Securities
Commission

Suite 400, Duke Tower
5251 Duke St., PO Box 458
Halifax, NS B3J 2P8

Start-up Crowdfunding FAQs

Start-up crowdfunding is a process through which a business can raise small amounts of money from a large number of people using the internet. The objective is to raise sufficient funds in order to carry out a specific project.

There are six jurisdictions that offer start-up crowdfunding exemptions: British Columbia, Manitoba, New Brunswick, Nova Scotia, Québec and Saskatchewan.

I pledged money to a business through Kickstarter. Am I an investor?

Crowdfunding models are often used to finance new products or philanthropic endeavours, such as producing a movie or supporting victims of a natural disaster. People who give money through online platforms like Kickstarter, Indiegogo, Haricot and GoFundMe for these reasons are considered donors or pre-purchasers of a product. These people may receive rewards for their pledges, but do not own any stake in the business that they backed.

I received a security for my contributions to a crowdfunding campaign. Am I an investor?

People who receive bonds, shares or other securities in exchange for giving money to a business are considered investors. Participating investors can earn interest or participate in the future growth of that business if the value of the securities increases. This type of crowdfunding is overseen by the securities regulator of your province and is often referred to as **securities crowdfunding** or **start-up crowdfunding**.

Why would a business raise capital through start-up crowdfunding?

In Canada, issuing securities to the public is subject to legal obligations, which can be costly for small businesses and start-ups. Start-up crowdfunding allows these early-stage companies to raise small amounts of money without having to meet all of those legal obligations.

Where can I find start-up crowdfunding offerings?

You will find start-up crowdfunding offerings posted on the websites of **funding portals**. A business wishing to raise money through start-up crowdfunding must first complete an offering document outlining its idea and then post the offering document on a funding portal's website.

What does a funding portal do?

A funding portal posts start-up crowdfunding projects on its website. The funding portal is responsible for explaining the risks of investing to potential investors, holding all investor funds in trust until the start-up raises the minimum funding target, and returning funds to investors (without deduction) if the start-up does not reach its target.

Before a funding portal can operate in any Canadian jurisdiction, it must meet certain conditions such as filing mandatory documents with the securities regulator in that jurisdiction. You can check with your local regulator to see whether any particular funding portal is allowed to do business in your province by calling the phone number listed under *Where can I get further information?*

What types of funding portals are there and which one should I use?

There are two types of funding portals: registered and unregistered. You should use a registered portal if you need investment advice, as it must determine whether an investment is suitable for you. An unregistered funding portal cannot give investment advice.

A funding portal must advise investors whether or not it is registered. You can check with your local securities regulator to see if the funding portal can do business in your province.

What information will I find in a business's offering document?

An offering document contains basic information about the business, its activities, its officers, its financial condition, the amount it wants to raise, the investment, how the money raised will be used, and the risks associated with investing. **These offering documents are neither reviewed nor approved by Canadian securities regulators.**

How much can I invest?

Investors can contribute up to $1,500 per start-up crowdfunding offering.

What will I get in return for investing in a start-up through crowdfunding?

With start-up crowdfunding, investors receive securities in exchange for their investment. This is different than other types of crowdfunding, where you may get a product. Start-up crowdfunding is restricted to particular types of securities: debt securities, such as bonds; equity securities, such as common shares or preference shares; limited partnership units; and convertible securities, such as warrants, that are convertible into either common shares or preference shares.

The offering document must describe the type of security you will receive in exchange for your investment.

Does the business have to raise a minimum amount?

Yes, the business must specify the minimum amount it needs to raise in order to proceed with the project. If it does not raise the minimum, it will not receive any money and any funds you have provided to the funding portal will be returned to you.

Is start-up crowdfunding risky?

Yes, statistically speaking, a high percentage of start-ups and early stage businesses fail. Investing in these businesses is risky, and you could lose your entire investment. Before you invest, the funding portal is required to confirm that you have read and understood the required risk warnings.

If your risk tolerance is low, an investment in a start-up business may not be suitable for you.

Will I be able to resell my securities quickly or easily after purchasing them?

No, it is likely that you will have to hold them for an indefinite period of time, or may not be able to resell them at all. This is one of the significant risks of start-up crowdfunding. If you wish to invest in securities that you can resell in the short term, this type of investment may not be suitable for you.

What kind of returns can I expect to see?

Start-up crowdfunding is risky. You should only invest if you can afford to lose your whole investment. Returns are always uncertain and depend on many factors beyond the control of both investors and the business.

What kind of disclosure or financial statements can I expect to receive?

Unlike reporting issuers (such as companies listed on a stock exchange), start-ups and small businesses are not always required to provide audited financial statements or other periodic disclosure. You will likely receive much less information about the business than you might expect.

Start-ups and small businesses also rarely attract much media coverage. While a great deal of information and analysis is often published about large corporations, this is not always the case for start-ups, which have a shorter track record.

Generally, the business you invest in will not have any obligation to provide you with updates (such as an annual report), and you may have to track your investment on your own.

Am I at risk of being defrauded?

As crowdfunding becomes increasingly popular, the potential for fraud also can increase. Fraudsters often use the internet to find potential victims. In some cases, it may be difficult to tell the difference between a legitimate funding portal and a fraudulent one. If you have concerns about the legitimacy of a funding portal, it is important to contact your local securities regulator before you provide any personal information or invest. They will be able to tell you if the portal is allowed to operate in your province.

If you have concerns about the legitimacy of a crowdfunding opportunity, it's important to do your homework before investing. See *What should I do before I invest?*

What should I do before I invest?

Do your homework before investing. You can search the internet for information on the business, the industry, the people managing the business, as well as the viability of its business plan. You can also search for information on the particular funding portal where you see the offering document.

Take time to thoroughly review the business's offering document and business plan. Make sure you understand the business plan and the risks associated with investing in the business. How is the start-up going to grow its business? How will it make money and within what period?

If the start-up gives you financial statements, ask whether the financial statements have been audited and which accounting standards were used to prepare the financial statements. Do the financial statements include a statement of financial position, statement of comprehensive income, statement of changes in financial position and detailed supporting notes? If you are not comfortable with financial statements or find them difficult to understand, visit the investor education website of your local securities regulator for further information about how to read company material.

What should I consider when reviewing an offering document?

It's important that you understand the business and the terms of investing in it. There are a number of considerations that you should give to an investment in a new business, including:

- Can I receive any income from the eligible securities?
- Can the business sell new shares and reduce my percentage ownership?
- If the business sells additional shares at a lower price than I paid, will they adjust my share holdings?
- Will the business repurchase my shares after a set number of years?
- Are the shares voting or non-voting shares?

What if I change my mind?

Once you have committed to purchasing securities, you will have two opportunities to change your mind:

- You may withdraw your investment within 48 hours of subscription if you no longer wish to invest.
- You also have the right to withdraw your investment within 48 hours of the funding portal notifying you that the offering document has been amended.

In either case, you must notify the funding portal that you wish to withdraw prior to the end of this 48 hour period by following the instructions that the portal provides. The business will be unable to complete the crowdfunding campaign prior to the expiry of the 48 hour period.