In need of start-up capital? Crowdfunding may be just the solution

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The Canadian Securities Administrators' (CSA) recently proposed an initiative to harmonize the framework for securities crowdfunding across Canada (the CSA Proposal). This article is intended primarily for start-up companies with head offices in Canada that wish to finance a specific business project through crowdfunding. The CSA Proposal, if brought into force, is significant because it aims to create a nationwide framework for crowdfunding, thus reducing the regulatory burden on start-ups looking to take advantage of this alternative source of capital to launch or expand their early-stage business projects.

How does crowdfunding work?

Crowdfunding is an online, capital-raising process, through which businesses receive small contributions from many investors in exchange for giving investors a stake in the company. The process is run by a funding portal, an online platform that lists crowdfunding campaigns and facilitates the payment of the purchase price from the investors to the issuers.

What do start-up founders need to know?

Raising capital through crowdfunding is regulated by Canadian securities laws. However, several provinces (British Columbia, Saskatchewan, Manitoba, New Brunswick, Québec and Nova Scotia) have allowed the raising of capital through crowdfunding since 2015, under local blanket orders setting out an exemption from the prospectus requirement for securities distributions.

The CSA Proposal intends to expand this framework across Canada. Raising capital through crowdfunding is cheaper than using the typical prospectus-based process, but it poses certain risks for investors. While having a less burdensome securities regulatory framework for financing a company's next milestone is a major benefit for early-stage companies, the ability to use crowdfunding has some requirements and limitations issuers should know about.

- **How much capital can I raise?**

The CSA Proposal intends to double the aggregate amount that companies can raise in a 12-month period from $500,000 to $1 million.

- **What types of securities can I offer to investors?**

The range of securities companies may issue is limited to those that give investors an ownership stake in the business, such as shares, limited partnership units or debt securities convertible into equity securities.

- **How do I make securities available for purchase by investors?**

If you are planning to raise capital through a crowdfunding campaign, the CSA Proposal says you must prepare an offering document containing information about the company, its business and management, the intended use of the proceeds of the crowdfunding campaign and the risks associated with investing in the company.

- **How much capital am I allowed to raise from an individual investor?**

Each individual investor may invest up to $2,500 in one distribution of securities. However, if the investor receives advice from a registered dealer that the investment is suitable for them, then the maximum amount is $5,000.

- **What limitations do I have on using the capital raised?**

A company would be able to rely on the prospectus exemption set out in the CSA Proposal only to raise money for a specific business objective. A company cannot use crowdfunding to raise capital for investment in another company or for carrying out a merger.

- **When will the CSA Proposal be in force?**

The CSA Proposal has been published for a 90-day comment period, expiring on May 27, 2020. Following that comment period, assuming the CSA proceeds with the CSA Proposal, would either publish final rules or have a further comment period. The CSA Proposal will not come into force, if at all, until mid to late 2020 at the earliest.

How can BLG help?

If you'd like to know whether your company is eligible to rely on the prospectus exemption contained in the CSA Proposal or available through local blanket orders in British Columbia, Saskatchewan, Manitoba, New Brunswick, Québec and Nova Scotia, or if you have any questions on how this development affects your business, do not hesitate to reach out to the authors or any member of BLG's Capital Markets group.

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