

**SB**

**126**

<TARGET><BILL>SB 126</BILL><SUBJECT>SB  
126</SUBJECT><COMM>SFIN29</COMM></TARGET>

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/4/16

FURTHER:

DATE TURNED  
IN TO OFFICE: \_\_\_\_\_

Finance Committee considered SENATE BILL NO. 126

## SB 126-SMALL SECURITY OFFERINGS

"An Act establishing an exemption for the offering and sale of certain securities."

and recommends:

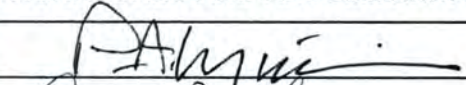


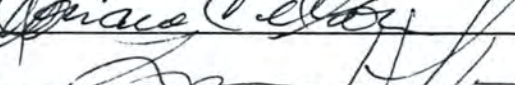
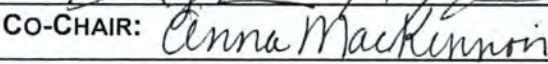
- be replaced with CS \_\_\_\_\_ ( \_\_\_\_\_ )  Same Title  New Title
- adopt previous CS SB 126 ( L4C )  Same Title  New Title
- attached amendment(s)
- adopt \_\_\_\_\_ Letter of Intent
- further referral to \_\_\_\_\_ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
EED	MVA
DEC	DNR
DFG	DPS
GOV	REV
DHS	DOT
AJS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
CED			X	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	MICCICHE	✓			
	BISHOP	✓			
	DUGAN	✓			
	Hoffman			✓	
	Mackinnon	✓			
CO-CHAIR:					
CO-CHAIR:					

# ALASKA STATE LEGISLATURE

SESSION

State Capitol, Rm 510  
Juneau, Alaska 99801-1182  
(907) 465-4968 Phone  
Sen.Mia.Costello@akleg.gov



INTERIM

716 West 4<sup>th</sup> Avenue, Suite 509  
Anchorage, Alaska 99501  
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## SENATOR MIA COSTELLO

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### SPONSOR STATEMENT

#### Senate Bill 126

*“An Act establishing an exemption for the offering and sale of certain securities.”*

Senate Bill 126, the *Innovating Alaska Act*, helps Alaskans start and invest in local businesses by enacting a new finance mechanism in state law.

Crowdfunding (sometimes known as “equity crowdfunding”) is a new concept with a simple premise. Instead of receiving large investments from a few traditional investors, Alaskans starting a business receive *small* investments from a potentially a *large* group of investors. The approach lets broad groups of people invest in small businesses in return for equity ownership. This makes it easier for business start-ups to get capital to grow, and allows average Alaskans to invest in businesses being started in their communities.

The federal Jumpstart Our Business Start-Ups (JOBS) Act of 2012 paved the way for this paradigm shift in business creation. It refines some of the more onerous regulations that have historically made it difficult for average Americans to directly invest in private companies. Since then over 12 states have enacted intra-state crowdfunding laws.

Crowdfunding usually works through young companies selling equity shares, often through an on line portal, to a wide group of investors. Senate Bill 126 would regulate the sale of these types of securities separately from the Alaska Securities Act (AS 45.55.010) and adds several safeguards to protect investors.

Under Senate Bill 126, businesses seeking to raise capital through crowdfunding would apply to the Alaska Division of Banking & Securities and hold investor funds in escrow in an Alaskan bank. Investments made through crowdfunding are limited to \$7,500 for investors and \$1,000,000 for businesses raising capital. Both the investor and business owner must be Alaska residents.

Business start-ups are key to growing our state’s economy. Enacting crowdfunding through Senate Bill 126 is an innovative way to give entrepreneurs easier access to capital, and help Alaskans invest in local businesses.

*Contact: Weston Eiler, Legislative Aide to Senator Mia Costello at (907)-465-4968*

# Fiscal Note

State of Alaska  
2016 Legislative Session

Bill Version:	CSSB 126(L&C)
Fiscal Note Number:	1
(S) Publish Date:	3/4/2016

Identifier: SB126-DCCED-DBS-02-05-16  
 Title: SMALL SECURITY OFFERINGS  
 Sponsor: COSTELLO  
 Requester: (S) Labor and Commerce

Department: Department of Commerce, Community and  
 Economic Development  
 Appropriation: Banking and Securities  
 Allocation: Banking and Securities  
 OMB Component Number: 2808

### Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates				
			FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>							
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
<b>Total Operating</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Fund Source (Operating Only)

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

### Positions

Full-time							
Part-time							
Temporary							

<b>Change in Revenues</b>							
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**Estimated SUPPLEMENTAL (FY2016) cost:** 0.0 *(separate supplemental appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

**Estimated CAPITAL (FY2017) cost:** 0.0 *(separate capital appropriation required)*  
*(discuss reasons and fund source(s) in analysis section)*

### ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes  
 If yes, by what date are the regulations to be adopted, amended or repealed? 12/01/16

### Why this fiscal note differs from previous version:

Not applicable, initial version.
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Prepared By:	Kevin Anselm, Director	Phone:	(907)269-4157
Division:	Banking and Securities	Date:	02/05/2016 11:15 AM
Approved By:	Catherine Reardon, Director	Date:	02/05/16
Agency:	Division of Administrative Services, DCCED		

FISCAL NOTE ANALYSIS

STATE OF ALASKA  
2016 LEGISLATIVE SESSION

Analysis

SB126 provides a securities 'crowdfunding' exemption to support in-state capital raising that allows residents to participate in providing funds to help local Alaskan businesses start and expand. The bill limits the amount of capital raised to \$1,000,000, and establishes an individual investor limit of \$7,500.

Regulations will be drafted and adopted by December 1, 2016, to implement the division's administration of the bill's provisions. The Division of Banking and Securities expects a zero fiscal impact from this legislation.

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State of Alaska  
2016 Legislative Session

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Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>OPERATING EXPENDITURES</b>	<b>FY 2017</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Personal Services							
Travel							
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Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
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**Fund Source (Operating Only)**

None							
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Positions**

Full-time							
Part-time							
Temporary							

**Change in Revenues**

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Phone (907) 269-0117

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## SENATOR MIA COSTELLO

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### SECTIONAL ANALYSIS

#### Senate Bill 126 – *Version W*

*“An Act establishing an exemption for the offering and sale of certain securities.”*

**Section 1.** Amends the Alaska Securities Act (AS 45.55) by adding a new section. Sec. 45.55.175(a) exempts the sale of securities through crowdinvesting between Alaska businesses and residents from the requirements of AS 45.55.070 - 45.55.120 (registration of securities) and AS 45.55.150 (sales and advertising literature). Sets new limitations and requirements on the offer and sale of this type of securities including:

- (1) issuer's organizational entity must be for-profit, and located and licensed in Alaska,
- (2) securities under this section may only be sold to Alaska residents and must be in compliance with federal law's (Securities Act of 1933) residency requirements for interstate sale of securities,
- (3) sale of securities under this section by a for-profit entity are capped at \$1,000,000,
- (4) investments by an individual in a business under this exemption are capped at \$7,500 during a 12-month period,
- (5) issuer of securities under this section must have a reasonable belief that the purchase of securities is for investment not resale,
- (6) commissions for persons participating in the offer or sale for the issuer are prohibited,
- (7) requires escrow account deposit of investor funds until the minimum target for the issuer is met,
- (8) notice to the department about solicitation of sale of securities under this section,
- (9) restrictions on who may issue securities under this section,
- (10) disclosures to investors about this type of securities exemption in statute and restriction on resale,
- (11) requires signed investor acknowledgement of investment risk,

(12) exemption for sale of this type of securities may not be used along with other exemptions to the Alaska Securities Act,

(13) sale of this type of securities are covered by anti-fraud statutes and other provisions under AS 45.55.010 - 45.55.028.

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Sec. 45.55.175(b). Allows the department to deny or revoke an exemption under this section if the sale would lead to a fraud on purchasers.

Sec. 45.55.175(c). Requires the Department of Commerce, Community, & Economic Development to charge an applicant a filing fee for an exemption under this section.

Sec. 45.55.175(d). Prohibits an issuer from using the exemption under this section if the entity or its officers are subject to a disqualifier under the Dodd-Frank Wall Street Reform and Consumer Protection Act - U.S.C. 78c(a)(39).

Sec. 45.55.175(e). Defines terms for the section.

**Section 2.** Adds a sec. 45.55.175 exempting transactions under this bill to the list of transactions that are exempt from basic security registration requirements under AS 45.55.070 and AS 45.55.075 (the section addressing federal covered securities).

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## SENATOR MIA COSTELLO

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### Senate Bill 126

*“An Act establishing an exemption for the offering and sale of certain securities.”*

### CHANGES

#### Version *A* to Version *W*

- Adds:**      **Section 1(d), Page 4, Lines 11-15**  
*Prohibits use of the exemption by persons or companies that are subject to a disqualifier under federal law and the Dodd-Frank Wall Street Reform and Consumer Protection Act.*
- Deletes:**      **Section 1(c), Page 4, Lines 8-13**  
*Removes language authorizing the use and inspection of a website for sale of securities under this section to allow the platform to be dealt with in regulation.*

**INTRASTATE CROWDFUNDING LEGISLATION**

January 1, 2016

*Prepared by the North American Securities Administrators Association (NASAA)*

JURISDICTION	BILL #	FEDERAL EXEMPTION	2011-13 ACTIONS	2014 ACTIONS	2015 ACTIONS	2016 ACTIONS
<b>Alabama</b>	SB 44/Act No. 2014-376	Tied to federal intrastate offering exemption.	—	The bill was signed into law and became effective immediately on April 8, 2014.	—	—
<b>Alaska</b>	2015 – 2016 legislative session	Tied to federal intrastate offering exemption.	—	—	To be included in 2016 legislative session.	—
<b>Arizona</b>	HB 2591/Chapter 185	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on April 1 and became effective on July 3, 2015.	—
<b>California</b>	AB 722	Tied to federal intrastate offering exemption.	—	—	The bill was introduced on February 25. As of May 28, 2015, the bill was held under submission. <i>Legislature is adjourned.</i>	—
<b>Colorado</b>	HB 15-1246	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on April 13 and became effective on August 5, 2015.	—

- ▶ The term "crowdfunding" refers to exemptions from securities registration under state law, which are tied to federal securities offering exemptions.
- ▶ This information is being provided for your convenience and is not intended as legal advice. The information is illustrative only and not an exhaustive list. Any questions should be directed to the appropriate state regulator(s).

### INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>Connecticut</b>	HB 5131	Requires a study of crowdfunding in other states.	—	—	The bill was introduced on January 9 and a hearing was held on February 19, 2015. <i>Legislature is adjourned.</i>	—
<b>District of Columbia</b>	“District of Columbia-Only Securities Offerings Exemption” (Sec. 250, Ch. 2, Title 26-B)	Tied to federal intrastate offering exemption.	—	—	The rule was issued on August 8, adopted as final on September 29, and took effect on October 24, 2014.	—
<b>Florida</b>	HB 275/ Chapter No. 2015-171	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on June 16, and became effective October 1, 2015.	—
<b>Georgia</b>	Rule 590-4-2-.08	Tied to federal intrastate offering exemption.	—	—	A rule was promulgated on Dec. 8, 2011.	—
<b>Hawaii</b>	HB 1482	Tied to federal intrastate offering exemption.	—	—	The bill was introduced on Jan. 29, passed House on March 10 and was referred to Senate comms. on Mar. 12., 2015. <i>Legislature is adjourned.</i>	—
<b>Idaho</b>	Exemption by Order	Tied to federal intrastate offering exemption.	—	—	An order was issued on January 20, 2012.	—

### INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>Illinois</b>	HB 3429	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on July 30, 2015.	The bill became effective on January 1, 2016.
<b>Indiana</b>	SB 375/ Public Law 106	Tied to federal intrastate offering exemption.	—	SB 375 was signed into law on March 25 and became effective on July 1, 2014.	—	—
<b>Iowa</b>	2015 Iowa Acts, House File (HF) 632	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on July 2 and became effective on December 30, 2015.	—
<b>Kansas</b>	K.A.R. 81-5-21	Tied to federal intrastate offering exemption.	Exemption adopted on August 12, 2011.	—	—	—
<b>Kentucky</b>	HB 76/Acts, ch. 024	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on March 19 and became effective on June 24, 2015.	—
<b>Maine</b>	LD 1512/ Chapter 452	Tied to federal Reg. D, Rule 504 offering exemption.	—	The bill became Public Law on March 2, 2014.	The rules became effective on January 1, 2015.	—
<b>Maryland</b>	SB 811/Chapter 557; HB 1243/Chapter 558	Debt-based exempted security pursuant to intrastate exemption.	—	The bill was signed into law on May 15 and became effective on October 1; rules completed on October 20, 2014.	—	—

### INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>Massachusetts</b>	"Massachusetts Crowdfunding Exemption" (950 CMR 14.402(B)(13)(o))	Tied to federal intrastate offering exemption.	—	—	The rule was adopted and became effective on January 15, 2015.	—
<b>Michigan</b>	HB 4996/ Public Act 264	Tied to federal intrastate offering exemption.		—	—	—
<b>Minnesota</b>	Ch. 1 – HF No. 3	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on June 15, 2015. Rulemaking is in process.	—
<b>Mississippi</b>	Invest Mississippi Crowdfunding Intrastate Exemption" (Rule 7.21 and 2.04)	Rule 7.21 tied to federal intrastate; Rule 2.04 tied to federal Rule 504, Reg D	—	—	Rules proposed on February 9 and became effective May 26, 2015.	—
<b>Missouri</b>	HB 1151	Tied to federal intrastate offering exemption.	—	—	The bill was introduced on March 9 and was referred to the banking committee on March 17, 2015. <i>Legislature is adjourned.</i>	—
<b>Montana</b>	HB 481/ Ch. 163	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on April 1 and became effective on July 1, 2015.	—

## INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>Nebraska</b>	LB 226	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on May 27 and became effective on September 1, 2015.	—
<b>Nevada</b>	SB 365/AB 258	Tied to intrastate offering exemption.	—	—	SB 365 was introduced on Mar. 16, and no further action allowed. AB 258 passed on June 9, 2015 without crowdfunding. <i>Legislature is adjourned.</i>	—
<b>New Hampshire</b>	HB 327	Tied to federal intrastate offering exemption.	—	—	The bill was introduced on January 8, a hearing was held on February 5, and it was retained in committee on March 3, 2015. <i>Legislature is adjourned.</i>	—
<b>New Jersey</b>	A2073	Tied to federal intrastate offering exemption.	—	—	The bill was signed into law on November 9, 2015. Rulemaking is in process.	—
<b>New Mexico</b>	Draft Regulations NMAC 12.11.12.11; 12.11.2.25; 12.11.2.11; 12.11.1.7	Tied to federal intrastate offering exemption.	—	Draft regulations were posted in September 2014. Final regulations are pending.	—	—

### INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>North Carolina</b>	S481	Tied to federal intrastate offering exemption.	—	—	SB481 was filed on March 25, and was re-referred to fin. committee as of April 14. Three other bills pending including H14/S35 and H305. <i>Legislature is adjourned.</i>	—
<b>Oregon</b>	“Oregon Intrastate Offering Exemption” (ORS 59.035)	Tied to federal intrastate offering exemption.	—	Proposed rules were published on October 15, and a public hearing took place on December 3, 2014.	The rules became effective on January 15, 2015.	—
<b>Rhode Island</b>	SR 611	To require the Banking Commissioner to study crowdfunding in other states.	—	—	The bill was introduced on March 5, and passed Senate as amended on April 14. <i>Legislature is adjourned.</i>	—
<b>South Carolina</b>	Intrastate Crowdfunding Exemption (Rule 13-206)	Tied to federal intrastate offering exemption.	—	—	The rule became effective June 26, 2015.	—
<b>Tennessee</b>	SB 1481/Public Chapter No. 943	Tied to federal intrastate offering exemption.	—	The bill was signed into law on May 19, 2014.	The law became effective on January 1. Rulemaking became effective December 16, 2015.	—

### INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>Texas</b>	Intrastate Crowdfunding Exemption (Rule §139.25)	Tied to federal intrastate offering exemption.	—	The rules were approved by the Texas State Securities Board on October 22 and became effective on November 17, 2014.	—	—
<b>Utah</b>	HB 50	Tied to federal intrastate offering exemption.	—	—	HB 50 was introduced on Jan. 6 and filed in the House as “not passed” on March 12, 2015. <i>Legislature is adjourned.</i>	—
<b>Vermont</b>	“Vermont Small Business Offering Exemption” (Rule No. S-2014-1)	Tied to federal intrastate offering exemption.	—	The rules became effective on June 16, 2014.	—	—
<b>Virginia</b>	SB 763/Chapter 354; HB 1360/Chapter 400	Tied to federal intrastate offering exemption.	—	—	SB 763 was signed into law on March 19 and HB 1360 was signed into law on March 23; the bills became effective on July 1, 2015.	—
<b>Washington</b>	HB 2023/ Chapter 144	Tied to federal intrastate offering exemption.	—	The bill was signed into law on March 28. The law became effective on June 12; the rules became effective on November 1, 2014.	—	—

### INTRASTATE CROWDFUNDING LEGISLATION

*Prepared by the North American Securities Administrators Association (NASAA)*

<b>West Virginia</b>	HB 2615	Tied to federal intrastate offering exemption.	—	—	HB 2615 was introduced on February 5 and passed on February 24. The bill was introduced in Senate on February 25, 2015 and referred to committee. <i>Legislature is adjourned.</i>	—
<b>Wisconsin</b>	AB 350/ Public Act 52	Tied to federal intrastate offering exemption.	The bill was signed into law on November 7, 2013.	The law became effective on June 1, 2014.	—	—



# State Crowdfunding Update

## National Conference of State Legislatures 2015 Legislative Summit

Anya Coverman, Deputy Director of Policy | NASAA | 750 First Street, NE | Suite 1140 | Washington, DC | 202-737-0900 | [ac@nasaa.org](mailto:ac@nasaa.org)

*This information provided herein is for your convenience only, is illustrative and is not intended as legal advice.*

# What is intrastate crowdfunding?

## ***Before the JOBS Act – IKE (Invest Kansas Exemption)***

- Purpose of Exemption: Accommodate community-based offerings, not broad-based internet offerings.
- The Challenge: Allow general solicitation without violating federal law.
- The Method: Build state crowdfunding exemption to coordinate with federal intrastate offering exemption.



# Conditions of Early Exemptions

- Tied to federal intrastate offering exemption
- Issuers and investors must be in-state
- Offering cap of \$1 million per year
- Investment limits of \$2,000 to \$10,000
- Notice filing required, but no specific disclosure document mandated
- No compensation of intermediaries unless registered as broker-dealers
- Bad actor disqualification



# *After the JOBS Act:* Conditions of Exemptions

- ***New Feature in Exemptions: Internet!***
  - Internet-based offerings are allowed (and mandated in some states)
  - Compensation of internet platforms is allowed
  - The platforms must notice file or are subject to “registration lite”
  - Issuers must give short quarterly reports to investors



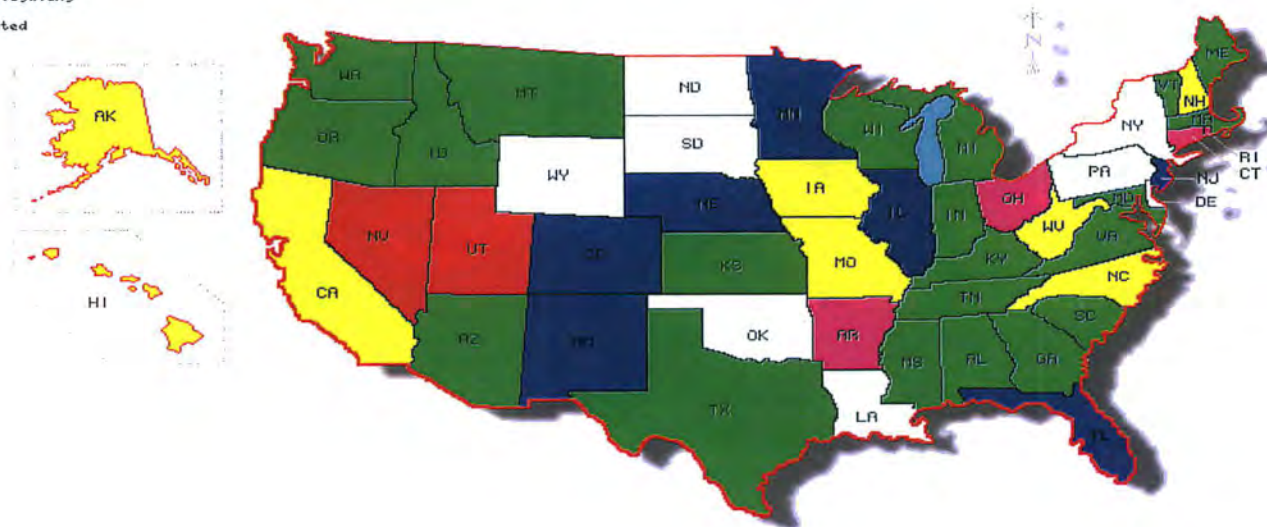
# Conditions of Later Exemptions

- Tied to federal intrastate exemption or Rule 504 of Regulation D
- Offering cap of \$100,000 to \$5 million during 12 month period
- Investment limits of \$100 to \$100,000 unless accredited
- Notice filing including short-form disclosure document
- Website portal (intrastate broker-dealer) or registered broker-dealer
- Bad actor disqualification
- Quarterly reports to investors



# Intrastate Equity Crowdfunding Exemptions (as of August 1, 2015)

- - Active Now
- - Active Soon
- - Legislation Pending
- - Investigating
- - Defeated



Source: diymaps.net (c)

# Snapshot as of August 1, 2015

State	Effective Date
1. Alabama	4/8/2014
2. Arizona	7/3/2015
3. District of Columbia	10/24/2014
4. Georgia	12/8/2011
5. Idaho	1/20/2012
6. Illinois	1/1/2016
7. Indiana	7/1/2014
8. Kansas	8/12/2011
9. Kentucky	6/24/2015
10. Maine	1/1/2015
11. Maryland	10/1/2014
12. Massachusetts	1/15/2015
13. Michigan	12/26/2013
14. Mississippi	5/26/2015
15. Montana	7/1/2015
16. New Jersey	Awaiting Governor Signature
17. New Mexico	Awaiting Governor Signature
18. Oregon	1/15/2015
19. South Carolina	6/26/2015
20. Tennessee	Pending Final Rulemaking
21. Texas	11/17/2014
22. Vermont	6/16/2014
23. Virginia	7/1/2015
24. Washington	6/12/2014
25. Wisconsin	6/1/2014

Total Number of Offerings Filed: 118

Total Number of Filings Approved/Cleared: 102

*\* Filings may not be currently approved/cleared if the notice filing is incomplete, and filings may have been withdrawn by the issuer for reasons including the availability of other limited offering exemptions or a voluntary business decision. States continue to receive several inquiries about the new exemptions.*



# Types of Businesses Using Intrastate Crowdfunding

- Breweries and spirit producer
- Grocery store and deli
- General store
- Exercise studio / gym
- Software companies (gaming, etc.)
- Night club, music/real estate venue
- Farmers (family-run farm, dairy farm, farming coop)
- Retail electronics store
- Medical device/technology company
- Family-run manufacturing business
- Real estate firms (micro-financing, commercial property)
- Product inventions
- Hair salon
- Entertainment groups (movie, album, media platforms)
- Over-the-air digital TV station
- Electronic/gaming pub
- Dog groomer
- Sushi restaurant
- Ice cream maker
- Baseball bat maker
- Angel fund
- Defense contractor/consultant
- Manufacturer of lawn mower parts
- Food and beverage platform/restaurants
- Senior care facility
- Education technology company
- Small sale solar garden project



## *Next Steps?*

- Continued outreach to local businesses and investors
- Monitor effectiveness of intrastate crowdfunding
- Use of Rule 504 of Regulation D for inter-state crowdfunding
- Discuss federal challenges with U.S. Securities and Exchange Commission

# Takeaway?

If you are interested in capital raising tools and opportunities, talk to your state securities regulator to craft a workable solution.

The screenshot shows the NASAA website with the following content:

**CONTACT YOUR REGULATOR**

NASAA Member Representative List  
(Click the jurisdiction's name to visit the website of each NASAA member.)

**United States**

<b>Alabama</b> Securities Commission 401 Adams Avenue Suite 230 P.O. Box 304700 Montgomery, AL 36130-4700 Joseph P. Borg Director (334) 242-2964 (800) 229-1253 (334) 242-9240 (Fax)	<b>Montana</b> Commissioner of Securities and Insurance Montana State Auditor's Office Securities Department 640 Helena Avenue Helena, MT 59601 Lyne Egan Deputy Securities Commissioner (406) 444-2040 (406) 444-5556 (Fax)
<b>Alaska</b> Dept. of Commerce, Community and Economic Development Division of Banking and Securities P.O. Box 110607 Juneau, AK 99811-0607  Róvni Anselm Director (907) 465-2521 (907) 465-2549 (Fax)	<b>Nebraska</b> Nebraska Department of Banking & Finance Commerce Court 1230 "O" Street, Suite 400 PO Box 99094 Lincoln, NE 68526-5095  Jack E. Herstein Assistant Director (402) 471-3446  <b>Nevada</b> Secretary of State

*Visit NASAA's Intrastate Crowdfunding  
Resource Center*

[www.nasaa.org/industry-resources/corporation-finance/intrastate-crowdfunding-resource-center/](http://www.nasaa.org/industry-resources/corporation-finance/intrastate-crowdfunding-resource-center/)



## Intrastate Crowdfunding Resource Center



Right now you can go on the Internet and donate to your favorite cause or startup business and get a t-shirt or maybe a free doughnut every week but you cannot invest in your favorite startup and get a share of stock.

Why?

Because securities laws govern the issuance of stock. You can't invest in a company that hasn't registered their stock, or qualified for an exemption from registration.

Registration is designed to protect both investors and legitimate issuers. The challenge is balancing investor protection with the interests of small businesses and entrepreneurs seeking to raise money.

As the result of a new federal law called the JOBS Act, you will soon be able to invest in companies through crowdfunding. This form of investing is known as "equity crowdfunding." But until the U.S. Securities and Exchange Commission completes its regulations to allow equity crowdfunding, this form of raising money remains illegal if done on a nationwide basis.

However, if you are interested in using equity crowdfunding on a local basis, a growing number of states have enacted exemptions within existing federal law that allow local small businesses and entrepreneurs to use crowdfunding to help grow their businesses by tapping into the crowd within their state's borders.

The North American Securities Administrators Association is pleased to offer resources to help investors and small business owners learn more about equity crowdfunding.

## Resources

- [Intrastate Crowdfunding Overview](#)

To learn more about equity crowdfunding, contact your state securities regulator.

- [Directory of state securities regulators](#)

To learn if equity crowdfunding is legal in your state, or if your state is considering enacting crowdfunding legislation:

- [Intrastate Crowdfunding Legislation/Regulation \(as of July 21, 2015\)](#) *Note: This information is being provided for your convenience and is not intended as legal advice. The information is illustrative only and not an exhaustive list. Any questions should be directed to the appropriate state regulator.*

To learn details of individual jurisdiction intrastate crowdfunding legislation or regulation:

- [Intrastate Crowdfunding Directory](#)

To learn what you should know about equity crowdfunding as an investor or small business owner/entrepreneur:

- [NASAA Investor Advisory on Equity Crowdfunding](#)
- [NASAA Small Business Advisory](#)

## Intrastate Crowdfunding In the News

- [Following the Crowd: Oregon Seeks to Ease Funding Rules](#), December 3, 2014, Salem Statesman Journal
- [Alabama Businesses Can Now Seek Local Investors](#), December 3, 2014, Dothan Eagle
- [Why aren't Michigan businesses raising money through crowd funding?](#), November 23, 2014, Lansing News
- [Texas Securities Board approved rules for crowdfunding](#), October 22, 2014, Dallas Morning News
- [New Mexico Proposes New Rule for Crowdfunding](#), September 25, 2014, Albuquerque Journal
- [MobCraft Beer becomes first to use Wisconsin crowdfunding law](#), September 24, 2014, Milwaukee Journal-Sentinel
- [Crowdfunding new way to invest in Indiana](#), September 24, 2014, Muncie Free Press



The Pew Charitable Trusts / Research & Analysis /  
Stateline / States Clear Way for Crowdfunding

# STATELINE

## States Clear Way for Crowdfunding

August 21, 2014

By Jenni Bergal



Matthew Marcus works at his desk in the basement of Kansas City Startup Village in Kansas City, Kansas. Kansas is one of a dozen states that have made it easier for startups to use crowdfunding to raise money from investors. (AP)

Creating a startup company takes a lot of time and effort. It also takes money, which is something that entrepreneurs like Henry Schwartz know all too well.

Schwartz is co-founder and president of MobCraft Beer, a craft brewery in Madison, Wisconsin. His company recently became the first in his state to get approval from regulators to use crowdfunding to raise money from a large number of small investors online. It's allowed under a new state law aimed at helping startup ventures.

"I think it's awesome the state passed this law," said Schwartz, 26. "There's such a capital crunch in Wisconsin and people are a little apprehensive to invest in startups. So this is a great way for companies to start the first round, and then be able to attract some higher dollar-amount investors down the road."

In the last three years, Wisconsin and 11 other states plus the District of Columbia have passed laws or regulations allowing startups to use crowdfunding to raise money from investors, without having to jump through all the regulatory hoops that companies with shareholders usually do.

Anya Coverman, deputy policy director for the North American Securities Administrators Association, which represents state securities regulators, said startups in the states where the laws have been changed still have to fill out some paperwork, disclose information to investors and pay a small fee. But it's not considered a full-blown securities registration, which can be expensive and time-consuming. The business also must operate in and sell shares to investors only within that state.

“This is a relatively new phenomenon that’s happening on a state level,” Coverman said. “States are really attuned to what local businesses need.”

Indiana passed its law allowing intrastate crowdfunding earlier this year. The goal was to give startups an opportunity to get funding in an easier way, said Republican state Sen. Travis Holdman, the bill’s sponsor.

“I’m very pro-business in supporting entrepreneurship,” Holdman said. “This helps small businesses get going, with the assistance of folks here in Indiana. There’s a homespun twist to it.”

The Indiana law is about “expanding investment choice” for people who ordinarily wouldn’t be able to put money into a private offering, said Carol Mihalik, the state’s securities commissioner, who joined Holdman to speak about crowdfunding at a panel this week at the National Conference of State Legislatures annual summit in Minneapolis.

“Right now, I can sit on a couch at home on my laptop in the middle of the night and log onto a registered website in Indiana and look at the offerings and choose to invest,” Mihalik said.

Other states that have similar laws or regulations allowing intrastate crowdfunding include Alabama, Georgia, Idaho, Kansas, Maine, Maryland, Michigan, Nebraska, Tennessee and Washington.

## **Two Kinds of Crowdfunding**

Until recently, there was only one type of crowdfunding – the donation model, which focuses on creative ventures or causes. Entrepreneurs with an idea put it out on the Web and solicit funding. Donors usually get a perk such as a T-shirt or pre-released CD

or other product in exchange for helping a good cause or a cool new venture, but they have no stock or ownership in the company.

If an entrepreneur decided to use crowdfunding to open a doughnut shop, for example, those who donated \$25 might get a free doughnut every month for a year. For \$100, they'd get a doughnut named after them. And for \$1,000, they could get doughnuts for life.

One of the best known donor-based ventures is Kickstarter, a crowdfunding site that bills itself as a home for everything from film and music to design and technology ventures. Since its 2009 launch, the company says that nearly 7 million people have pledged \$1 billion and funded 67,000 projects.

The other concept is called "equity crowdfunding." It uses a similar approach by asking the "crowd" to fund a business or project. But the entrepreneur is selling shares – an ownership stake in the business. Financial backers aren't donors getting free doughnuts; they're investors hoping for a return. That means that like other companies that issue stock, these startups must register with state regulators under securities laws or apply for an exemption.

"Securities laws and registration are designed to protect issuers and investors by making sure they have materials and important information about a company they're investing in," said Coverman, of the securities regulators organization. "It's also to prevent fraud and misrepresentation in those investments."

But the normal securities registration process can be costly and cumbersome, making it too difficult for small-time entrepreneurs.

That's why lawmakers have been amending their securities statutes or rules to exempt small startups from many of the standard registration requirements and allow them to raise money through crowdfunding, as long as it's only in their state. Start-ups still have

to register, but the process is much simpler and cheaper.

States also cap the amount that can be raised. In Wisconsin and Indiana, for example, a startup using crowdfunding can collect a maximum of \$1 million from investors or \$2 million if the company is audited.

While both models of crowdfunding are growing increasingly popular, state officials say that they also want to ensure that the companies are doing right by donors and investors.

In Washington state, Attorney General Bob Ferguson in April filed what may be the nation's first consumer protection lawsuit against a company that was using traditional donor-based crowdfunding. Washington alleges the company failed to deliver decks of horror-themed playing cards created by a Serbian artist and similar items promised to people who donated a total of \$25,146 for the project through Kickstarter.

Some states have decided to take a more cautious approach to crowdfunding.

In Minnesota, legislators tweaked state securities laws to allow equity crowdfunding and to give state officials the authority to regulate and set rules. But Minnesota didn't institute a blanket exemption from all the legal hurdles as some other states have done.

"It's an exciting area and one that we want to promote," said Minnesota Democratic state Rep. Joe Atkins. "But we have to be cognizant of the potential for fraud and abuse of investors. They could fall prey to scams and certain unsavory characters who might want to take advantage of them. It's an area that is fraught with potential perils."

### **Frustrated with the Feds**

Many states that have changed their securities laws to allow equity crowdfunding acted after they heard from disgruntled small business owners.

Entrepreneurs initially had been thrilled when the federal Jumpstart Our Business Startups (JOBS) Act was signed by President Barack Obama in 2012. It's supposed to allow small startups to use equity crowdfunding nationwide and be able to raise up to \$1 million a year from investors. But two years after the law's passage, the Securities and Exchange Commission is still working on creating the rules that are necessary to move ahead. That means that the process is in limbo and companies can't raise money through equity crowdfunding on a national scale.

So entrepreneurs started turning to the states for help.

"A lot of them have become frustrated with the SEC at the federal level and they've gone to the state legislatures, and have been successful, to a degree, in getting bills passed or rules allowing intrastate crowdfunding," said Bob Webster, communications director for the securities regulators group.

This year, lawmakers in at least 21 states introduced legislation dealing with crowdfunding exemptions, according to the National Conference of State Legislatures.

"These state bills are focused on the local doughnut shop, the local movie theater, a new startup that two young kids at the local university are trying to get off the ground, and help them crowdfund to local investors," said Coverman, of the securities regulators group.

Schwartz, the craft beer entrepreneur from Wisconsin, said that he paid the \$50 online fee to register, provided the necessary documents and got approval from state regulators to begin crowdfunding in June. But he hasn't been able to start because he's still waiting to find a Wisconsin bank that will agree to be the company's escrow agent, as required by law.

In the meantime, MobCraft Beer is continuing to use old-fashioned crowdsourcing to come up with ideas for its beers, such as Chocolate Peanut Butter Coffee Porter and Whisky Old Fashioned Berliner Weiss.

Schwartz, who describes the company as a “fully crowdsourced brewery,” said people submit ideas for new beers on the company’s website and customers vote for their favorites. The winning beers are brewed every month and sold at the brewery or through online retailers in more than 30 states. Winners get their names on the label.

Schwartz said that while the company has been successful because of its customer interaction, investor-based crowdfunding could bring it to a whole new level.

“We want to be like the Green Bay Packers, where the people own the team,” he said. “I wouldn’t say equity crowdfunding is great for all products, but for those businesses like us that people feel an attachment to and a sense of ownership of, it should be pretty effective.”

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02.11.2016

Thomas R. Daly  
108 Deepwood Court  
Kenai, Alaska 99611

Owner  
The HiSpeed Companies

## **SB126**

Senator Costello, thank you for introducing Senate Bill 126 – the Innovating Alaska Act.

I would also like to welcome Michael Shuman to Alaska and thank him for providing his expertise. I would encourage anyone who has not read his books to do so.

We all know Alaska faces unparalleled challenges right now, however for every challenge that presents itself many more opportunities become available.

This bill helps Alaskans with the challenges ahead in a most Alaskan way.

When I was a young boy in Tok, and got in trouble out in the woods, it wasn't a government program that came to my aid, I wasn't saved by a grant, or well-meaning social program, an angel investor, a low interest government backed loan or even Wall Street. What saved me was a friend's cabin door left open, a supplies cache, or a neighbor that noticed I needed help.

This bill will do the same for Alaskan Businesses by allowing Alaskans to invest in Local Alaskan Owned Business. Large corporations are not the answer for our state. We have seen multi-national corporations come to a community. For every one of those big box jobs the community loses 1.5 small business jobs. The economic leakage of dollars leaving the community is expanded as profits leave to corporate headquarters outside the state. Then when the market doesn't pan out multi-nationals don't stick with the community. In Kenai we have a vacant Lowes building, Juneau will soon have a vacant Walmart.

The answer for Alaska is to allow Alaskans to invest in small businesses and start ups, the greatest job creators in the history of the US economy. When these new



business buy supplies, services, and support they will most often buy them from other small Alaskan business breeding clusters of interrelated business that will rise together. Profits will also stay in the state.

I encourage our legislature to support and pass SB126 it really will help innovate Alaska's economy, building a diversified, 12 month, sustainable future.

All the best,

A handwritten signature in black ink, appearing to read "Thompson", is written over the signature line.

**HiSpeed Gear!**

610 Attla Way #2  
Kenai, Alaska 99611  
Established 1998

**HiSpeed Gear Too**

214 Kenai Avenue  
Soldotna, Alaska 99669  
Established 2012



March 4, 2016

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Executive Director

Duff Mitchell  
Contact

Mailing Address  
8585 Old Dairy Rd.  
Suite 104  
Juneau, AK 99801

Telephone  
907.789.2775

Web  
[www.aippa.info](http://www.aippa.info)

Senator Mia Costello  
State Capitol Room 510  
Juneau AK, 99801 State Capitol Juneau AK, 99801

RE: Alaska Independent Power Producers Association (AIPPA) support for SB 126 crowdfunding for Alaska entrepreneurs and small power producers

Dear Senator Costello,

AIPPA is a diverse organization that boasts of its membership the leading renewable energy developers and independent power producers in Alaska. Independent power producers (IPP's) range in size from very small with one wind turbine to millions of dollars in private investment. Alaska is a bountiful energy state, but private enterprise cannot rely on federal and state grants to fund power projects. Your bill provides a pathway for small entrepreneurs in remote villages as well as IPP's ready to invest in producing renewable energy in our more urban areas with new technology with the goal of reducing the cost of power to Alaskan. Today, 38% of America's electrical generation. In Alaska, IPP's represent a much smaller, but growing share of the total generation.

AIPPA supports your bill to assist our growing class of entrepreneurs who toil day and night to diversify our economy, create jobs and provide opportunity to their Alaska communities.

AIPPA appreciates your leadership in making Alaska regulations more effective, encouraging private investment in Alaska and assisting Alaska entrepreneurs in our renewable energy and other sectors with the introduction of crowdfunding in Alaska. We appreciate your sponsorship and leadership on the opportunity for crowdfunding for Alaskans.

Regards,

Duff W. Mitchell  
Executive Director

## As feds drag feet on investment 'crowdfunding' rules, states — including Oregon — fill void



Tim Schmidt, left, and Kyle DeWitt, the founders of Tecumseh Brewing Co. in Tecumseh, Michigan. Schmidt and DeWitt raised \$175,000 for the business through a revenue-sharing crowdfunding campaign. Seven percent of the brewery's gross sales will be distributed among the investors until they receive one and half times their original investment. The brewery is expected to open in February. (Tecumseh Brewing Co.)

By [Elliot Njus](#) | [The Oregonian/OregonLive](#)



[Email the author](#) | [Follow on Twitter](#)

on December 12, 2014 at 5:30 AM, updated December 12, 2014 at 3:19 PM

It's a made-for-Oregon story: A couple of employees at an award-winning craft brewery decide to take an entrepreneurial leap and open their own brewpub.

But Tim Schmidt and Kyle DeWitt were looking to set up shop in Tecumseh, Michigan, a community of about 8,500 an hour southwest of Detroit. They had \$155,000 borrowed from friends and family and the deed to a shuttered restaurant, but no bank would lend the rest of the money they needed to start brewing.

"We were running out of money and running out of time pretty fast," DeWitt said.

Their venture turned out to be a timely one. A year ago, Michigan passed a **bill that would let businesses crowdfund startup or expansion costs** through small investments from a large number of investors, and **Tecumseh Brewing Co.** was ready to be a test case.

**BUSINESS EDITOR'S PICKS**

The rest of the brewery's capital — \$175,000 — ended up coming from 21 Michigan investors, most of whom Schmidt and DeWitt had never met.

Oregon investigates Hannah the Pet Society after dog killings

Despite **approval from the U.S. Congress in 2012**, federal regulators have been slow to implement nationwide investment-crowdfunding rules. So individual states are filling the vacuum, **passing their own laws and rules** under what had been a little-used federal exemption.

Fo low along as Miss Oregon brings local produce to Japan

Evrax will close Portland pipe mill in April, lay off 230

Oregon, it appears, is next in line. The state Department of Consumer and Business Services **has already drafted rules** that could be implemented as soon as January.

**More**

**The United States of crowdfunding: Rules for crowdsourcing investment, state by state (maps)**

PERS: Oregon pension deficit up 20 percent, cutting pressure on costs

Is that really lobster on your plate? Restaurants found using cheaper fish instead

There is a catch: the so-called intrastate exemption to federal securities law only allows offerings made within a state's borders, so Oregon businesses could only seek investments from Oregon residents.

And with no finalized rules from the SEC, each state is coming up with its own playbook. Fourteen states and the District of Columbia have come up with crowdfunding rules, and no two are the same. More are on the way. Like Oregon, New Mexico is still in the middle of a rulemaking process.

Under the proposed rules in Oregon, businesses could raise up to \$250,000, a lower cap than in most states that have adopted crowdfunding rules. Individuals could invest up to \$2,500 apiece, even if they aren't "accredited investors" — a regulatory term meaning those who meet certain wealth or income thresholds and are therefore permitted to participate in higher-risk investments.

"You can now accept investment from the 99 percent," said Amy Pearl, a co-founder of **Portland business incubator Hatch** and a supporter of the Oregon initiative. "This is extremely significant, not only for the raising of capital ... but also it lets investors become actual stakeholders in their own community economy, and potentially make some money."

The Michigan brewers raised \$53,000 before a single large investor came forward with the remaining \$122,000. The offering closed several weeks early.

Some investments were as small as \$250, Dewitt said, and none of the investors live more than 25 miles away. Many attended tasting nights for prospective investors.

"Crowdfunding opened it up to people who were super excited about it, couldn't wait to get the brewery open," he said. "They knew the town, they got to meet us and they knew the brewery concept."

When the brewery opens — in February, if all goes according to plan — 7 percent of its gross sales will be distributed among the investors until they make back one and a half times their investment.

Congress opened the door to equity crowdfunding with the JOBS Act of 2012, which unwound restrictions on the advertising of securities that had been in place since the Great Depression. Lawmakers decided the rules, put in place to protect small investors from losing their savings on bad deals, were out of date — and a hindrance to small businesses.

But the Securities and Exchange Commission has been slow to finalize rules that would implement crowdfunding. It proposed rules in October 2013, but the supposed 90-day comment period has dragged on for more than a year.

The agency declined to comment on the delay, but Chairwoman Mary Jo White told Congress in May that implementing crowdfunding was among the agency's priorities. When it might actually happen, however, remains a mystery to those following the issue.

"We just don't know," said Anya Coverman, deputy director of policy for the **North American Securities Administrators Association**, a state and provincial regulator's group. "They don't have a deadline on finishing any rulemaking. Where you're seeing the action and the innovation now is at the state level."

The result is a **patchwork of rules and laws that vary wildly from place to place**. Washington state's crowdfunding law took effect in November and allows companies to raise up to \$1 million, though it has yet to be used by a single company.

Oregon's rules are comparatively conservative. Among the states that have rules in place, only Maryland has a lower cap on the amount a business can raise.

Offerings would not be registered with the federal government, and the state's oversight would be limited. That's by design, said David Tatman, administrator of the state's Division of Finance and Corporate Securities.

"Our goal was to try and keep this simple and streamlined, rather than create a more complex process," Tatman said. "We've put the dollar amount where we're not as concerned as we would be otherwise."

The businesses would also be required to make detailed disclosures to potential investors, as well as periodic updates throughout the life of the investment.

But the program does away with restrictions that for decades were thought to provide protection to unsophisticated investors, and some say it goes too far.

Alex Pawlowski spent 35 years as a banker and now works in economic development in southern Oregon. He saw capital for small business dry up in the recession, so he knows there's a need.

But he's also seen entrepreneurs struggle with even basic financial documents. And he's watched businesses collapse quickly.

"The first business that fails, there's going to be fingerpointing," Pawlowski said. "People are going to say, 'Who approved this?' 'Who looked at this plan?' I think that's where you're going to see things unravel."

-- Elliot Njus

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# Alabama governor signs crowd funding law

By PHILLIP RAWLS - Associated Press - Tuesday, April 8, 2014

MONTGOMERY, Ala. (AP) - Alabamians are being given a new way to raise money to start small businesses.

Gov. Robert Bentley's press secretary, Yasamie August, said he signed legislation Tuesday that was sponsored by Republican Sen. Arthur Orr of Decatur and supported by the Alabama Securities Commission.

The new law allows someone trying to start a small business in Alabama to use social media and advertising to find small investors who live in the state. The "crowd funding" is limited to raising \$1 million, and it is restricted to Alabama businesses and investors because of federal regulations. The investments are capped at \$5,000 for most people to limit risk. The process comes with less cost and less regulation than larger business investments, but the Securities Commission still plays a role.

Orr said entrepreneurs trying to start small businesses face a tough credit market, but the law allows them to use social media and other modern technology to attract small investors.

"This legislation should serve as a vehicle to enhance the ability of small businesses to succeed in Alabama," he said Tuesday.

Orr's bill won final approval in the Legislature on April 1 and cleared both the House and Senate without a negative vote.

When the Legislature passed the bill, Securities Commission Director Joe Borg said, "While investment in startup businesses has risk, the potential rewards in promoting new businesses and job formation in our local communities are invaluable."

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# Following the crowd: state seeks to ease funding rules

 Laura Fosmire, Statesman Journal 7:21 a.m. PST December 4, 2014



(Photo: VANDERLEI ALMEIDA, AFP/Getty Images)

Oregon businesses could soon have access to a new source of money to finance start-ups or expand their ventures, as state officials hope to tweak the rules by the end of the year in favor of crowdfunding.

It's not a new idea, nor is it unique to Oregon. President Obama signed the Jumpstart Our Business Start-ups Act in 2012, which includes an exemption in securities registration that would let businesses attract a higher number of investors through crowdfunding — purportedly leading to more funds, more start-up businesses and more jobs.

But as the federal Securities Exchange Commission drags its feet in finalizing the rules, Oregon hopes to move things along with a state-level exemption that could be in place by the end of the year.

Oregon's not alone. At least 13 other states have already enacted their own crowdfunding rules.

Crowdfunding is the practice of funding a venture through financial contributions from a large number of people, was popularized online and through social media with websites like Kickstarter and GoFundMe.

But the exemption targets what's known as equity crowdfunding — where financial contributors get a stake in the company, somewhat like shares of stock.

On Wednesday, the state Department of Consumer and Business Services opened up comment on the proposed rule change with a public hearing. The public can continue to submit comments until 5 p.m. on Dec. 10.

The change would shake out as follows: Currently, an Oregon-based business or entrepreneur looking to sell securities must register with the state, so that officials can ensure the offering is financially fair and legitimate.

Oregon is now seeking to add an exemption to that rule that would allow businesses to bypass registration — provided they meet certain standards put in place for continued protection against fraud and for the investors' protection.

Those standards include a \$250,000 cap on total funds raised through crowdfunding, as well as an individual limit of \$2,500 from each crowdfunding investor.

"That's why we have the caps," said David Tatman, administrator of the Finance and Corporate Securities Division. "We're saying, 'Okay, we'll let you do this without the review.' But the caps are in there to make sure no one person could be subject to too much financial harm should it not work out."

The rule change is meant to benefit what state officials are calling small businesses, although there is no exact definition of eligibility aside from the \$250,000 cap.

"We think with the cap, most businesses that have a net worth of more than \$1 million probably aren't going to be pursuing that," he said.

Business owners or start-up hopefuls will be obligated to meet other criteria for the exemption. For one thing, they'll be required to disclose how the money will be used and what a potential investor's ownership will look like, in terms of stock or financial return. And of course, crowd investors can only come from within the state.

What is unique to Oregon is an additional proposed educational component.

"Companies going forward, before they could use this exemption, would meet with someone like a small business development center," Tatman explained. "And they could review what the undertaking involves and how the business goes about raising funds and corporate governance, things like that. That's a little bit different than any other states. We'll see how it works out."

Officials are hopeful the relaxed rules will encourage economic development from businesses looking to expand their ventures or the next great idea seeking money for a start-up.

"This basically was designed to encourage small businesses in particular to get started and expand and grow," Tatman said. "One of the concepts was this notion of crowdfunding."

So what happens now? After the window for public input closes, all of the feedback will be compiled into a report to be submitted to the department for Tatman to review and issue a final rule.

"Our goal is to get the rule done by the end of the year," he said. "We've been working on this for four months, so I don't expect any major surprises."

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#### **Public comment on the rule change**

The public can continue to submit comments on the rule until 5 p.m. on Wednesday, Dec. 10. To do so, email [Shelley A. Greiner@state.or.us](mailto:Shelley.A.Greiner@state.or.us)

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# BANGOR DAILY NEWS [\(http://bangordailynews.com/\)](http://bangordailynews.com/)

## Maine House approves bill that would let entrepreneurs raise capital through crowdfunding (<http://bangordailynews.com/2014/02/13/politics/maine-house-approves-bill-that-would-let-entrepreneurs-raise-capital-through-crowdfunding/>)

By Whit Richardson (<http://bangordailynews.com/author/wrichardson/>), BDN Staff  
Posted Feb. 13, 2014, at 4:21 p.m.

AUGUSTA, Maine — The Maine House of Representatives on Thursday approved a bill that would give Maine entrepreneurs more leeway in how they raise capital to grow their businesses.

The bill, "An Act To Increase Funding for Start-ups," ([http://www.mainelegislature.org/legis/bills/display\\_ps.asp?Id=1512&PID=1456&snum=126](http://www.mainelegislature.org/legis/bills/display_ps.asp?Id=1512&PID=1456&snum=126)) would make it possible for Maine businesses to raise capital by selling small amounts of equity to individual investors. It essentially allows Maine entrepreneurs to participate in a fundraising model popularized by crowdfunding websites like Kickstarter.

Businesses interested in participating in crowdfunding would be required to register with the Maine Office of Securities and set a target amount to raise no more than \$1 million. The business would also need to set a deadline by which it would need to hit its fundraising goal. If it is unsuccessful in hitting its goal by the deadline, all investors up to that point would have their money returned. No individual investor would be allowed to invest more than \$5,000.

Senate President Justin Alford, D-Portland, sponsored the bill, which he said would support Maine entrepreneurs and make the state "a national leader in turning ideas into jobs."

"By allowing and encouraging small-scale investment in companies, Mainers tell the world, 'If you have a vision and a plan, we want to support you and help your business grow,'" he said.

Jess Knox, the statewide innovation hub leader for Blackstone Accelerates Growth, which works to support entrepreneurship in the state, applauded the House's approval of the bill.

"This is exactly the type of support that elected officials in Maine should focus on," he wrote in an email. "This law could provide Maine's entrepreneurs and micro-businesses a leg up toward success and growth over their competitors in other areas."

The Senate, which voted on Feb. 6 to approve the bill, now needs to enact it, which it is scheduled to consider on Tuesday. If enacted, the bill will be sent to Gov. Paul LePage for his signature. He would have 10 days to sign the bill into law, veto it, or allow it to go into law without his signature.

The measure passed without a roll call in its initial Senate vote. The House supported it by a vote of 129-1, with Rep. Ricky Long, R-Sherman, casting the lone dissenting vote.

Adrienne Bennett, LePage's press secretary, on Thursday wouldn't comment on the governor's intentions with regard to the bill.

"When it gets down here, we'll take a look at the merits of the bill," she wrote in an email.

<http://bangordailynews.com/2014/02/13/politics/maine-house-approves-bill-that-would-let-entrepreneurs-raise-capital-through-crowdfunding/> (<http://bangordailynews.com/2014/02/13/politics/maine-house-approves-bill-that-would-let-entrepreneurs-raise-capital-through-crowdfunding/>) printed on February 11, 2016



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## MobCraft Beer becomes first to use state's crowdfunding law

By Rick Romell of the Journal Sentinel  
Sept. 24, 2014

Equity crowdfunding got off the ground in Wisconsin Wednesday, as Madison's MobCraft Beer announced an agreement with a bank to help with the state's first deal using the new investment vehicle.

MobCraft is teaming with Monona State Bank, which will handle money the craft brewer will seek to raise under a recently enacted law that lets private companies sell stock over the Internet to people of modest means.

In the past, such stock sales generally have been limited to "accredited" investors with high income or net worth.

Advocates of equity crowdfunding view the mechanism as a way to democratize investment — giving small businesses a new means of raising capital, and allowing non-wealthy people to put relatively small amounts of money into private firms.

Critics fear that crowdfunding will be used to defraud unsophisticated investors.

Crowdfunding also raises questions of how easily people will be able to cash out of investments that are far less liquid than publicly traded stock. Wisconsin's law, which took effect June 1, allows businesses to sell up to \$1 million in stock to state residents, with non-accredited investors putting in as much as \$10,000 each. Firms can raise up to \$2million if they make a financial audit available.

The law also requires that while the money is being raised it must be held in escrow by a state-chartered financial institution.

The 11 other states that have authorized crowdfunding also allow nationally chartered banks to hold the money, and the Wisconsin restriction has been criticized by some as an impediment to getting deals done.

But an arm of the Wisconsin Bankers Association has developed a model escrow agreement for use in crowdfunding transactions.

"Since then we have seen a lot more interest from banks," said David Dupee, a Milwaukee lawyer who registered the state's first website for crowdfunding initiatives to use, a food-and-drink-oriented platform called CraftFund.

Monona State Bank President and CEO Paul Hoffmann called crowdfunding "an exciting development

for our state."

"We see the potential as really great for helping small, local businesses be able to either start or to expand," he said.

Crowdfunding activity so far has been modest in the dozen states that allow it.

Nationwide crowdfunding campaigns, authorized by Congress two years ago, are on hold awaiting regulations by the U.S. Securities and Exchange Commission.

**Find this article at:**

<http://www.jsonline.com/business/mobcraft-beer-becomes-first-to-use-states-crowdfunding-law-b99358411z1-276938661.html>

Check the box to include the list of links referenced in the article.

## Commentary: District's equity crowdfunding proposal would be good for small businesses

By William Michael Cunningham August 17, 2014

In a bold move, the District of Columbia recently proposed new rules to permit equity crowdfunding in the city. Equity crowdfunding is a business financing method that allows companies to sell equity or ownership stakes to a large number of people using online platforms.

With this move, the District becomes the latest locality to allow start-ups and small businesses to use this new business funding tool. Twelve states, including Maryland, currently allow equity crowdfunding. Maryland firms can raise up to \$100,000 through such schemes. D.C.'s proposal goes well beyond this limit, placing the city at the forefront of efforts to develop locally based, self-sustaining, independent business financing methods.

For small-business owners and others, this new D.C. equity crowdfunding proposal means the stranglehold venture capitalists and banks have had on access to business start-up capital will loosen a bit.

D.C. proposes to allow the creation of a process through which new and existing companies will be able to obtain funding from a large number of small investors. These small-scale investors might purchase shares for as little as \$10 in, say, the next Google or Apple. More likely, the process will be used to raise start-up capital for the coffee shop down the street or for the day-care center up the block. This is a wonderful option, currently absent from the small-business funding tool kit.

D.C.'s proposal contains a number of safeguards: a company can raise up to \$500,000 if it has financial statements (balance sheet, income statement, cash flow statements) that have been certified as accurate by the company's chief executive. Companies that have undergone a financial statement review conducted using standard accounting procedures can raise up to \$1 million. Finally, companies that have undergone a full-scale external audit conducted by a certified public accounting firm can raise up to \$2 million.

For small businesses currently shut out of the capital markets, this is a major advance. If your fan or customer base is strong enough, you may be able to raise enough capital to pursue a dream. For example, Kugler Cycles, owners of Bikespace DC, wants to manufacture bikes in the city. They have started a donations-based (not equity) crowdfunding campaign on Indiegogo. A donations-based crowdfunding campaign allows supporters to support a company by donating money in exchange for some reward, such as first dibs on a new product. With a donation, or reward-based campaign, you are not actually purchasing an ownership stake in the company you are supporting. In

Kugler's case, imagine being able to actually buy an ownership stake, or equity, in a D.C.-based bike manufacturing company. This alone might be enough to trigger a D.C. manufacturing renaissance. (Full disclosure: I helped create the Kugler Cycles donation-based Indiegogo crowdfunding campaign).

The D.C. proposal applies only to companies located in the city, and all investors must be D.C. residents as well. While these rules limit both the number of potential firms and the number of investors, we believe the amount of good this may have on the local small-business community outweighs any drawbacks.

*William Michael Cunningham is an economist, D.C. native and author. He is managing partner at National Crowdfunding Services, which has partnered with the D.C. government to provide donations-based crowdfunding services.*

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# Albuquerque Journal

## State proposes new rules for crowdfunding

By Winthrop Quigley / Journal Staff Writer

Wednesday, September 24th, 2014 at 3:51pm

ALBUQUERQUE, N.M. — The state's chief securities regulator on Wednesday released proposed rules designed to help small New Mexico businesses raise unlimited capital through on-line crowdfunding from any state resident, regardless of the investor's wealth or income.

Securities Division Director Alan R. Wilson said that "archaic regulatory limitations" make fund-raising expensive for small businesses, limit the amount of money that they can raise and restrict investment opportunities to investors "who make very high incomes or have high net worth."

In a letter to the Economic Development Department's Office of Business Advocacy, Wilson proposed the state supervise and regulate websites designed to help New Mexico businesses raise capital from New Mexico residents. He said the state should allow businesses to raise "any amount that can be justified" and should let any state resident invest.

"This new (on-line) platform for raising capital will be an important tool in a business owner's belt," Wilson wrote. "Given New Mexico's substantial small-business presence, having a way for residents to become invested in their community and to support their neighbors is long overdue."

The regulations "recognize and embrace the ubiquity of technology so that New Mexico businesses can tap into new investment pools," the letter says.

Wilson said in an interview that fund-raising in New Mexico generally follows federal requirements. Those federal rules allow small businesses to skirt some of the more expensive requirements that large, publicly-traded companies must meet, but in return the rules limit the amount of money that can be raised, generally, to \$1 million to \$5 million, depending on a variety of regulations. The rules allow only an individual with a net worth of \$1 million or an income of \$200,000 a year to invest.

New Mexico can establish its own investment rules so long as investors and businesses are based in New Mexico, Wilson said.

Wilson proposed the state create "a mechanism for all intrastate offerings to raise money from the entirety of the state's population via officially recognized interactive websites, known as portals."

Such websites, including Kickstarter, possibly the best known, allow a business or a charity to explain to any potential donors and investors who visit the website how the money will be used. The sites give funders a mechanism to commit money to the fund-raiser.

The proposed regulations would require portals to register with the Securities Division. The regulations would spell out the information the website must contain, how the portal will operate and how it will maintain records.

"The regulations are intended to give structure and safeguards to the investors who will use the portal," Wilson letter says.

## Businesses can now seek local investors

Carly Omenhiser

Business Reporter | Posted: Wednesday, December 3, 2014 5:22 pm

Dothan resident Precious Freeman left the chamber of commerce Wednesday afternoon more knowledgeable about how to take advantage of Alabama's new crowdfunding law.

The Dothan Area Chamber of Commerce welcomed the bill's creator, Sen. Arthur Orr of Decatur, and Alabama Securities Commission attorney Ed Reed to host a seminar for those interested in learning about the new way Alabamians can raise money from Alabamians to start a small business.

Freeman said she's always looking to learn new information and what she learned Wednesday she plans to use down the line for a project she has in mind.

"I thought it was pretty thorough," she said of the seminar.

Freeman said she also appreciated that the senator and the ACS attorney who would be handling the applications took the time to come to Dothan and explain the process.

"We planned that when the bill passed that we would try to go around the state and hold public forums for people to get their questions answered by a securities commission lawyer," Orr said.

The bill, which was signed in April, allows Alabama residents to use social media and advertising to raise up to \$1 million from small investors who live within the state.

The bill is different than other Internet crowdfunding sites such as Kickstarter or Indiegogo, in that this bill allows a person to sell equity or shares in the business.

Orr said this form of crowdfunding differs in that a person isn't donating or buying an incentive for supporting a project. The investors are actually investing in hopes of a return.

In order to do that, the person seeking investors must register with the state and apply for an exemption.

In today's financial market, Orr said it's become difficult for small start-ups and small businesses looking to expand to raise the capital they need and the bill is intended to be a low cost, simple solution.

"We wanted it simple and easy to use. We didn't want a 50-page bill with a lot of hoop jumping and we wanted it to be low cost for the small business in that we didn't have to require a broker/dealer or go through a middle man," Orr said. "The ability for small businesses to be able to raise capital was the primary motivating factor for putting the bill together."

Alabama is one of the first states to pass a bill of this nature, along with Kansas and Georgia.

After the bill passed, Orr said he was surprised to get phone calls from the Wall Street Journal and other national publications interested in the law and how Alabama has taken a leading role in the crowdfunding movement. About a dozen other states have passed similar laws.

To read the bill or learn more about crowdfunding, visit [acs.alabama.gov](http://acs.alabama.gov).