



## Regulation Crowdfunding: Summary and Initial Market Developments

On October 30, 2015, the Securities and Exchange Commission (SEC) promulgated final rules permitting companies to raise capital by offering and selling securities through internet-based crowdfunding campaigns. Mandated under Title III of the 2012 Jumpstart Our Business Startups (JOBS) Act, Regulation Crowdfunding was designed to provide smaller businesses with an innovative method for raising up to \$1 million in capital annually while still balancing investor protections. The final rules took effect on May 16, 2016.<sup>1</sup> This fact sheet uses SEC EDGAR filing data to provide an early snapshot of initial market developments through August 5, 2016.<sup>2</sup>

### CROWDFUNDING ISSUERS

#### What businesses are using the new crowdfunding exemption?

- 76 businesses have filed documentation with the SEC allowing them to initiate a crowdfunding campaign under Regulation Crowdfunding.<sup>3</sup>
- The businesses currently conducting crowdfunding campaigns offer a diverse range of products and services, but have some key characteristics in common. They tend to be consumer facing, are often community or locally oriented, and frequently have a civic or socially conscious mission. Customizable and high-tech products and services are also common among these businesses.

#### Do these businesses have employees?

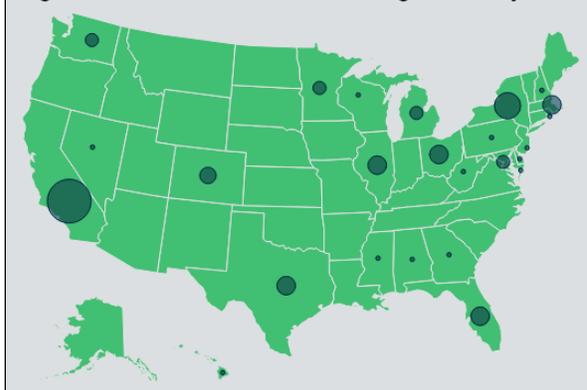
Crowdfunding issuers reported having between 0 and 28 employees, with an average of 3.5 employees.

#### Where are these businesses located?

As shown in Figure 1, more issuers are based in California than any other state (24 issuers or 32%). Other states in which crowdfunding issuers are comparatively prevalent include:

- New York: 8 issuers (11%)
- Florida, Illinois, Massachusetts, Ohio, and Texas: 4 issuers (5%) each
- Colorado: 3 issuers (4%)

Figure 1: Prevalence of Crowdfunding Issuers by State



### CROWDFUNDING INTERMEDIARIES

#### Who is facilitating crowdfunding campaigns?

- Crowdfunding campaigns must be conducted through an SEC-registered intermediary. Approved intermediaries include registered broker-dealers and “funding portals,” a new type of entity created by the Regulation Crowdfunding rulemaking.
- To date, 14 entities have filed documentation with the SEC to become funding portals.<sup>4</sup>

<sup>1</sup> Crowdfunding, Final Rule, Release Nos. 33-9974; 34-76324; File No. S7-09-13 (Oct. 30, 2015), available at <http://www.sec.gov/rules/final/2015/33-9974.pdf>.

<sup>2</sup> Filings accessed via U.S. Securities and Exchange Commission's EDGAR Full Text Search, [https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR\\_MainAccess.jsp](https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR_MainAccess.jsp).

<sup>3</sup> U.S. Securities and Exchange Commission, EDGAR Full Text Search, Form C, [https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR\\_MainAccess.jsp?search\\_text=\\*%&sort=ReverseDate&formType=FormC&isAdv=true&stemming=true&numResults=100&numResults=100](https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR_MainAccess.jsp?search_text=*%&sort=ReverseDate&formType=FormC&isAdv=true&stemming=true&numResults=100&numResults=100).

### Which crowdfunding intermediaries are currently most active?

Of the 76 businesses who have filed with the SEC to initiate a crowdfunding campaign:

- 31 issuers (41%) are conducting offerings through WeFunder Portal
- 11 issuers (14%) are conducting offerings through StartEngine Capital
- 7 issuers (9%) are conducting offerings through FlashFunders Securities

### How much do crowdfunding intermediaries charge for their services?

Intermediary compensation is generally structured as a commission on the total amount of capital raised, paid at the conclusion of the campaign only if the funding target is met. Commissions range from 3%-10% of the total offering amount and sometimes include equity as a form of payment. Some portals also charge an additional fixed or subscription fee to list a crowdfunding campaign on their site.

## CROWDFUNDING TRANSACTIONS

### How much capital can businesses raise in a crowdfunding campaign?

Under Regulation Crowdfunding, businesses can raise a maximum of \$1 million per year. If they exceed that amount, they may conduct offerings under other exemptions (such as Regulation A or D).

### How much can an investor invest in crowdfunding campaigns in a one-year period?

The amount that an investor may invest in crowdfunding campaigns depends on their income and net worth, but may never exceed \$100,000 in a one-year period.

- If an investor's annual income or net worth is less than \$100,000, they may invest the greater of \$2,000 or 5% of their annual income or net worth.
- If an investor's annual income or net worth is \$100,000 or greater, they may invest 10% of their annual income or net worth, not exceeding \$100,000 across all transactions.

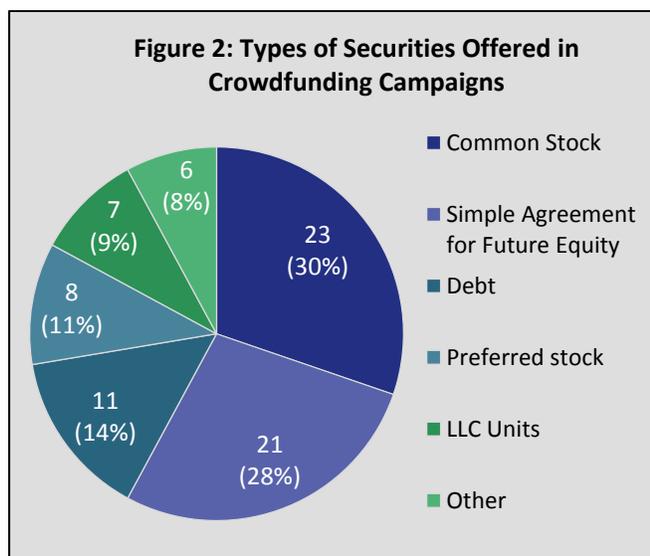
### How much capital are businesses trying to raise in crowdfunding campaigns?

Based on 76 filings, the average target offering amount is approximately \$115,000, and the median target offering amount is \$60,000. The lowest reported target offering amount is \$20,000, while the highest target offering amount is \$500,000.

### What types of securities are being sold?

Regulation Crowdfunding does not limit the type of securities that may be offered and sold in a crowdfunding transaction. Of the 76 crowdfunding transactions to date:

- 23 (30%) offered common stock
- 21 (28%) relied on a Simple Agreement for Future Equity (SAFE)
- 11 (14%) offered debt
- 8 (11%) offered preferred stock
- 7 (9%) offered LLC units
- 6 (8%) offered another type of securities contract



<sup>4</sup> U.S. Securities and Exchange Commission, EDGAR Full Text Search, Form CFPortal, [https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR\\_MainAccess.jsp?search\\_text=&sort=Date&formType=FormCFPORTAL&isAdv=true&stemming=true&numResults=100&numResults=100](https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR_MainAccess.jsp?search_text=&sort=Date&formType=FormCFPORTAL&isAdv=true&stemming=true&numResults=100&numResults=100).