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# *Legal Regulation of Internet Finance*

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***Abstract:*** In recent years, Internet finance has been developing rapidly around the world and has played an important role in the economic recovery after the financial crisis. The innovative, sharing and open nature of Internet finance has solved the "long tail market" which is difficult to be covered by the traditional financial market, and the structure of market entities different from traditional finance also brings great challenges to regulation. The current regulation of Internet finance still follows the regulatory thinking of traditional finance, and there is no targeted regulatory system, which not only hinders the innovative development of Internet finance, but also does not achieve good results in regulation and risk control, and the risks exposed in practice are difficult to be regulated. To this end, the nature of Internet finance risks should be addressed, combined with the current dilemma of regulating Internet finance in China, to develop a regulatory system that is appropriate to the characteristics of Internet finance, in order to achieve the dual purpose of encouraging innovation and controlling risks. This paper proposes the legal regulation path of Internet finance while drawing on the mature regulatory experience of foreign countries and combining with the real situation in China, in order to promote the benign development of Internet finance.

## 1. Introduction

In modern society, finance has always played a very important role, and the stability of a country's financial sector is directly related to the stability of the entire country. From the Great Depression in 1929, the financial crisis that swept through Asia in 1997, the subprime mortgage crisis in 2007 and the sovereign debt crisis that started in Greece and spread throughout Europe in 2009, the impact of each financial crisis on a country and the world has shown that financial stability plays a pivotal role in the comprehensive governance of modern society.[1] In the present time, the combination of Internet and finance, mutual promotion and mutual development makes China's economy step into a new normal. Government leaders have mentioned the relationship between the Internet and the new normal of China's economy more than once in the past two years. There is no doubt that in this technological innovation, the Internet's involvement in finance has largely had a profound impact on traditional finance. The core function of finance is to price and trade economic risks so as to effectively allocate economic factor information and maximize social utility. The Internet, with its characteristics of openness, sharing and convenience, has greatly improved the efficiency of finance, not only disintermediating financial transactions, but also innovatively forming new financial products, such as crowdfunding, which are no longer like traditional new financial products, but are only the flexible use of financial engineering and legal means, but are rooted in the characteristics of the Internet, giving full play to its disintermediation and making These new financial products are no longer just a flexible use of financial engineering and legal instruments like traditional new financial products, but are rooted in the characteristics of the Internet, giving full play to its disintermediation and making financial products accessible.

## 2. A The Connotation of Internet Finance

Although the development of Internet finance is very rapid, there is still no unified understanding of how Internet finance should be defined in the academic field, one view is that Internet finance should be the networking of traditional finance, so it is defined as financial Internet or network finance. Some scholars who support this view believe that Internet finance has not yet changed the essence of finance, and some point out that Internet finance is a new type of finance that combines traditional finance with modern information network technology, which is a general term for financial activities and related issues based on computer network technology. [2] In essence, Internet finance is mainly an instrumental application of financial information technology to the Internet, i.e., the Internet plays the role of "financial Internet" in Internet finance. Internet finance is not a new finance, but only an innovation in the sense of financial sales channels and financial access channels. The Internet challenges traditional banks and capital markets in the sense of channels, but there is no difference in the product structure and product design from those operated by banks and capital markets, etc. The other view is that Internet finance is not just a networking of traditional finance, but a brand new financial industry. Internet finance is a third financial financing mode different from both indirect financing by commercial banks and direct financing by capital markets, and from emphasizing the low cost of Internet finance, low information asymmetry and the possibility of reaching a state of disintermediation; Internet finance is an emerging financial model that realizes capital financing, payment and information intermediation with the help of Internet technology and mobile communication technology. [3] The difference between these two views mainly lies in the fact that the business model of Internet finance is not fundamentally different from traditional finance, but is a transformation and upgrade in the way of channels and transaction tools.

This paper is more inclined to the second viewpoint, which believes that Internet finance is not just the networking of traditional finance, but should be a new financial industry based on the open and sharing characteristics of the Internet, the core of which is that it can effectively solve the information asymmetry of traditional finance and the universality of transaction subjects. Therefore, the model of Internet finance should be strictly distinguished, for example, third-party payment, electronic money and other traditional financial technological innovations should not be included in the scope of the model of Internet finance, which should be defined as an inclusive financial model based on the characteristics of Internet sharing and the use of Internet information technology to achieve capital financing. Specific business models include P2P network lending and equity crowdfunding. Equity crowdfunding refers to non-public equity financing or private equity fund raising through the Internet. According to the Notice on Special Inspection of Institutions Conducting Equity Financing Activities via the Internet issued by the China Securities Association in August 2015, "equity crowdfunding", which can be legally carried out in China, is a kind of non-public equity financing or private equity fund raising through the Internet. The principles of P2P network lending and equity crowdfunding are the same, both are based on the sharing nature of the Internet, giving full play to the openness of the network platform to achieve relative disintermediation and financial disintermediation. The fundamental goal of Internet finance is to provide market players with better investment and financing channels and to complete the investment and financing process more efficiently. [4] Whether it is P2P lending or equity crowdfunding, the contribution to the market is a more convenient and efficient service than traditional finance can provide. However, financial innovation also has certain drawbacks, and the origin of many financial crises is the lack of understanding of the risks arising from financial innovation, coupled with the lagging or even lack of a financial regulatory system. In the subprime crisis that broke out in 2007, although on the surface it was due to the endogenous risk caused by excessive innovation of financial products, the root cause was the inability of the regulatory system to cope with the constantly changing innovation of financial products and the ineffective supervision. Therefore, only by supporting financial innovation while continuously improving external regulation and internal risk control can we ensure long-term and stable financial development.

## 3. The Current Situation of Foreign Internet Financial Development

The development of the Internet began in Europe and the United States, and Internet finance, as a product of the Internet's development to a certain level, is no exception. Since 2005, the first P2P online lending platform Zopa was born in the UK, followed by Lending Club, Angelist, Kickstarter and other Internet finance companies in Europe and the United States rapidly developed and expanded. The shared and open nature of the Internet is the driving force behind the innovation of Internet finance, and the flat transaction structure makes it a "disruptive technology for financial intermediation". The rapid development of Internet finance is due to the rapid development of Internet technology and the global economic crisis of 2008. The global economy was sluggish after the financial crisis, and the general environment of the economy in need of recovery provided an external environment for the development of Internet finance, which also proved to play an important role in the reconstruction after the global economic crisis. On December 16, 2008, the Federal Reserve amazingly implemented a "zero interest rate" in order to stabilize the financial market "deposit policy, after which some large financial institutions also began to contract credit, which led many investors to turn to Internet finance for investment and lending. The rapid development of Internet finance in the U.S. has had a great impact on the entire financial services industry and the U.S. economy. Although the U.S. is the world's number one financial power, with a sound capital market system and a well-developed system, traditional finance has insufficient coverage of the long-tail market to take care of the investment needs of retail investors, and this lack of functionality is also an internal factor in promoting the development of Internet finance. The external environment provided by the economic recovery combined with the endogenous conditions that Internet finance can complement traditional finance have contributed to the booming development of Internet finance worldwide.

The P2P lending market in the United States has grown rapidly in the past two years, maintaining an average annual growth rate of 204% from 2013 to 2015, with a market size of $36.013 billion. The U.S. P2P network lending market is more concentrated, with two companies, Prosper and Lending Club, occupying almost the entire market. The centralized competitive situation is also due to the more complex securitization business model of the U.S. P2P network lending industry, which leads to higher compliance costs and therefore indirectly too high barriers to entry for the entire industry. Although Prosper was the first P2P online lending platform established in the U.S., Lending Club has grown more rapidly, and as of early 2016, according to its published data, Lending Club's transaction volume reached $20 billion, almost three times that of Prosper. Compared to the United States, the development of P2P online lending in the UK is more rapid and mature. As the birthplace of Zopa, the world's first P2P network lending platform, the UK industry as a whole is not only highly marketed, but also has a very complete market segmentation, with Zopa focusing on personal lending, Funding Circle focusing on SME loans, and Market

Invoice focusing on corporate note transactions, which not only has a wide overall industry coverage, but also Not only is the overall industry coverage broad, but also the customer base is highly targeted. [5]

The emergence of equity crowdfunding has had a huge impact on traditional finance. The emergence of equity crowdfunding can eliminate the inherent bias of angel and venture capital investments in traditional finance, allowing retail investors to participate in earlier stages of investment for investors, and allowing companies to have more potential investors when raising capital. Because equity crowdfunding involves the issuance of securities, countries were conservative about it in the early stages of its development. Seedrs, the world's first equity crowdfunding platform to be legalized by a government regulator, did not actually begin its equity crowdfunding business until three years after its creation, and Seedrs' legalization was a milestone in the regulation of equity crowdfunding worldwide. In addition, Crowdcube, another UK equity crowdfunding platform, is also representative as the first global equity crowdfunding platform to go live. As of September 2016, Crowdcube has successfully raised over £1.8 billion for 449 projects and is currently the largest equity crowdfunding platform in the UK. Overall, the UK equity crowdfunding market is growing fast, up 295% in 2015 to reach £245 million overall. [6] In the US, equity crowdfunding is growing rapidly thanks to the innovative entrepreneurial drive provided by Silicon Valley and other engines of technological innovation, with representative platforms such as Angelist and Wefunder. Angelist first launched the "co-investment model" in 2013 (with a model similar to the lead-follow model in venture capital, where a professional lead investor leads the investment and is responsible for post-investment management to control the investment risk. This model can make up for the disadvantage that most Internet financial investors do not have relevant investment knowledge and risk control ability, effectively reducing the investment risk of ordinary investors, and most of the current equity crowdfunding platforms have adopted this lead-following model. Wefunder, on the other hand, is different from Angelist in that it organizes professional staff to conduct in-depth due diligence on online financing projects to ensure the authenticity of the projects and conduct risk assessment. After the project is successfully funded, a special fund is set up to invest in the company and manage the fund. In this model, Wefunder actually plays the role of an intermediary, assisting investors in their investments. While this does not achieve the disintermediation that Internet finance seeks, it saves financiers a lot of time and legal costs compared to Angelist's lead-and-follow model.

In general, although Internet finance is developing rapidly in Europe and the United States by virtue of its openness, sharing, low cost and high efficiency, the development of Internet finance in these countries is still concentrated in emerging areas that are not covered by traditional financial institutions because the financial markets in these countries have been developed for many years with a high degree of maturity and the structure of multi-level capital market system is also more complete. The contribution to the overall financial industry is limited.

## 4. The Current Situation of China’s Internet Finance Development

The first combination of finance and the Internet in China occurred in 1998 when China Merchants Bank launched its "OneNet" service, becoming the first bank to launch online banking in China. In the following period, the traditional financial industry, including banking, securities and insurance, began to gradually launch online services to achieve Internetization. This stage is the Internetization of traditional finance. By 2007, P2P network lending entered China as an imported product, and then in 2013, equity crowdfunding also entered the Chinese financial market, the Internetization of finance no longer accurately expresses the exact connotation of the new financial industry on the Internet, and the concept of Internet finance gradually became clear. The rapid development of Internet finance in China is due to the strong support of government policies on the one hand, and the incomplete construction of China's capital market system on the other, which requires more levels of capital markets to meet the needs of market players for investment and financing.

In terms of P2P network lending, in 2015, due to the government's introduction of a series of regulatory documents including the Interim Management Measures for Business Activities of Network Lending Information Intermediaries (Draft for Comments), which largely strengthened the regulation of Internet finance, the development of the popular P2P network lending industry was hampered by the failure of a large number of platforms to honor payments, and almost half of the platforms were forced to close, with a large number of The interests of investors were damaged. Although a large number of problematic platforms withdrew from the market, but the market size is still growing, the number of participants exceeded ten million for the first time, according to statistics, the cumulative transaction size of P2P network lending reached 975 billion yuan in 2015, compared to 2014 (about 300 billion yuan) increased by more than three times, maintaining a high growth rate throughout the year, but in December, due to the successive closure of problematic platforms such as E Leibao, the transaction volume declined.

In terms of equity crowdfunding, the national policy of "mass innovation and mass entrepreneurship" was proposed in 2014 to promote the wave of domestic entrepreneurship, and the birth of a large number of startups promoted the overall economic growth, but the existing domestic capital market was difficult to meet the financing needs of small and micro and startups, and many startups were forced to close down because they had no way to obtain the financing they needed to operate. Many startups are forced to close down because they do not have access to the necessary resources for their operations. [7] To address this problem, in March 2015, the General Office of the State Council triggered the "Guidance on Developing Crowdsourcing Spaces to Promote Mass Innovation and Entrepreneurship", which encourages local governments to carry out Internet equity crowdfunding financing pilots to enhance the ability of crowdfunding to serve mass innovation and entrepreneurship. Equity crowdfunding innovatively combines financing with the Internet, making angel investment more convenient and not only providing a new channel for small and micro enterprises, but also helping to promote the healthy development of the small and micro economy. The overall scale of China's equity crowdfunding industry was around 5 billion yuan in 2015, with the largest platform in the market being the Jingdong Dongjia equity crowdfunding platform, which financed more than 70 projects for more than 700 billion yuan.

Throughout the world, although China's Internet finance has developed later than that of Europe and the United States, the market scale and maturity have been comparable to the Internet finance market in Europe and the United States. The market size of nearly trillion and the super high growth rate show the urgent demand of capital market for Internet finance. To a certain extent, Internet finance can accelerate the overall innovation of the capital market, and the increasing market size also forces traditional finance to improve efficiency and maintain competitiveness.

## 5. The New Challenges of Legal Regulation

As mentioned earlier, Internet finance is developing rapidly in China and the market scale is expanding, but due to its innovative characteristics based on the Internet, the regulatory rules of the traditional financial industry are not directly applicable to Internet finance, so in recent years, the development of the lack of supervision has been frequent and obstructive, especially the legality of equity crowdfunding was once questioned. In 2015, a large number of P2P platforms ran away from the event is to push the issue of regulation of Internet finance to the forefront, according to Zero One Finance "2015 P2P Industry Annual Report", as of December 31, 2015, a total of 1,733 P2P platforms in question, of which 1,120 were added in 2015, involving malicious running and fraudulent platforms reached 34.3%. [8] The regulatory issues of Internet finance need to be addressed urgently. And because of the nature of Internet finance rooted in the Internet, it differs from traditional financial regulation both in terms of regulatory philosophy and regulatory mechanism.

### 5.1. Challenge One: Regulatory Philosophy - Stability and Innovation

The objectives of traditional financial regulation are fourfold: first, to ensure financial stability and security and prevent financial risks; second, to protect the rights and interests of financial consumers; third, to enhance the efficiency of the financial system; and fourth, to regulate the behavior of financial institutions and promote fair competition. It can be seen that in traditional financial regulation, the stability of the financial market takes precedence over other aspects. However, one of the biggest characteristics of Internet finance that distinguishes it from traditional finance is both its continuous innovation and the constant iterations that generate new financial models and financial products. This requires that the regulation of Internet finance can no longer take financial market stability as the first priority, but to balance financial market stability and maintain financial innovation. At the same time, in the global economic recovery environment, how to better play the role of Internet finance for economic recovery is the first priority. In a report by IOSCO, it is pointed out that there is a commonality in the regulatory thinking of all countries on Internet finance, that is, they all seek to strike a balance between issues related to risk and investor protection and allowing capital markets to play a positive role in economic recovery. [9] It is not difficult to see that the regulation of Internet finance must leave more room for innovation under the premise of stability. Therefore, how to develop a regulatory system that can ensure the stability of the financial market while leaving enough room for the development of innovation in Internet finance is a major challenge for the development of future regulatory systems.

### 5.2. Challenge 2: Regulatory Model - Highlighting Financial Consumer Protection

On the other hand, most of the direct participants in traditional financial markets are financial institutions, and the current regulatory principles in China also adopt the principle of prudential supervision, emphasizing the bias in supervision towards stable regulation of financial institutions. For prudential supervision, the main task is to establish a cooperative relationship with financial institutions and urge them to maintain their financial health and achieve sound operation by setting a series of prudential operating standards and indicators and monitoring their compliance with these standards. While the flat feature of Internet finance makes the direct participating subjects mostly individual consumers, the prudential regulatory principle focusing on biased institutional regulation would be difficult to adapt to the current regulatory needs. On November 13, 2015, the General Office of the State Council issued the "Guidance on Strengthening the Protection of Financial Consumers' Rights and Interests", which points out that "strengthening the protection of financial consumers' rights and interests is an important element in preventing and resolving financial risks." It can be seen that China's future regulatory work to focus on strengthening the protection of financial consumers, the "Opinions" also pointed out: "adhere to the principles of market-oriented and rule of law, adhere to the combination of prudential supervision and conduct supervision, and establish a sound regulatory mechanism and protection mechanism for the protection of the rights and interests of financial consumers", which provides a regulatory model for financial consumer protection This puts forward the direction to adopt the model of combining prudential regulation and behavioral regulation. The current financial consumer system in China is composed of financial consumer protection departments within each of the "three committees". This organizational structure not only increases regulatory costs, but also wastes regulatory resources. At the same time, this fragmented regulatory model requires a high level of coordination among institutions, which is not conducive to overall supervision. Therefore, how to provide better protection for financial consumers is another major challenge to the regulatory system.

### 5.3. Challenge 3: Legal Adjustment - Gaps Need to be Filled

The development of anything cannot be separated from the protection of the law, nor can it escape the regulation of the law. The current legal framework of China has certain support for the legality of Internet finance, for example, Chapter 12 of the Contract Law determines the legal status of the loan contract between natural persons, the Contract Law has no direct provisions, but through Article 210: "The loan contract between natural persons, effective from the time the lender provides the loan ", and Article 211: "Where a loan contract between natural persons agrees to pay interest, the interest rate on the loan shall not violate the state regulations on limiting the interest rate on loans", it can be seen that the loan relationship between natural persons can be protected by law, and the interest rate on the loan can be consensually agreed within the scope of the law. The essence of P2P network lending in the sense of contract law is private lending, so the provisions of the Contract Law provide the legal basis for it. The essence of equity crowdfunding is a kind of securities issuance, so the Securities Law also provides a guarantee for the legality of equity crowdfunding. [10] Although China's current legal framework supports the legitimacy of Internet finance, the current legal system in China is difficult to meet the regulatory requirements of Internet finance, and many existing systems do not protect Internet finance, and some even hinder the development of Internet finance. For example, the current law does not provide any direct definition of P2P network lending and equity crowdfunding or include them in the scope of regulation, and this legal vacuum obviously does not match the trillion-plus market size of Internet finance. And equity crowdfunding can only be conducted within a limited framework. According to Article 10 of the Securities Law of the People's Republic of China, equity crowdfunding shall not raise equity from more than two hundred people, otherwise it is a public offering and must be approved by the SEC or a department authorized by the State Council. Therefore, equity crowdfunding within the current legal system of China can only raise capital from up to two hundred people. In addition, China's Company Law restricts the development of equity crowdfunding to a certain extent by stipulating that the number of shareholders of a limited liability company cannot exceed 50. This undoubtedly restricts the healthy development of equity crowdfunding to a large extent. Although the existing legal framework can support the legal operation of Internet finance within certain limits, it is difficult to apply the regulatory system of many traditional financial markets to Internet finance. For example, in terms of investor definition and investor protection in Internet finance, it is necessary to make corresponding modifications and form a targeted protection system by combining the relatively lack of investment knowledge of Internet finance investors. The information disclosure system in the traditional financial market can also add excessive disclosure costs to the participants of Internet finance and reduce the efficiency of financing. How to better fit the characteristics of Internet finance is also a major challenge to be faced in the future legal system arrangements.

## 6. Specific Path of Legal Regulation

For Internet finance should adopt a more flexible and open regulatory approach, improve the quality of regulation, resolutely guard the risk bottom line, focus on cracking new problems and new situations in financial business innovation, strengthen the role of industry associations in regulation and promote the orderly development of the market. In principle, three major principles should be grasped in regulation, developing innovative practices, preventing regulatory arbitrage; strengthening financial consumer education, protecting the legitimate rights and interests of financial consumers as well as strengthening the information disclosure system. Internet finance has the same essential pursuit as traditional finance, and although it differs from traditional finance in terms of model, it does not go beyond the scope of finance, so it should also take into account both macro regulation and financial stability in regulation. At the same time, the universality of Internet finance has led to a large number of consumers and diverse groups, and most of the consumers are individual investors, who have a certain lack of financial knowledge and varying levels, so it is necessary to improve investor education for Internet finance consumers, so that they can have the ability to independently examine the risks of investment and establish the risk awareness of financial consumption. The UK Financial Conduct Authority (FCA) has also pointed out that the regulation of Internet finance is aimed at protecting retail investors who lack the knowledge, experience and resources to consider their investment potential. Finally, although the openness and sharing nature of the Internet can de-intermediate financial activities and allow direct transactions between investors and financiers to form financial disintermediation, it also means that intermediaries, which play an important supporting role in traditional markets, are missing from financial transactions, resulting in higher requirements for investors' ability to control risks, so it is necessary to develop an information disclosure system that matches the market players to protect investors' Therefore, it is necessary to develop an information disclosure system that matches the market players to protect the legitimate rights and interests of investors. The specific regulatory path includes the following three aspects.

## 6.1. Clear Definition of Internet Financial Investors

The participating subjects of Internet finance are very different from traditional finance, and the openness of Internet finance has lowered the entry threshold for investors to a certain extent. However, the financial investment industry is a high-risk industry, so many branches in the financial investment industry are defined for investors, only investors with professional knowledge and can withstand certain risks can carry out investment transactions. The definition of qualified investors refers to the conditions under which people can participate in investment and financing activities to invest. What criteria are used to define qualified investors will certainly have an impact on the overall size of the Internet finance industry. Black's Law Dictionary defines an accredited investor as: "...... An investor who is knowledgeable and experienced in financial matters ...... is not protected by the law with respect to the disclosure regime, except for fraud." From this, it can be seen that qualified investors should first of all have the ability to self-identify investment risks, and secondly, their protection by law is different from financial investors in the general sense. In judicial practice, in addition to the ability of qualified investors to identify risks, countries often provide for it from the perspective of personal assets, annual income, etc., in order to further clarify the specific definition criteria. Therefore, China should first ensure a balance between the financing convenience of financiers and the protection of the legitimate rights and interests of investors when defining, and strive to maximize the protection of investors while minimizing the cost of financiers; secondly, it should also be based on the principle of promoting the overall development of the industry to prevent the healthy development of the industry from being affected by the high entry threshold for investors; finally, investors in different business models need to be separately Finally, investors in different sectors need to be defined separately, such as a clear classification of lenders for P2P network lending, so that the risk tolerance of lenders matches the investment behavior. Although the CBRC has made relevant provisions in the Interim Measures for the Management of Business Activities of Network Lending Information Intermediaries, they are too general and will require a more detailed definition of investors in the future to strictly control investment risks at source. In addition, more stringent standards need to be set for equity crowdfunding. Currently, most equity crowdfunding platforms adopt the "lead+follow" investment model, under which the lead investor often has the right to decide, and the risk of all investors is concentrated in the lead investor, which is the key to the success of the investment. Therefore, the law should be differentiated from the ordinary qualified investors to reduce the risk of followers and protect the legitimate rights and interests of followers. However, since the amount raised by enterprises through equity crowdfunding is relatively small, the entry threshold should be appropriately lowered when setting the standard for qualified investors to reasonably promote the future development of the industry.

## 6.2. Development of Matching Information Disclosure Mechanism

Information disclosure systems are of great importance in traditional capital markets. One of the core issues that constrain financial development is the asymmetry of information between the two sides of the transaction, and more detailed information disclosure plays an important role in market stability. The UK Financial Conduct Authority has defined the core concept of disclosure in its documents as all information disclosed by companies must be fair, clear and not misleading. The traditional capital market has strict rules on the disclosure system for financiers, which are often cumbersome and can add a lot of time costs for financiers to implement, while the participants of Internet finance are mostly individuals or micro and small start-ups, which in most cases cannot afford the costs of the information disclosure system in the traditional regulatory rules. Therefore, each country has also made provisions for the information disclosure system of Internet finance that are different from those of traditional financial markets. The JumpstartOur Business Startups Act (hereinafter referred to as JOBs Act) promulgated by the U.S. Securities and Exchange Commission (SEC) in 2012 has made more detailed regulations on the disclosure system of financiers, including, among others In addition to the basic information such as business plan, company structure, executive list and shareholder list, it also requires companies raising less than $100,000 to disclose to investors the previous year's corporate income tax return (if any) and financial reports verified by the financier's executives to ensure authenticity; for companies raising $100,000-$500,000, the financier is required to disclose additional information to investors For companies raising between $100,000 and $500,000, financiers are required to disclose additional financial statements audited by an independent accountant in accordance with the professional standards and procedures established by the SEC; for companies raising more than $500,000, financiers are also required to disclose financial statements audited by a qualified intermediary. The regulatory logic of the United States is to regulate financiers of different scales in a hierarchical manner, which perfectly fits the characteristics of the subjects involved in Internet finance, which are mostly individuals or small and micro and start-up enterprises, and overall reduces the financing cost of financiers and further improves the efficiency of financing. In addition, a strict lender information disclosure mechanism should be stipulated in P2P network lending. The identity of the lender, the use of funds and potential risks and a series of information in the disclosure of the detailed or not plays an important role in the risk control of the lender. 2015 outbreak of a large number of P2P platform escape, the collapse of events is largely due to the platform's information disclosure system is not sound, so that investors in the transfer of funds into the financing lack of control over the destination of funds, and the network platform also failed to The network platform also failed to take the initiative to help investors in post-investment management, resulting in the gradual expansion of risks and damage to investors' interests. When formulating the information disclosure system in the future, China should learn from the practice of the U.S. JOBs law, in addition to the disclosure of basic information including the basic information of market entities and the use of funds, it should also provide targeted regulation for financiers to conduct financing of different scales and set up a tiered information disclosure system according to the actual development of the industry. Australia's small-scale issuance system also provides a good reference for China's future system construction, which can be exempted from some non-essential information disclosure under certain circumstances to fully improve the overall efficiency. At this stage, China's Internet finance is still in a period of rapid development, too detailed provisions at the legislative level will not be conducive to the rapid development of the industry as a whole, but with the overall development of the industry, it is necessary to expand the scope of information disclosure of financiers in the future when making relevant legislation, which is a necessary condition for the protection of the legitimate interests of investors.

### 6.3. A Complete Investor Protection Mechanism

Currently, investors in Internet finance lack the necessary protection. For the current China has not yet issued the relevant laws and regulations, so in this regard of investor protection, investors can only "Company Law", "Contract Law" and other laws to seek relief, and the lack of investor protection system is obviously difficult to match with the growing scale of the industry. Therefore, the establishment of the Internet financial investor protection mechanism is one of the core tasks of future legislation. Each country has its own provisions for investor protection mechanism in the laws for Internet finance. For example, the U.S. JOBs law provides for the total annual investment amount of investors, stipulating that the total amount issued to investors by financiers shall not exceed USD 1 million per year, and the qualified investors are graded, and investors with different financial strength can invest different amounts in financiers. The UK's regulatory rules are also worth learning from China, according to the UK National Statistics Office report statistics, the failure rate of the UK's startups has remained close to 60% for a long time, so as in other countries, the FCA in order to reduce the risk of investors also set the threshold of access to qualified investors. The FCA has also set a cap on the amount that ordinary investors can invest in Internet finance each year in the Crowdfunding Regulation Rules. In addition, in terms of online platforms, relevant provisions can be made to protect the legitimate interests of investors. For example, the auditing obligations of crowdfunding platforms can be further refined and improved, the legal responsibilities of crowdfunding platforms can be enhanced, and the costs of violations by crowdfunding platforms can be increased. In terms of online

Platforms can also draw on the provisions of the U.S. JOBs Act, which restricts online platforms to promote their projects on their own websites and not in other ways. In particular, it should be noted that equity crowdfunding is still a private placement in China, so if a crowdfunding platform advertises publicly, it will undoubtedly form a public solicitation of funds, which violates the basic nature of private placement as far as possible for a specific group of people, and also conflicts with the current legal system in China. Therefore, it is necessary to regulate the publicity methods of online platforms. In addition, the protection of investors' personal information is also an indispensable part of the investor protection system. When formulating the relevant legal system in the future, China should make targeted provisions for the protection of the basic information of market subjects, such as the way of storage, the period of storage and the relevant legal responsibilities of the network platform.

## 7. Conclusions

China's still incomplete capital market system provides good fertile ground for the development of Internet finance, which can effectively make up for the shortcomings of the current Chinese capital market system and improve the multi-level capital market system. However, innovative Internet financial services have largely challenged the existing regulatory system, and it is obvious that it is difficult to directly apply the regulatory rules of traditional finance to Internet finance, which will also restrict the rapid development of Internet finance. Therefore, the regulatory system for Internet finance should be studied and introduced as soon as possible, not only to maintain the innovation of Internet finance, but also to ensure the safety and stability of the financial system, which is the only way to favorably promote the healthy development of Internet finance in China.

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