pricing is conducted.

44. On the other hand, Article 19(7) requires the EBA to specify the information and factors that crowdfunding service providers must consider when conducting a valuation of a loan at different points in time during the life cycle of a loan, in accordance with Article 4(4)(e):

- i. at the moment when the loan is originated;
- ii. where the crowdfunding service provider considers that the project owner is unlikely to fulfil its obligations to repay the loan in full;
- iii. following a default; and
- iv. where the crowdfunding service provider is facilitating an exit for a lender before the maturity date of the loan.

45. Bearing in mind the need to follow a prudential approach that is proportionate to the complexity and the size of the institutions in the crowdfunding market, defining numerous moments during the lifetime of a loan when crowdfunding service providers should price the credit facility and conduct its valuation would possibly imply a very restrictive and burdensome approach, which could lead to a suboptimal use of resources, adding little value in terms of prudential approach.

46. To this extent, a simplified approach referring to the pricing of crowdfunding offers and loan valuation i) at the point of loan origination and ii) after the point of loan origination (including in the latter case, considerations for the existence of additional losses and the default case – Article 19(3)-(5) of these draft RTS) is a more balanced solution, which would offer more clarity in the requirement. Therefore, the preferred option is Option 2: To define the factors to be

considered in pricing and loan valuation at the point of origination of the loan and after the point of origination of the loan.

## 4.2 Views of the Banking Stakeholder Group (BSG)

No views were expressed by the Banking Stakeholder Group (BSG) on this Consultation Paper.

## 4.3 Feedback on the public consultation and on the opinion of the BSG

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 8 March 2022. Two responses were received, both published on the EBA website.

This section presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

Changes to the draft RTS have been incorporated as a result of the responses received during the public consultation.

### Summary of key issues and the EBA's response

Due to the limited number of responses received, reference is made to the table in the next pages for specific comments.

One general feedback provided by both respondents related to the potential complexity of some requirements, seen possibly too burdensome for small-scale crowdfunding platforms. One of the two respondents argued that some small players may not be ready for prudential and disclosure requirements that seem more appropriate for large structures.

To this extent, the EBA notes that Chapter III on the information and factors involved in the credit risk assessment and Chapter IV on policies and governance already include provisions allowing an application of the requirements that it is proportionate to the size, type and maturity of the loan and to the characteristics of the project owner and to the complexity of the crowdfunding platform, respectively. However, in order to take into account this feedback, some requirements in Chapter I on the elements to be disclosed on credit scoring methods have been further simplified (see table in the next section for more detail). Moreover, to the extent possible, all the other amendments resulting from the comments received in the public consultation phase have been introduced adopting an approach aimed at streamlining and simplifying to avoid an unnecessary burden.



Finally, in addition to the changes stemming from the analysis of the comments received during the public consultation:

- some streamlining was also conducted to eliminate wordiness at the beginning of certain articles;
- a more technology-neutral wording has been adopted in Article 2(2), when referring to the use of ‘automated models’ rather than to ‘models based on Artificial Intelligence and Machine Learning’;
- the use of ‘adequate’ has been replaced with a more suitable term of ‘appropriate’ as needed;
- some wording changes have been introduced in Chapter II to make the text more consistent with the definitions used in the ECSPR.



## Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>General comments</b>			
<b>Proportionality of the requirements</b>	<p>One respondent argued that the elements considered in the RTS should only be provided for big projects, to avoid the risk that these requirements will exclude small and medium-sized entities with innovative ideas that seek alternative channels to traditional sources of funding.</p> <p>Another respondent highlighted that the requirements are numerous and very detailed, flagging that there will be platforms for which these requirements may be a major hurdle. In addition, it is argued that these requirements are similar to the ones envisaged for banks.</p>	<p>In line with the spirit of the ECSPP, the EBA considers that – in order to provide a robust degree of protection to investors – crowdfunding service providers shall disclose an adequate amount of information and have in place sound methods to assess credit risk and adequate governance arrangements. Having said that, the EBA is of the opinion that a proportionate approach is important when implementing these provisions, in order to avoid that too burdensome requirements may impinge the pace of innovation or the development of successful business models. While Chapter III and Chapter IV already include specific provisions to allow a proportionate application of the requirements, the requirements in Chapter I on disclosures of credit scoring methods have also been further simplified, amending Article 3(2) on the reliability and quality of the information of data, also to avoid duplication with Article 1, removing point v. of Article 4(2) on the ‘<i>repayment capacity of the project owner</i>’ as already included in the other points of Article 4(2), and the point on the monitoring framework of the output of the scoring model in Article 5(5).</p>	<p>Amendments to Article 3(2), Article 4(2) and Article 5(5) to simplify and avoid duplication</p>
<b>Responses to questions in Consultation Paper EBA/CP/2021/39</b>			



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>Question 1. Do you have any comments on the elements to be disclosed to investors in relation to credit scoring, as proposed in Articles 1-5?</b>			
<b>Article 2 (disclosure on models for credit scoring)</b>	One respondent argued that models generally require sufficient numbers of projects to produce meaningful results, and this will be a major practical hurdle for many platforms in their early stages of life. It is also noted that there is a potential for conflict in simulations due to the high transparency requirements.	The EBA agrees with the fact that the usefulness of models increases with the number of data that can feed these models, and in the early stages of the business life there may be a limited amount of data on which models can rely. However, the article does not require the disclosure of the model used, the specific methodology, or the data. Rather, it is required to disclose if certain techniques are used and the existence of appropriate mechanisms to ensure the quality of the output of these models.	No change introduced to the draft RTS with respect to the CP version.
<b>Article 2 (use of TPP)</b>	One respondent raised some doubts about the possibility for the platforms to publish on their website the methodology of third-party providers, also in light of the possible consent.	The EBA sees the value of disclosing information on the models used to calculate credit scores, whether the models are developed by the crowdfunding service provider or by a third party. While the current formulation does not require the crowdfunding service provider to disclose the details of the third-party provider, the EBA recognises that it may imply a wider disclosure for models that are provided by third parties than for the ones developed in-house. This is because for the former the description of the method was required, while for the latter only the indication of the type of models that are used was requested. Therefore, the wording is amended so to require only the indication of whether models developed by third parties are used.	Article 2 has been amended to require the indication of whether TPP are used.
<b>Question 2. Do you have any comments on the elements to be disclosed to investors as part of the loan pricing framework, as proposed in Articles 6-11?</b>			



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<b>Summary document of disclosure</b>	<p>One respondent suggested that, as the purpose of disclosure is to provide the investor with a better understanding of the risks of crowdfunding, in line with insurance and financial products, it would be appropriate to provide an information document containing the essential elements.</p>	<p>The EBA agrees with the need to provide investors with a good understanding of the method through which CSPs conduct credit scoring or price the loans offered on their platforms. To this extent, Article 1 and Article 7 already require that the communication to investors must be clear and understandable. However, in order to avoid i) a further requirement for CSPs and ii) the expectation that some elements may be more relevant than others in the disclosure, the EBA is of the opinion that no distinction between essential and non-essential elements should be introduced. In any case, this does not prevent CSPs from providing investors with additional information to that outlined in the present draft RTS.</p>	<p>No change introduced to the draft RTS with respect to the CP version.</p>
<b>Article 9</b>	<p>One respondent expressed some difficulties in understanding the wording of Article 9(a) and 9(b) and saw many possibilities for interpretation.</p>	<p>The elements defined in Article 9(a) and 9(b) are the risk-free interest rate and the mark-up which reflect the risk category, which are an essential element of loan pricing. Having said that, the EBA agrees that the formulation included in the proposal is not sufficiently clear; therefore, it is amended to avoid misunderstanding to the extent possible. In particular, as the reference to ‘credit risk spread’ may be misleading, only the risk category is left as the factor to be considered to take into account the project owner’s riskiness.</p>	<p>Wording of Article 9(a) and 9(b) is amended to make it clearer.</p>
<b>Question 3. Do you consider that the elements for the price of the loans to be fair and appropriate as proposed in Article 11 are sufficient?</b>			



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<b>Article 11 (time value of money)</b>	One respondent expressed some issues in the correct understanding of the reference to 'time value of money' in Article (11)(1)(b).	The 'time value of money' refers to the fact that an amount of money at present has more value than the same amount in the future as it can be invested and earn a return. While this is quite a standard notation in financial accounting, the EBA notes that – at face value – the expression may not be fully clear and has replaced it with 'net present value'. The wording of Article 11(2) is also changed accordingly, and the term 'duration' in Article 11(2)(b) is replaced by 'maturity'.	Wording of Article 11 is amended, referring to 'net present value', and Article 11(2)(b) is amended to use the term 'maturity' instead of 'duration'.
<b>Article 11 (discount factor)</b>	One respondent asked which discount factor is envisaged in this article, as different interpretations are also possible in this respect.	The article does not prescribe the use of a specific interest rate to discount the future cash flow of a loan, as this is the choice that is left to the crowdfunding service provider when deciding its pricing strategy. The article requires that – for the price of a loan to be fair and appropriate – an appropriate interest rate is used to discount cash flows.	No change introduced to the draft RTS with respect to the CP version.
<b>Question 4. Do you have any comments on the information and factors to be considered by crowdfunding service providers in relation to credit risk assessment as proposed in Articles 12-18? Are there other elements that should be taken into account?</b>			
<b>Article 13(2) (inclusion of ESG factors in the creditworthiness assessment)</b>	While welcoming the reference to ESG, one respondent expressed doubts on the admissibility of their inclusion, as it may be beyond the mandate of the ECSPR. In addition, it is stated that the content of the standard is too vague.	In line with the approach outlined in the EBA Guidelines on loan origination and monitoring, it is important that the creditworthiness assessment considers also ESG risks. While this would not be outside the mandate, the EBA agrees that its formulation needs further specification, which in turn would translate into further requirements on the details to carry out the assessment of ESG risks, becoming potentially more burdensome for the	The reference to ESG factors in Article 13 is removed and the requirement for specifying how ESG factors are considered in internal policies is added in Article 28.



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<b>Article 14(1)(b) (expected volatility of the expected income and cash flows)</b>	One respondent argues that the inclusion of the expected volatility – over different time horizons – of the expected income and cash flows of the crowdfunding project may be a hurdle for well-established companies and virtually impossible for platforms to implement. To this extent, it is suggested to delete the second part ('...and the expected volatility over different time horizons.').	crowdfunding service providers. However, as there is merit in considering how the CSPs consider ESG factors in their credit risk assessment, a requirement in terms of policies has been added in Article 28 on internal policies.  The EBA believes that there is value in considering the variability of the expected cash flow in order to assess the creditworthiness of a project owner, as this can help determine its risk. However, the EBA also takes into account the operational issues related to the correct calculation of volatility over different time horizons, and therefore has replaced the reference with a simpler requirement referring to different scenarios, which can be more of a qualitative nature.	Wording of Article 14(1) is amended to account only for different scenarios.
<b>Article 16(1)(b) (valuation of collateral and guarantees)</b>	One respondent flagged a potential issue in terms of liability of the crowdfunding service provider, which may have the unintended adverse consequence of pushing platforms to opt for the unsecured business model.	The EBA recognises the need for crowdfunding service providers to gather information about the value of any collateral and guarantees that are used to mitigate credit risk. To this extent, the EBA agrees with the comment signalling that the current wording may imply a liability for the crowdfunding service provider in case it cannot ensure certain properties of the collateral and guarantees. Therefore, the wording is changed so that it is required to 'take all reasonable steps to gather information' on guarantees and collateral. In addition, the other requirement on policies and procedures has been removed in the view of streamlining and simplification.	Wording of Article 16 is amended to avoid a liability for CSPs. The requirement has also been simplified.



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<b>Question 5. Do you have any comments on the information and factors to be considered by crowdfunding service providers in relation to loan valuation as proposed in Article 20?</b>			
<b>Article 20(1)(c) (update of loan valuation)</b>	One respondent suggested that this requirement can only be implemented with difficulty, as project owners may not provide the support needed.	The EBA notes that Article 4(4)(e) of the ECSPR requires that loan valuation is carried out at some specific point of the loan life cycle, although there is no explicit requirement for continuous updating. Therefore, the reference is removed.	The reference to continuous updating in Article 20(1) has been removed.
<b>Article 20(3)(b) (expectation of future losses)</b>	One respondent expressed some difficulties in understanding the requirement of Article 20(3)(b) on the need to incorporate a buffer to reflect the future losses.	While the EBA believes that there is merit in including an expectation of future losses in the valuation of a loan after the points of origination, it also recognises that the proposed formulation may be difficult to implement and leave room for multiple interpretations. Therefore, the wording has been amended and simplified to make it clearer, referring only to the expectation of future losses.	The wording of Article 20(3) has been simplified, referring only to future losses.
<b>Article 20(4) (loan valuation at the point of default)</b>	One respondent expressed some difficulties in understanding the requirement of Article 20(4) on the additional factors to incorporate in the loan valuation at the point of default.	Article 4(4)(e)(iii) of the ECSPR requires crowdfunding service providers to conduct a loan valuation following a default of a loan. In turn, Article 19(7) requires the specification of the information and factors that shall be considered to this extent. Therefore, the RTS proposal defines the information that crowdfunding service providers shall consider for the valuation of a loan following its default. While the EBA considers that the wording is sufficiently clear, a small amendment has been made to clarify that the valuation in point a) is referring to collateral and guarantees.	The wording of Article 20(4) has been amended to clarify that the valuation in point a) is referring to collateral and guarantees.



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<b>Question 6. Do you have any comments on the elements to be included in the policies and procedures for disclosure of information to investors, as proposed in Articles 21-22?</b>			
<i>No feedback was provided for this question by any of the respondents</i>			
<b>Question 7. Do you have any comments on the elements to be included in the policies and procedures related to the risk management framework and to credit risk assessment as proposed in Articles 23-28?</b>			
<b>General comment</b>	<p>One respondent commented that the information and factors required are complex and appropriate only for large volumes of business, but not for start-ups, and that simplified provisions should be conceived for projects below certain thresholds.</p>	<p>The requirements included in Articles 23-28 refer to the need for crowdfunding service providers to have in place appropriate policies for disclosures, a risk management framework, processes for credit granting and for credit risk assessment. As such, these requirements are directed to crowdfunding service providers, and not to project owners. Having said that, the EBA recognises the value of a proportionate approach of the requirements included in this chapter and indeed the text already includes provisions to ensure that these are proportionate to the size and complexity of the business structure of the crowdfunding service provider (i.e., Article 21(2)(b), Article 23(2)(b), Article 28(3)(a)). For avoidance of doubt, an error in Article 21(2)(b) is corrected and the word ‘projects’ is replaced by ‘service provider’. Moreover, Article 12(2) has also been adjusted accordingly, to make clear that the proportionality principle applies to the whole chapter.</p>	<p>Wording amended to correct a clerical error in Article 21(2), and wording amended in Article 12(2) to clarify application of proportionality principle.</p>