Financing Efficiency of Securities-Based Crowdfunding

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Securities-Based Crowdfunding

Securities-Based Crowdfunding environment

- Common value
- Dispersed, privately-informed investors back/do not back the project.
- Aggregate contributions convey info that is valuable to the investment decision.
- All-or-Nothing.

Main results

- Optimal offering cannot generate a wisdom of the crowd result.
- Investment decision by the entrepreneur affects investors’ incentives to invest truthfully based on their private information:
- AoN ensures that investors with a low signal gain if project is good, but do not lose if project is bad. loser’s blessing result.
Robustness of loser’s blessing

• If investors have private information on the probability of success of the project and the entrepreneur invests, backer investment following a bad signal may lead to large subsequent expected losses.
• Price mechanism (Proposition 3).
• Security design, e.g. information insensitive securities for safe projects with positive cash flows.
• Possibility of achieving first best? With realistic schemes? What can we learn?

Alleviating the loser’s blessing

• Generating losses for the investor who received a bad signal.
• Entrepreneurial moral hazard. Maybe more important with moral hazard and information.
Is a simultaneous move setup optimal?

- Results here are consistent.
- Should crowdfunding schemes allow for transparency where backers observe earlier backing decisions?

Individual backing decisions, coordination problems

- Unlike earlier papers on securities based crowdfunding, you consider each backer’s decisions, not a representative backer. This is good.

Is All-or-Nothing Optimal?

- In reward-based crowdfunding and private values, Chemla and Tinn (2018) show that yes.
- Here, with Keep-it-All, loser’s blessing?

Tighten the exposition

- Definition of loser’s blessing: “asymmetric exposure to good projects”.
Overall, good paper

- Interesting investigation of securities-based crowdfunding
- Pleasant to read even late at night! 😊
- Calls for future research.

Thank you!