



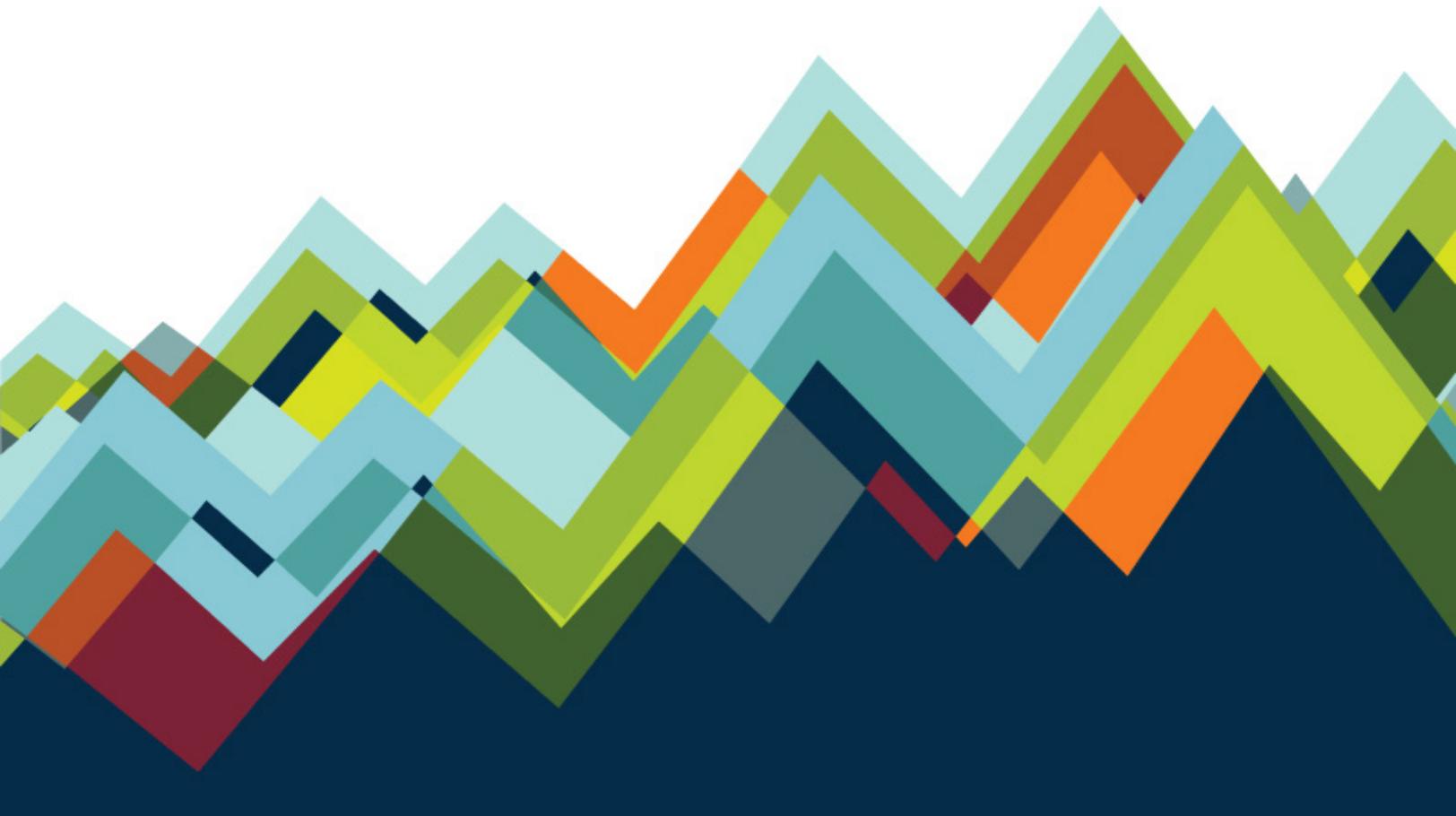
British Columbia  
Securities Commission

# Start-up Crowdfunding Guide

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**For Business**

British Columbia Securities Commission



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The information in this Guide is for educational purposes only and does not constitute legal advice.

If any information in this Guide is inconsistent with BCI 45-535 *Start-up Crowdfunding Registration and Prospectus Exemptions*, please follow the instrument and the related forms.

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# START-UP CROWDFUNDING GUIDE FOR BUSINESSES

Crowdfunding is a process through which an individual or a business can raise small amounts of money from a large number of people, typically through the Internet. The objective is to raise sufficient funds in order to carry out a specific project. There are different types of crowdfunding, such as by donation, pre-selling of products or securities crowdfunding. This guide discusses securities crowdfunding.

## *Securities crowdfunding*

With securities crowdfunding, a business raises funds through the Internet by issuing securities (such as bonds or shares) to many people. This type of crowdfunding is overseen by the regulator of the province or territory where the business and potential purchasers are located.

**Valérie has a brilliant idea. She has developed a soft drink flavoured with maple syrup and other local products. She has prepared a detailed business plan and hopes to turn a profit from her business venture. She thinks there is a market for maple soft drinks in gourmet grocery stores, bars and restaurants. She wants to begin production. She needs \$75,000 in order to bottle and market her soft drinks. She applied to a financial institution for a loan, but was refused. She is thinking about raising the funds she needs by issuing shares through a securities crowdfunding campaign.**

## *Legal Obligations*

In Canada, all trading of securities is subject to legal obligations. For example, a business seeking to raise capital by issuing securities must file a prospectus with the securities regulator of their province or territory or have an exemption from the prospectus requirement under securities law.

These obligations, however, can be costly for start-ups and early stage businesses. The securities regulators in British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia (the participating jurisdictions) allow start-ups and small businesses (issuers) to raise funds using securities crowdfunding without filing a prospectus or preparing financial statements. The securities regulators refer to this as the “start-up crowdfunding exemptions” or start-up crowdfunding.

**Certain Canadian jurisdictions permit a different type of securities crowdfunding – Multilateral Instrument 45-108 *Crowdfunding*. This type of securities crowdfunding is not available in British Columbia.**

The start-up crowdfunding exemptions allow:

- a start-up or early stage issuer to raise relatively small amounts of capital by distributing securities to investors without filing a prospectus (start-up prospectus exemption)
- a funding portal to facilitate trades of those securities without having to register as a dealer (the start-up registration exemption), although a funding portal can be operated by a registered dealer

## HOW START-UP CROWDFUNDING WORKS



In order to raise funds using the start-up prospectus exemption, issuers must prepare and post an offering document on a funding portal's crowdfunding website. Investors will then be able to read about the offering and decide whether to invest. Before investing, investors will have to confirm that they have read the offering document and understood that the investment is risky.

### ***When should an issuer consider start-up crowdfunding?***

Before launching a start-up crowdfunding campaign, the management of the issuer may wish to:

- Evaluate other sources of funding, such as a loan from a financial institution
- Assess whether they are willing to invest the time and efforts needed to prepare and run a start-up crowdfunding campaign
- Determine the type and characteristics of securities that will be sold
- Determine the number of securities to be sold and at what price
- Assess if they have the capabilities to manage a great number of security holders

If a start-up crowdfunding campaign is successful, the founders of the issuer may have to give up part of the ownership of the issuer to investors. The issuer will also need to be accountable to investors. Investors will expect to be informed about successes and failures of the issuer's business. Management of the issuer should assess whether they are willing to spend the time and effort to maintain contact with investors.

### ***Where is start-up crowdfunding available?***

The start-up crowdfunding exemption is available if both the investor and the issuer's head office are located in any one of British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick or Nova Scotia.

### ***What is the maximum amount that can be raised? Are there any time limitations for raising that amount?***

\$250,000 per start-up crowdfunding distribution. The offering document must indicate a minimum amount that has to be raised before the offering can close. The issuer has a maximum of 90 days to raise the minimum amount, starting on the day the issuer's offering document is first made available to investors through a funding portal's website.

The money will be held in trust by the funding portal until the minimum amount of the offering is reached. The issuer may then complete the offering by issuing the securities.

If the minimum amount is not reached, or the start-up crowdfunding campaign is withdrawn, the funding portal must return the money to the investors.

### ***How often can an issuer raise money using start-up crowdfunding?***

An issuer group may complete a maximum of two start-up crowdfunding distributions per year. The issuer group cannot have more than one start-up crowdfunding campaign running at the same time or on different funding portals for the same purpose. The issuer group must wait until the first campaign has ended before launching a second one.

The issuer group means the issuer, any affiliates of the issuer and any other issuer that is engaged in a common enterprise with the issuer or an affiliate, or whose business is founded or organized by the same person or company who founded or organized the issuer.

### ***What is the maximum amount an issuer can raise from each investor?***

\$1,500 per start-up crowdfunding distribution. The issuer may require a minimum amount per investor (e.g. \$500).

## **LAUNCHING A START-UP CROWDFUNDING CAMPAIGN**

Once an issuer has determined that it will launch a start-up crowdfunding campaign, it will need to prepare an offering document and choose a funding portal to post its offering document. Issuers are to prepare the offering document using Form 45-535 F1 *Start-up Crowdfunding – Offering Document*.

### ***What is a funding portal?***

A funding portal lists start-up crowdfunding campaigns on its website and facilitates the payment of the purchase price from the investor to the issuer. Funding portals will generally charge issuers for hosting a start-up crowdfunding campaign.

The funding portal is responsible for:

- Explaining the risks of investing to potential investors
- Holding all investor funds in trust until the issuer raises the minimum funding target
- Returning funds to investors, without deduction, if the issuer does not reach its minimum funding target or if the issuer withdraws the start-up crowdfunding campaign

## *What types of funding portals are available?*

There are two types of funding portals that may facilitate start-up crowdfunding in BC:

- funding portals that are operated by registered investment dealers or exempt market dealers that must provide advice on suitability of the investment to investors, and
- funding portals that are operated by persons relying on the start-up registration exemption and that cannot provide suitability advice

The issuer has the choice of which type of funding portal to use for its start-up crowdfunding campaign.

A funding portal operated by an investment dealer or exempt market dealer must confirm in writing to the issuer that it can provide certain services necessary for start-up crowdfunding, including that it will make the offering document and risk warnings available to the purchaser through its website. The issuer may also call a regulator to determine whether the funding portal is authorized to operate in jurisdictions that it proposes to conduct start-up crowdfunding.

**There is a third type of funding portal available in other Canadian jurisdictions: a restricted dealer funding portal operating under conditions set out in Multilateral Instrument 45-108. This type of funding portal is not allowed to conduct business in BC.**

## *What information needs to be in the offering document?*

The offering document must include basic information about the business and the offering, how it will use the money and any risk to the project. The start-up must also state the minimum amount it needs to raise to accomplish its goal.

The information contained in the offering document must be kept up to date throughout the duration of the start-up crowdfunding campaign. If information contained in the offering document is no longer true, the issuer must amend the offering document as soon as practicable and send the new version to the funding portal. The funding portal will post the new version of the offering document on its website and will notify investors about the amendment.

The issuer does not need to update the offering document after the start-up crowdfunding campaign is over.

If the issuer raises funds in Québec, the offering document and the risk acknowledgement form must be made available to investors in Québec in French or in French and English.

For additional details on the offering document, including instructions on how to prepare this document, please refer to the separate document *“Preparing an offering document”*.

### ***What if an investor changes their mind?***

Investors have the right to withdraw their investment within 48 hours following the investor’s subscription. Investors also have the right to withdraw their investment within 48 hours of the funding portal notifying the investor of an amendment to an offering document.

To exercise this right of withdrawal, investors must notify the funding portal. The funding portal must give investors the opportunity to exercise this right. The funding portal must return the funds to an investor who exercises this right, without any deduction, within five business days after the notice.

## **COMPLETING A START-UP CROWDFUNDING CAMPAIGN**

Once the issuer raises the minimum amount, the issuer has the discretion to close the start-up crowdfunding campaign by issuing the securities to investors. However, the issuer must wait until each investor’s 48-hour withdrawal period has expired.

If the issuer has disclosed in the offering document what it will do with any extra funds raised above the minimum amount, then the issuer can continue raising funds provided the issuer closes the offering within the 90-day maximum offering period and up to the maximum amount indicated in the offering document. This maximum amount cannot be more than \$250,000.

At the closing of the distribution, the funding portal releases the funds raised to the issuer.

### ***Can an issuer use another prospectus exemption to meet the minimum amount?***

Although an issuer cannot have two start-up crowdfunding campaigns running at the same time or on more than one funding portal, the issuer can raise funds using other prospectus exemptions during a start-up crowdfunding campaign. For example, the issuer may distribute securities to an accredited investor. Other prospectus exemptions, such as the accredited investor exemption, are found in the instruments and rules of the local securities regulator, including National Instrument 45-106 *Prospectus Exemptions*. The funds raised under other prospectus exemptions can be used to reach the minimum amount stated in the offering document if they are unconditionally available to the issuer.

**Valérie’s objective is to raise a minimum of \$75,000. The funding portal raised \$45,000 from investors under the start-up crowdfunding exemption. At the same time, Paul, who is an “accredited investor” because of his income and assets, unconditionally undertakes to invest \$30,000 in Valérie’s enterprise. The minimum amount has been reached and Valérie can ask the funding portal to release the \$45,000 raised as soon as the 48-hour withdrawal period has expired for all investors.**

## **AFTER THE CLOSING**

### ***Filing of the offering document and report of exempt distribution***

The offering document and a report of exempt distribution must be filed with the regulator of each participating jurisdiction where investors are located no later than 30 days after the closing of the distribution. For example, if the issuer has raised money in Québec and Nova Scotia, the offering document and report of exempt distribution must be filed with the Autorité des marchés financiers and the Nova Scotia Securities Commission.

In addition, the offering document and report of exempt distribution must be filed with the regulator of the participating jurisdiction where the issuer’s head office is located, even if no investors were located in this jurisdiction.

When filing the offering document, the issuer must include all copies of the offering document including any amended versions.

In British Columbia, the report of distribution is Form 45-106F6 *British Columbia Report of Exempt Distribution*. In the other participating jurisdictions it is Form 5 – *Start-up Crowdfunding – Report of Exempt Distribution*.

### ***Confirmation notice to investors***

Within 30 days after the closing of the distribution, the issuer must send a confirmation notice to each investor who purchases securities with the following information:

- The date of subscription and the closing date of the distribution
- The quantity and description of securities purchased
- The price paid per security
- The total commission, fee and any other amounts paid by the issuer to the funding portal in respect of the start-up crowdfunding distribution

**FOR MORE INFORMATION, CONTACT BCSC INQUIRIES**

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