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Crowdfunding:
How the Internet is Changing Securities Laws

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FACT SHEET

Crowdfunding

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The Commission today will consider whether to propose rules that would implement Title III of the JOBS Act to permit companies to offer and sell securities through crowdfunding.

Background

Crowdfunding is a term used to describe an evolving method of raising money through the Internet. For several years, this funding method has been used to generate financial support for such things as artistic endeavors like films and music recordings, typically through small individual contributions from a large number of people.

While crowdfunding can be used to raise funds for many things, it generally has not been used as a means to offer and sell securities. That is because offering a share of the financial returns or profits from business activities could trigger the application of the federal securities laws, and an offer or sale of securities must be registered with the SEC unless an exemption is available.

Congress created an exemption to permit securities-based crowdfunding when it passed the JOBS Act last year. Among other things, the JOBS Act was intended to help alleviate the funding gap and accompanying regulatory concerns faced by startups and small businesses in connection with raising capital in relatively low dollar amounts.

Title III of the JOBS Act established the foundation for a regulatory structure that would permit these entities to use crowdfunding, and directed the SEC to write rules implementing the exemption. It also created a new entity – a funding portal – to allow Internet-based platforms or intermediaries to facilitate the offer and sale of securities without having to register with the SEC as brokers. Together these measures were intended to facilitate capital raising by small businesses while providing significant investor protections.

Proposed Rules

The Commission today will consider whether to propose rules that would implement the new exemption for crowdfunding transactions. Consistent with the statute, the proposed rules would among other things permit individuals to invest subject to certain thresholds, limit the amount of money a company can raise, require companies to disclose certain information about their offers, and create a regulatory framework for the intermediaries that would facilitate the crowdfunding transactions.

Under the proposed rules:

- A company would be able to raise a maximum aggregate amount of $1 million through crowdfunding offerings in a 12-month period.