

# Legal Risks of Equity Crowdfunding in China

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**Abstract**—This paper systematically analyzes the legal risks and institutional dilemmas faced by the equity crowdfunding market in China. The research finds that the current legal framework is significantly lagging behind, specifically manifested as follows: fundraisers may easily be charged with illegal fundraising due to the conflict between the shareholder number limit stipulated in the Company Law and the Securities Law; investors face insufficient protection of their rights and interests due to information asymmetry and the absence of a "lead investor + follower investor" mechanism; crowdfunding platforms are trapped in compliance difficulties due to their ambiguous legal positioning (between information intermediaries and credit intermediaries) and the absence of a regulatory body. Through comparative law research (such as the US JOBS Act and the UK FCA regulation), this paper proposes the following reform paths: progressive legislation: formulate the "Trial Measures for Equity Crowdfunding", set a transition period and introduce the regulatory sandbox system; transparency of information disclosure: strengthen post-issuance continuous information disclosure and establish a "dual financial report" system; classified management of investors: implement a tiered limit and education mechanism for ordinary investors; exemption for small-scale issuance: allow financing under 5 million yuan to simplify disclosure and establish a risk compensation fund as a supporting measure.

**Keywords**— Equity Crowdfunding, Legal Risks, Improvement Approaches.

## I. INTRODUCTION

Equity crowdfunding has been widely recognized worldwide as an effective way for enterprises to raise funds (Beebejaun, 2024; Wasiuzzaman, S. et al., 2022; Cicchiello, A. F. et al., 2021). The first equity crowdfunding platform in China, "Dajiatou", was established in 2012 and is still in operation. According to relevant statistics, by the end of 2023, the scale of China's crowdfunding market had reached 300 billion yuan, with over 400 crowdfunding platforms in operation. In terms of platform types, equity crowdfunding platforms are the most numerous, accounting for approximately 45% of the total number of platforms (ChinaIRN, 2024).

However, in the practice of China's financial market, the law has set many restrictions on equity financing. Equity crowdfunding is only recognized as legal if it complies with the relevant provisions of the Company Law and the Securities Law. If the number of participants in equity crowdfunding exceeds the upper limit of shareholders in a limited liability company or the upper limit of shareholders in a non-listed joint stock company, it is regarded as an illegal public offering of securities (Zhuang & Xu, 2021; Xu, 2023). This

undoubtedly reduces the options for fundraisers to use equity crowdfunding and dampens the enthusiasm of investors to participate.

According to some Chinese academics, equity crowdfunding entails investors contributing a specific sum of money to a crowdfunding campaign and receiving a share of the project's equity. When the company that initiated the crowdfunding eventually goes public, or when the equity is transferred through methods such as company repurchase, equity transfer, or mergers and acquisitions, investors successfully exit the equity crowdfunding project and receive returns (Yang et al., 2024; Jiang, 2021; Tao (2025) and SEC (2022) both define crowdfunding as a financing method that involves raising funds by soliciting relatively small individual investments or donations from a large number of people. Companies can use regulated crowdfunding to offer and sell securities to the general public, providing the public with an opportunity to participate in the early financing activities of start-ups and early-stage companies.

By comparing the connotations and extensions of the above two definitions, it is not difficult to see that the operation of equity crowdfunding in China faces certain difficulties. First, the legal system has a severe backlog and a dearth of specific legislation. The restriction on the number of shareholders in the Company Law essentially constitutes a disguised ban on public fundraising. Secondly, the investor access mechanism has obvious flaws. The current qualified investor standard requires a minimum of 3 million yuan in financial assets or an annual income of no less than 500,000 yuan (Cheng, 2024), which sets an excessively high threshold, excluding ordinary investors and going against the concept of inclusive finance. Thirdly, market liquidity is severely insufficient. Due to the lack of a legal secondary trading market, investors have limited exit channels, mainly relying on IPOs or equity repurchases. Finally, the regulatory approach is overly conservative, limiting equity crowdfunding to a non-public nature, which severely restricts its market functionality. These institutional obstacles collectively result in the stagnation of equity crowdfunding's development, with the entire industry facing a development bottleneck.

Although existing research has demonstrated that equity crowdfunding in China is fraught with various risks (Bai, 2023; Yu& Bao, 2024; However, from the perspective of the various parties involved in equity crowdfunding activities, a systematic analysis of their respective legal risks remains a blank, especially lacking legal risk analysis with the

fundraisers as the research object. This study focuses on the future development direction of equity crowdfunding in China and intends to discuss from the three aspects of fundraisers, investors, and crowdfunding platforms. The following three sections will discuss the different legal risks faced by the three parties, combined with relevant foreign systems and literature, to obtain preliminary measures to solve the problems.

## 2. Legal Risks for Fundraisers in Equity Crowdfunding

Due to the incomplete legal framework, fundraisers in China conducting equity crowdfunding projects will face numerous risks. The first risk is related to illegal fundraising. According to the theory of legal paternalism, in the financial market, citizens as participants are weak, while the state is powerful enough. The state can help individual citizens solve the problem of insufficient rationality, and citizens need the care of the state (Ye & Wang, 2022; Mansur, J. P., 2024). To protect citizens or prevent them from violating criminal law and avoid them having the intention of illegally possessing funds when conducting equity crowdfunding, Chinese law has made corresponding provisions. In Chinese criminal law, illegal fundraising is recognized as a category of criminal behavior, involving multiple specific charges, including "illegal absorption of public deposits, fundraising fraud, organizing and leading pyramid schemes, and unauthorized issuance of stocks", etc. Once a fundraiser's fundraising behavior is determined to meet the crime of "absorbing public funds without approval", the fundraiser is highly likely to be suspected of the aforementioned charges. Take the crime of illegal absorption of deposits as an example. Equity crowdfunding is an act of absorbing deposits from the public. According to the requirements of Chinese law, the fundraiser should have the qualification to absorb deposits, that is, specific licensed institutions, including commercial banks and rural credit cooperatives. If the fundraiser is an individual citizen, they do not have the aforementioned qualification and cannot receive legal support. The sentencing threshold for such crimes is all deprivation of personal freedom through imprisonment. Although China has entered the "light crime era", where serious violent crimes and the rate of severe punishment have decreased, and correspondingly, the rate of minor crimes and light punishment has increased, leading judicial authorities to often adopt a lenient attitude when dealing with criminal acts (Lu, 2022). However, due to problems such as low legal hierarchy and content contradictions in relevant laws and regulations, equity crowdfunding fundraisers are highly likely to cross the red line of criminal responsibility.

The "Administrative Measures for Private Equity Crowdfunding Financing" affirms the legality of private equity crowdfunding and particularly emphasizes the feature of non-public offering (Yu & Bao, 2024; Xuan & Sun, 2022). However, there are many conflicts with current laws in this document. For instance, Article 12 imposes two restrictions on fundraisers: one is the prohibition of issuing securities through public or disguised public means; the other is that the cumulative number of shareholders after financing shall not exceed 200. However, the Company Law has clearly stipulated that the upper limit of shareholders in a limited

liability company is 50. In practice, most enterprises adopt the form of a limited liability company, which leads to a direct conflict between the 200-person shareholder limit in the "Administrative Measures" and the provisions of the Company Law. In the current effective judicial interpretations, the prosecution standard is set at "the number of issuance targets exceeding 200". This standard is helpful in identifying traditional crime types, but Internet equity crowdfunding has the characteristics of low thresholds and wide audiences. It is not difficult to reach the number of 200, but the corresponding harm to legal interests is not significant, making the criminalization requirements for illegal fundraising virtually non-existent. This easily leads to the crime of unauthorized issuance of stocks. On the other hand, some fundraisers and crowdfunding platforms, in order to meet the mandatory requirements of the law, state at the time of project release that the number of investors shall not exceed 50. This is a reluctant compromise under the mandatory intervention of the law, but it violates the principle of market freedom and also suppresses the enthusiasm of fundraisers to raise funds through equity crowdfunding.

Secondly, fundraisers may face the risk of contract validity. Essentially, this reflects the value conflict between the principle of private autonomy and the company's capital maintenance system. From the perspective of the philosophical basis of law, "what is not prohibited by law is free" as a basic principle in the private law domain, its core meaning lies in that civil subjects can form legal relationships based on their expressions of intent, as long as they do not violate mandatory legal provisions. From a practical perspective, there exists a civil contract legal relationship between the fundraiser and the investor. According to the theory of private autonomy, a contract falls within the realm of private law, and the freedom of will of the parties should be respected and protected by law (Duan & Zheng, 2021; Medeiros Neto, E. M. et al., 2024). As a typical commercial contract, the validity of equity crowdfunding contracts should, in principle, follow the "agreement first" principle, which is widely recognized in comparative law (Stefan G., 2025; Chien, 2025). However, when the fundraiser is a corporate entity, the validity of the put option clause exposes the deep-seated contradiction in theoretical construction: on the one hand, the Supreme People's Court has established the rule of "validity of put options with shareholders but invalidity with the company" in judicial practice (You, 2021), reflecting a tilt towards the protection of the company's creditors; on the other hand, Article 5 of the "Work Conference Minutes on Civil and Commercial Trials of the National Courts" in 2019 partially acknowledges the feasibility of put options with the company (Fang, 2023), and this wavering in the judicial standards essentially represents the conflict between the legal values of "contract freedom" and "capital maintenance of the company". In recent years, the put option clause has become a hot topic in contracts and has attracted social attention (Zhou, 2024; Deng, 2023). The put option clause represents the true intentions of both parties and meets the characteristics of legality. However, private autonomy does not support absolute freedom. Once the fundraiser is a company and the company is also the obligor of

the put option, courts and arbitration institutions have always had inconsistent judgments and swings in the same cases (Liu, 2022). Empirical research shows that in cases involving put option agreements, courts have different understandings of the forms of liability borne by the fundraiser. Among the 31 judgments retrieved, 12 judgments support joint liability, 11 judgments support joint and several liability, and 6 judgments hold that shareholders bear liability for the repurchase obligation in proportion. This leads to different judgment results for the same type of case. This judicial uncertainty has led equity crowdfunding contracts into a "Schrödinger's validity" dilemma - neither necessarily valid nor absolutely invalid, but in a state of validity to be determined. A deeper institutional paradox lies in that while the "Securities Law" promotes the registration system reform under Article 9 to expand financing freedom, the capital control logic of the "Company Law" constitutes an institutional barrier to commercial innovation.

Furthermore, the fundraiser may face tax compliance risks. According to the independent tax subject system established by China's "Enterprise Income Tax Law" and "Individual Income Tax Law", companies and their shareholders are regarded as legal entities with completely independent tax-paying capabilities. Although this institutional design formally complies with the principle of tax legality, it has produced significant economic double taxation effects in the context of equity crowdfunding (Luo, 2022). Specifically, when the fundraiser obtains financing by transferring company equity, although the equity transfer itself does not generate income tax obligations, the rigid provisions of the "Stamp Duty Law" on "property rights transfer documents" require a stamp duty of 0.05% of the transfer amount, making equity crowdfunding the only financing method among the four crowdfunding models that bears substantive tax burdens (Zhou, 2021; Xu, 2023). This economic double taxation highlights the institutional deficiency in China's tax law in protecting the trust interests of commercial entities. The current differentiated tax regulations for venture capital institutions and equity crowdfunding in China essentially constitute institutional discrimination against similar commercial transactions. According to the principle of tax pass-through, when venture capital institutions invest through a limited partnership structure, their investment income can be taxed at the partner level, effectively avoiding the double taxation of "corporate income tax - personal income tax". However, although equity crowdfunding can also adopt a partnership structure as an organizational vehicle, it is subject to an additional 0.05% stamp duty due to the rigid regulations on "property rights transfer documents" (Liu, 2022). This discriminatory treatment directly leads to a 19-23% increase in the comprehensive financing cost for early-stage projects compared to mature enterprises (CVCRI, 2023), which goes against China's policy orientation of promoting inclusive finance.

Last but not least, fundraisers may be at risk of infringing intellectual property rights. This risk stems from the inherent tension between the unique information disclosure requirements of the crowdfunding model and the intellectual

property protection system. While the current academic community mostly focuses on the potential rights damage faced by investors due to information asymmetry (Guo, 2020; Wang, 2020), it neglects the significance of key information disclosure to fundraisers. The financing characteristics of equity crowdfunding require fundraisers to disclose the core technologies, business models, and other key information of their projects to potential investors. However, as a property right protected by both Chinese and foreign laws (Chen, 2025; Ionela A. et al., 2025), trade secrets are regulated by tort liability laws based on utilitarian principles. The elements of trade secrets include: secrecy, confidentiality, and commercial value (Chen & Lin, 2025; Jiang, 2025). This means that they should be subject to certain confidentiality measures to ensure their commercial value. During the crowdfunding process, the public disclosure of project information may directly lead to the "publicization" of trade secrets, thereby losing legal protection. There are indeed cases in judicial practice where competitors have successfully plagiarized through reverse engineering after the disclosure of project information (Xu, 2024). Additionally, if the crowdfunding project funded by the fundraiser is an original invention, the act of disclosure may be regarded as an "open situation" as stipulated in China's Patent Law. That is, "if an invention or creation is known to the public through 'publication' or 'use' before the patent application date, it will lose novelty and cannot be granted a patent" (Wu & Gao, 2021).

### *3. Legal Risks for Investors in Equity Crowdfunding*

#### *Legal Risks Arising from Information Asymmetry*

Chinese scholars generally hold that the protection for investors in equity crowdfunding is not comprehensive (Yang et al., 2023; Cao, 2024; In the situation where legal rules cannot be updated in a timely manner, investors participating in equity crowdfunding will bear certain legal risks. The fundraiser is the creator of the crowdfunding project and naturally has a comprehensive grasp of all the true information about the project, enjoying a dominant position in information resources. From a legal perspective, when investors deposit funds into a specially designated account of the escrow institution, they lose the ownership of that sum of money (Maharani et al., 2025). The fundraiser, based on the purpose of initiating the project operation, controls that sum of money, so there is a possibility of the fundraiser infringing upon the legitimate interests of the investors. Therefore, the positioning of China's information disclosure system is to protect the legitimate interests of investors. According to the investor protection theory, the purpose of the fundraiser's information disclosure is to safeguard the legitimate rights and interests of investors, and the way to do so is to publicly disclose comprehensive and true information about the crowdfunding project. However, the information asymmetry theory, due to its objectivity, is in opposition to investor protection. The reasons why information asymmetry places equity crowdfunding investors in a difficult situation are as follows: First, the majority of investors are ordinary individual investors, who, compared to mature institutional investors, lack experience and professional ability in risk assessment. Second, the cost for individual investors to collect information

is too high. Third, the anonymity of the Internet and regulatory loopholes can easily lead to fraud, harming the interests of individual investors. In fact, in addition to the fundraisers, crowdfunding platforms also have moral risks. All equity crowdfunding in China is conducted through the Internet, and fundraisers must publish their projects on crowdfunding platforms. When investors want to learn about crowdfunding projects, the first thing they come into contact with is the crowdfunding platform. Since the revenue of crowdfunding platforms is entirely dependent on successful fundraising by fundraisers, driven by economic interests, equity crowdfunding platforms are more likely to lower the threshold for crowdfunding projects to go online. At the same time, it cannot be ruled out that there are internal transactions, related-party transactions, and even "self-funding" issues between fundraisers and crowdfunding platforms (Li, 2020).

The allocation of rights and obligations in equity crowdfunding information disclosure is unilateral, meaning that investors are the rights holders, while fundraisers and crowdfunding platforms are the obligation bearers. When an equity crowdfunding project is successful, that is, when the financing is completed, investors can obtain shareholder status and enjoy the right to know as shareholders in accordance with the Company Law. However, what needs to be protected is the investor's right to know about the affairs at each stage during the crowdfunding process, such as the comprehensive, true, and accurate release of the fundraiser's qualification information and project information at the initial stage of the equity crowdfunding project. This right has not yet been confirmed.

#### Legal Risks of the "Lead Investor + Follower Investor" Mechanism

The "lead investor + follower investor" mechanism is still incomplete. During the equity crowdfunding process, due to the information asymmetry between investors, fundraisers, and crowdfunding platforms, it can lead to "adverse selection" (Du, 2023), resulting in a decrease in high-quality projects and a significant increase in low-quality projects, creating a situation where the inferior drives out the superior, and ultimately making it difficult for the equity crowdfunding market to continue to exist. Currently, mainstream equity crowdfunding platforms in China will try their best to convey information about crowdfunding projects to the investor group to increase the success rate of financing. The common practice is to introduce the "lead investor + follower investor" mechanism for signal transmission: the crowdfunding platform is responsible for finding investors with rich investment experience to act as lead investors, who invest in the project first and at the same time play the role of a guide, leading other investors to participate in the project. In fact, there are no relevant regulations on the "lead investor + follower investor" mechanism in Chinese law. The regulatory framework for equity crowdfunding mainly focuses on the qualifications of fundraisers and the obligation of information disclosure, but does not clearly define the legal status, rights and responsibilities, and qualification standards of "lead investors" (Cao, 2020). This legislative gap has led to ongoing disputes in the academic community regarding the legal status

of lead investors. The absence of legal standards has enabled crowdfunding platforms to effectively control the selection of lead investors. In current practice, the qualification requirements for lead investors set by various crowdfunding platforms are inconsistent and lack standardized and unified criteria. Moreover, the terms regarding the rights and obligations of lead investors are often vague or even non-existent (Cao, 2020). Most individual investors, who are not engaged in the financial industry, tend to trust the lead investors recommended by crowdfunding platforms and follow their lead, thus falling into the "bandwagon effect". Crowdfunding platforms may appoint related parties as lead investors through related-party transactions, which violates the provisions of the Anti-Unfair Competition Law against false advertising. Investors are prone to "authority bias", neglecting the risks of the projects themselves (Tao, 2025). Even if they realize their interests have been harmed, the high cost of litigation for individuals makes it difficult to effectively protect the legitimate rights and interests of followers.

#### Comparative Law Perspective

Maharani et al. (2025) pointed out from a comparative law perspective that after the transfer of funds to the crowdfunding platform, investors only retain the right to request equity, and this legal structure faces more complex challenges in the Islamic financial system. The Waqf-crowdfunding model in Malaysia (Ishak et al., 2025) combines charitable assets with venture capital through the Mudharabah tool, and the transfer of property rights must comply with both the prohibition of interest principle in Islamic law and the requirements of modern securities law, forming a "dual compliance" obligation. In contrast, although Article 89 of the Securities Law of China stipulates fund custody, it does not clearly define the relief path for investors after the transfer of ownership (Cao, 2020), reflecting the lag of the "statutory property rights" principle of the civil law system in financial innovation.

Market data from Italy (Giudici et al., 2020) shows that homogeneity (geographical proximity, age similarity) can partially replace the function of mandatory legal disclosure systems. This phenomenon is classified as "private ordering" in common law systems. Chinese scholars (Yang et al., 2022), however, emphasize the unilateral nature of statutory information disclosure, which is based on the "duty of disclosure by business operators" stipulated in Article 20 of the Consumer Rights and Interests Protection Law, reflecting the civil law system's preference for formal justice. Notably, the Malaysian model incorporates information disclosure into the Islamic ethical framework through the Shariah Review Committee (SRICs) review mechanism, forming a "legal-religious" dual supervision system.

Latin American platforms use "race to the bottom" to lower the entry threshold for lead investors (Cicchello & Kazemikhasragh, 2022), while Malaysia suppresses this phenomenon through the "dual-track regulation" of the Securities Commission and the Shariah Review Committee. In China, due to the rigid requirements for qualified investors in the "Measures for the Administration of Private Equity

Crowdfunding Financing", the actual regulatory effect deviates from the legislative goal (Li, 2020).

#### 4. Legal Risks of Crowdfunding Platforms in Equity Crowdfunding

In equity crowdfunding, crowdfunding platforms actually perform the function of credit intermediaries, such as conducting preliminary credit screening through basic reviews (business licenses, bank statements, etc.) and providing credit rating services. However, in reality, the financing activities of Internet equity crowdfunding platforms have not been legally recognized, and there is actually no law to rely on. Current effective documents clearly stipulate that online lending information intermediaries are not allowed to provide credit enhancement services, which means that crowdfunding platforms are legally prohibited from providing credit endorsements for projects (He, 2020). This regulation comes from a lower-level normative document and lacks practical operability, and its interpretation varies in practice. Although the Securities Law is a higher-level specialized law, after several revisions, the latest provisions still do not include Internet equity crowdfunding within its regulatory scope. It is precisely due to this lack of legal basis that the legal validity of the "financing agreements" signed between fundraisers and crowdfunding platforms is difficult to determine. In practice, fundraisers and crowdfunding platforms with a strong legal awareness can only tentatively negotiate and fulfill their obligations while taking risks, which has become a major obstacle to the healthy development of the crowdfunding industry.

Currently, Chinese equity crowdfunding platforms also face the institutional predicament of the absence of a regulatory body. Under the current legal framework, it has not been clearly defined whether the regulatory body should be the China Securities Regulatory Commission, which follows the securities issuance regulatory model, the local government financial office with greater regional adaptability, or the National Development and Reform Commission responsible for macroeconomic regulation (Zhuang & Xu, 2021). Although the "Interim Measures for the Administration of Private Equity Crowdfunding Financing" imposes a limit of 200 investors, in practice, this limit is often exceeded, further intensifying the controversy over legality. The main regulatory basis, the "Guiding Opinions on Promoting the Healthy Development of Internet Finance" and the "Measures for the Filing of Over-the-Counter Securities Business", although establishing a policy orientation of encouragement, lack detailed regulations on specific operation models (Sun, 2025). This situation of relying solely on normative documents and industry self-regulatory rules for constraints leads to significant ambiguity in the legal boundaries in judicial practice, thereby triggering numerous disputes. The contradiction between the insufficient legal basis for regulation and the breakthroughs in practical operations has become a key issue restricting the standardized development of the industry.

The ambiguity of regulatory bodies also directly affects the enthusiasm for regulation. In terms of credit risks, equity crowdfunding breaks through the limitations of time and

space, allowing for extensive information exchange. However, this information is often disorganized, and since crowdfunding platforms have not been connected with the People's Bank of China, there is a risk of improper disclosure and leakage of information between investors and fundraisers (Liu & Jia, 2023; Liu & Gao, 2022). If the information is not properly screened or verified and is improperly disclosed or tampered with, the ability of the intermediary platform to conduct substantive reviews becomes crucial. However, in the face of a wide range of financing projects of varying quality, most equity crowdfunding platforms only conduct formal reviews. Some even lower the project approval threshold driven by the pursuit of "high returns" to obtain improper benefits, or even participate themselves and build their own funds pools, testing the boundaries of illegal fundraising. Such behaviors are closely related to legislative loopholes and weak regulation. If left unregulated and allowed to develop freely, the inherent risks may expand into distorted risks.

Currently, the behavior of digital platform users obtaining improper benefits through new means such as manipulating algorithms, forging data, or abusing platform rules is an evolution of traditional opportunism in the digital age (Thaler, 2021). In equity crowdfunding, it is particularly important to govern the reduction of opportunistic behavior by market users through the crowdfunding platform as the main body (He, 2020). Once the fundraiser has the illegal purpose of possessing the funds of the investors, the Civil Code stipulates that the crowdfunding platform shall bear joint liability if it knows or should know that the project is false but still provides services (Li, 2020). In a society ruled by law, all actions of social subjects should be legal. Under this premise, each subject can also formulate rules applicable to itself. The crowdfunding platform imposes dual constraints on the fundraisers and investors in terms of both legal provisions and platform rules. Given its own professionalism, the platform governance rules are often formulated based on the scientific nature of market operation and the rationality of user usage, which undoubtedly can greatly enhance the effectiveness and activity of crowdfunding activities.

In a situation where the law is relatively complete, the legality or illegality of behavior is clearly defined, and enforcement is relatively efficient. At this time, the space for platform autonomy is relatively small. However, under the current situation where Chinese law is relatively incomplete, the nature of behaviors related to crowdfunding is unclear, and the uncertainty of judicial and law enforcement activities is relatively high. This places higher demands on the autonomous management of crowdfunding platforms. From the perspective of social management, platform governance can replace legal provisions to a certain extent, allowing government regulatory authorities to save some regulatory costs. At the same time, it is also a beneficial supplement to investor protection.

In China, the entry threshold for equity crowdfunding platforms is relatively high. The service targets of equity crowdfunding platforms are small and medium-sized enterprises. Although there are no restrictions on investment and financing amounts, there are entry thresholds and post-

event filing and registration. This setting has a certain scientific nature, but it has not been completely distinguished from traditional securities service institutions. Its role positioning is clearly auxiliary. As an intermediary service institution, the main task of the platform is to assist in project release and investor search, and complete fund transfer. It does not require a large amount of funds to maintain its operation. China's Company Law has already abolished the minimum registered capital requirement. Therefore, the current requirement that the platform has a net asset of 5 million yuan is obviously too high (Pan, 2022), which is not conducive to maintaining fair competition among market entities and the sustainable development of equity crowdfunding.

##### 5. Risk Defense Strategies for Equity Crowdfunding

By comparing the relevant legal systems of common law countries, this paper suggests that China's equity crowdfunding can draw on the experiences of the UK and the US and optimize and improve in the following aspects.

First, in line with the paternalism of legal parents, a gradual legislative approach should be adopted. As mentioned earlier, the registered capital of crowdfunding platforms cannot be less than 5 million yuan. The legislators use a high threshold to test the capital strength of crowdfunding platforms, aiming to strengthen the protection of investors' interests. As the market matures, the requirements should be gradually relaxed in line with the trend of "de-paternalization" of regulation (Ye & Wang, 2022). After all, the incompleteness of the law cannot be solved in a short time, so phased measures can be taken for transition. Specifically, a targeted "Trial Measures for Equity Crowdfunding" should be formulated first, with a five-year transition period to gradually replace the existing normative documents. In terms of the regulatory framework, a dual-level regulatory system of "central and local" should be established. The China Securities Regulatory Commission (CSRC) is responsible for formulating unified business standards and platform access rules across the country, and should refer to the license management system of the UK's Financial Conduct Authority (FCA), clearly setting a minimum registered capital of 1 million yuan for platform access. Local financial regulatory authorities should implement localized daily supervision, focusing on monitoring the compliance operation of regional platforms. At the same time, a stepped capital supervision system should be established, requiring platforms to hold a corresponding proportion of regulatory capital based on their business scale (Beebejaun, A., 2024; Shaista Wasiuzzaman et al., 2022).

Given the regional development differences in China's economy, it is recommended to prioritize pilot projects in economically developed regions such as Zhejiang and Jiangsu, which have advanced digital economies. For projects exceeding the 200-person limit in existing business, a rectification period should be set. New business should fully comply with the new regulatory rules. Select about 10 platforms to conduct regulatory sandbox pilots to test the compliance boundaries of innovative business models. Once the mechanism is mature, it can be promoted nationwide (Pan, 2025).

Second, the information disclosure system should be continuously transparent and optimized. To explain this, the signaling theory can be used. Fundraisers and crowdfunding platforms send positive signals to investors (information receivers) to reduce information asymmetry, attract their attention, and gain their trust (Guo, 2024). In foreign systems, the UK's "Crowdfunding Regulation Rules" stipulate that all crowdfunding platforms or portals registered with the FCA must regularly disclose their major financial information to investors and the FCA, and be responsible for the authenticity and accuracy of the information disclosed. At the same time, it emphasizes that the relevant disclosures must be easy to understand to facilitate investors' understanding of the real-time operation status of the crowdfunding platform. South Korea's "Capital Market Act" also imposes strict information disclosure obligations on Internet finance issuers, requiring them to regularly disclose relevant financial and operational information to the Financial Services Commission (Cao, 2024). Drawing on the experience of these systems, in addition to emphasizing the information disclosure obligations of fundraisers before equity crowdfunding issuance in China, it is even more important to strengthen their information disclosure after issuance. After equity crowdfunding issuance, fundraisers should regularly disclose true operational information to investors because at this point, investors have become shareholders of the enterprise. Crowdfunding platforms should fulfill the supervisory obligation of information disclosure for crowdfunding initiators after the completion of crowdfunding issuance. For those who fail to fulfill the information disclosure obligations after initiation, they should be warned by letter or listed on the blacklist of crowdfunding issuance integrity, and the list should be regularly published on the crowdfunding website. China's "Company Law" confirms that company shareholders have the right to know, and the right to know of investors in equity crowdfunding projects should be more specific because equity crowdfunding issuance is similar in nature to public securities issuance, and thus its information disclosure obligations should be higher than those of companies established through initiation. Crowdfunding platforms are also required to submit monthly simplified operation reports to local regulatory authorities and annual audited financial reports to the China Securities Regulatory Commission (CSRC), establishing a dual financial reporting system. Referring to the dispute resolution standards of the UK's Financial Conduct Authority (FCA), it is stipulated that platforms must handle ordinary complaints within 15 working days and resolve major disputes within 30 working days (Pan, 2025).

Secondly, in terms of investor protection mechanisms, a classified management system should be improved. From the perspective of substantive justice, the law should aim for substantive equality among all parties with different capabilities (Jiang & Cui, 2025). Investors vary in experience and professional ability, and universal rules should lean towards the weaker to achieve true equality. Drawing on the practices of the US Securities and Exchange Commission (SEC), all new registered investors must complete a 4-hour online investment education course and pass a test, with a pass

rate of over 80% before they can invest. South Korea's Capital Market Act grants financial investors in this investment plan a right of rescission, allowing them to withdraw their invested funds before the fundraising deadline (Cao, 2024). This paper suggests implementing a tiered limit management system for ordinary investors: those with an annual income below 120,000 yuan should not invest more than 50,000 yuan in a single project; those with an annual income between 120,000 and 500,000 yuan should not invest more than 20% of their annual income; and those with an annual income of over 500,000 yuan can have their limits appropriately relaxed. To better protect the interests of Internet finance investors, a limited right of rescission can also be granted. The protection of rights must be supported by corresponding punitive measures. China can establish a civil liability system for information disclosure violations in equity crowdfunding. If the issuer causes losses to investors due to false or inaccurate information, the securities issuer shall bear the liability for compensation. If certified public accountants and other issuance intermediaries are at fault, they shall bear the liability for damages according to the degree of fault (Xuan & Sun, 2022). Additionally, the US "Whistleblower Program" can be referenced to encourage internal reporting, supplemented by a heavy reward system to better protect the interests of investors.

Although not explicitly stipulated by law, equity crowdfunding platforms generally play the role of credit intermediaries in practice. For instance, when a crowdfunding platform passes the project review of the fundraiser and publishes it, it essentially acts as a guarantor for the project (Cao, 2024). However, in judicial trials, courts have held that crowdfunding platforms actually undertake credit management functions beyond information intermediaries and should be subject to higher standards of care (Xuan & Sun, 2022). This paper suggests that equity crowdfunding platforms should be positioned as "hybrid financial intermediaries". Finance is a comprehensive concept that can encompass multiple behaviors related to crowdfunding activities such as credit, buying and selling, and agency. In the future, this should be confirmed through special provisions in the Securities Law and a corresponding classified regulatory system should be established.

Finally, a small-scale issuance exemption system can be established. Modern financial legislation aims to strike a balance between protecting investor interests and promoting capital formation (Xie, 2020). In China, the subjects of public securities issuance must meet the conditions stipulated by laws and regulations and be approved by the competent authorities. Currently, equity crowdfunding is essentially subject to the regulations of public securities issuance. Most of the fundraisers in equity crowdfunding are start-ups that do not meet the requirements of operating period and operational capacity for securities issuance. This may force some small and medium-sized enterprises to give up good creative projects. If all enterprises are completely exempted from the requirements and can raise funds through equity crowdfunding, they will avoid the strict disclosure obligations during the financing process, which will exacerbate the

problem of information asymmetry. Therefore, this paper suggests that projects raising no more than 5 million yuan within 12 months be allowed to simplify information disclosure requirements, but the key information should be double-checked by the platform. In pilot areas such as free trade zones, the exemption limit could be raised to 10 million yuan, and a risk compensation fund should be established in tandem. This article holds that the exemption for small-scale equity crowdfunding issuance should be a future legislative trend in China's securities regulation. Based on the regulatory experiences of countries like the United States, the United Kingdom, and South Korea, small-scale equity crowdfunding issuance poses manageable risks for both investors and issuers. Moreover, for fledgling small and micro enterprises, the exemption for small-scale fundraising through crowdfunding is conducive to their obtaining financing and growing during the growth period. Drawing on the recognition standards for small-scale equity crowdfunding issuance in the United States, the United Kingdom, and South Korea, and considering the actual situation of securities regulation, the exemption standard for small-scale equity crowdfunding issuance in China should be set at 5 million yuan, and the maximum annual exemption limit for the same enterprise should also be 5 million yuan. Once the annual financing amount exceeds 5 million yuan, the exemption qualification for small-scale issuance will be automatically lost.

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