



CROWDFUNDING & SME FINANCING: A NEW WAY TO FUND YOUR BUSINESS

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Overview

- The difficulty of funding your business
- Crowdfunding discussion
- Proposed Rules – Equity Crowdfunding
- SME Discussion
- Proposed Rules – SME Financing
- Major differences
- Conclusion



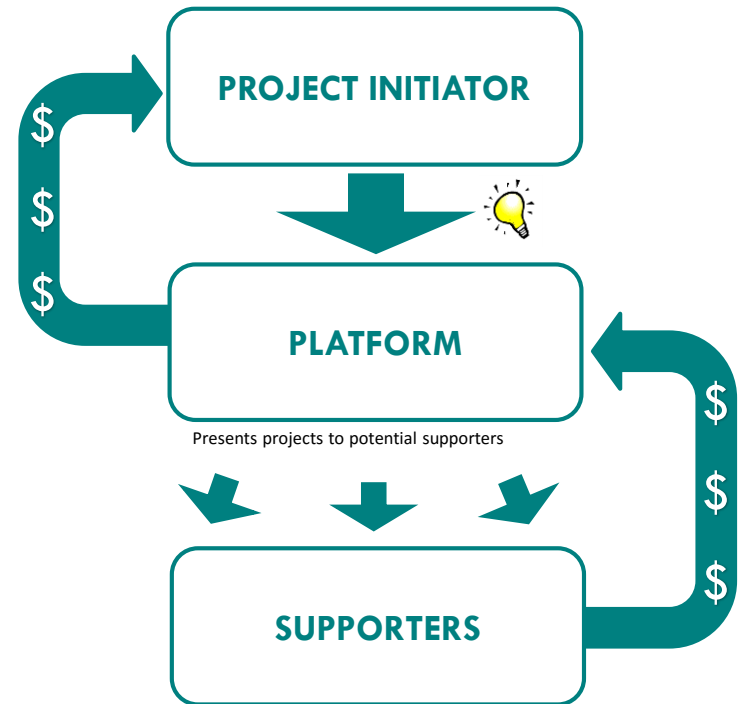
Current Challenges Facing Entrepreneurs

- Unanimous consensus regarding the importance of Small and Medium Enterprises
 - Employment, wealth creation and accumulation
- Lack of Access to Funding
- Are small businesses “risky”?
- How can the regulator assist?
 - Rules to provide access to funding
 - SME and Crowdfunding



What is Crowdfunding?

- The funding of a project or venture by raising monetary contributions from a large number of people (usually over the internet).
- 3 participants:
 - Project Initiator
 - Supporters
 - Moderating Organization





Types of Crowdfunding

- Rewards
- Social
- Equity
 - Supporter received share in company
 - Promised or offered a financial return
- Peer to Peer Crowdfunding
 - Participants apply online to borrow money from the supporter



Importance of Crowdfunding For SMEs

- Entrepreneur stipulates payment terms and schedule
 - Banks and other lending institutions
- Less expensive than conducting an Initial Public Offering
 - Prospective filing, underwriter and other fees
 - Reduce regulatory burden by Securities Commission, Exchanges
- Technology
 - Cheaper alternative to traditional marketing
 - Access to millions of investors



Crowdfunding Concerns: Why Rules are Needed

➤ Lack of Disclosure

- What information can be disclosed?
- Investors can be abused
 - Bernie Madoff



Trust me, this is a
good investment!

➤ Information Asymmetry

- ‘Cherry pick’ the information disclosed to the public
- Lack of integrity in the market
- The “Goldilocks” compromise?



Proposed Rules Equity Crowdfunding



Intent of the draft Rules

- Provide alternative access to funding for small and medium businesses
- Relax cost and regulatory burden for small and medium businesses
- Fuel innovation and growth within the economy
- Open investment and trading opportunities for investor
- Provide appropriate protection for investors



Framework of Equity Crowdfund Rules

- Prospectus filing exemption
 - Solicit funds from general public
 - ...and the \$20,000?
 - Continuing obligations?
- Outline requirements for all three (3) Market Participants
 - Project Initiator
 - Platform
 - Supporter



Project Initiator (The SME)

- Small and medium businesses
 - Independent, non-subsiary
 - Organized under the laws of The Bahamas
- Raise up to \$1,000,000
- A Crowdfund Offering Document provided to each purchaser



Project Initiator

- Allow for an unlimited amount of investors
 - “CROWD” funding – Retail and Accredited
- Proceeds of the offering cannot be used to invest in, acquire or merge with another business
- Must utilize a Platform registered with the Commission
 - Advertise
- **Shares not allowed to trade Over-The-Counter**
 - Funding a business not active secondary market



Project Supporters

	Maximum Investment – One Calendar Year	Maximum Investment - One Crowd Funding Offering	Forms Needed
Accredited Investor	Unlimited	Unlimited	None
Non-Accredited Investor	\$3,000	\$1,000	Investor Limits Form Risk Awareness Form

Right of Withdrawal = 72 hours



Platform

- Registered with the Commission
- Must have adequate internal controls in place to protect the privacy of information collected from investors and project initiators
- Display information in clear, fair and balanced manner
- No curating of crowdfund offerings
- Display compensation received from issuer



Platform

- Submit semi-annual reports
 - All securities distributed through its funding platform
 - Details of all approved, unapproved, and failed crowdfund offerings



SUM IT UP

- Complete Crowdfund Offering Document
 - Less onerous than a prospectus
- Place on approved Platform
 - List on the Commission's website
- Supporters!





SME Exemption



Proposed Definition

	# OF EMPLOYEES	NET INCOME
SMALL-SIZED ENTERPRISE	< 20 employees	Up to \$1.5 million BSD
MEDIUM-SIZED ENTERPRISE	20 – 49 employees	Up to \$3 million BSD



Proposed Rules SME Financing



General Rules

- Businesses can raise a maximum amount of \$3,000,000
- An unlimited number of investors will be allowed
- SME shares **can** be traded “over-the-counter”
- SMEs are required to file an Offering Memorandum with the Commission
- Issuers are not allowed to restrict either the number or category of persons who may invest in any SME distribution



Investor Limits

	Maximum Investment – One Calendar Year	Maximum Investment – One SME Offering
Accredited Investor	Unlimited	Unlimited
Non-Accredited Investor	\$6,000	\$2,000

Right of Withdrawal = 72 hours



SUM IT UP

- Complete Offering Memorandum
- File with the Commission and registered securities firm
- Investors...and trading!





Major Differences

Crowdfunding Exemption

- Shares cannot be traded (no secondary market).
- Retail investors limited to \$1,000 in any one project, and \$3,000 in one calendar year.
- Entrepreneurs can raise up to \$1,000,000.
- Audited financial statements not required.

SME Exemption

- Shares can be traded OTC.
- Retail investors limited to \$2,000 in any one project, and \$6,000 in one calendar year.
- Entrepreneurs can raise up to \$3,000,000.
- Businesses that raise greater than \$1,000,000 (AFS)



Conclusion

- Provide access to funding for start-ups and small and medium businesses;
- Fuel innovation and growth within the small business market;
- Open investment and trading opportunities for the retail investor; and
- Provide adequate protection for those desirous of investing in certain projects.



Submit Comments

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