

DEPARTMENT OF BUSINESS REGULATION ISSUES SMALL BUSINESS ADVISORY ON CROWDFUNDING

July 30, 2012– The Department of Business Regulation (“DBR”) today issued an advisory to spotlight concerns for small businesses and entrepreneurs seeking to raise investment capital through crowdfunding. To view the full Advisory click [here](#)

Crowdfunding is an online money-raising strategy that began as a way for the public to donate small amounts of money, often through social networking websites, to help artists, musicians, filmmakers and other creative people finance their projects. Through the Jumpstart Our Business Startups (JOBS) Act, small businesses and entrepreneurs will be able to tap into the “crowd” in search of investments to finance their business ventures.

The JOBS Act was signed into law in April. The legislation directed the Securities and Exchange Commission (SEC) to adopt rules within 270 days to implement a new exemption to allow entrepreneurs and small businesses to offer investments in their ventures through crowdfunding.

“Small businesses are important to the nation’s economic growth and the crowdfunding concept has the potential to provide legitimate small, innovative enterprises with access to capital that might not otherwise be available,” said Maria D’Alessandro, Esq., Deputy Director, Securities, Commercial Licensing & Racing and Athletics.

The advisory reminds small businesses to wait until the SEC’s crowdfunding rules are finalized before offering shares in their ventures for sale to the public. “Until that time, federal and state securities law prohibitions remain in place against publicly accessible Internet securities offerings”.

The advisory also notes that the JOBS Act only exempts crowdfunding equity offerings from securities law registration requirements. “The requirements of federal and state securities laws regarding disclosures, including disclosures of all material facts and risks to investors, remains in place”. If you do not comply with these disclosure requirements, you and your business can be liable for securities fraud and subject to private lawsuits as well as administrative enforcement actions.”

Other topics covered in the advisory include the importance of choosing a proper broker or funding portals to assist with your crowdfunding offering and a reminder that state and federal laws provide additional methods for companies to raise money from a limited number of investors with little or no cost.

“Through our advisory, the Department of Business Regulation wants to help ensure that both small businesses and investors are protected as they explore the crowdfunding marketplace,” D’Alessandro said.

Before taking any action, small business owners, entrepreneurs, and potential investors with questions about crowdfunding offerings should contact the DBR at (401) 462-9527