• Implications of Regulation Crowdfunding

• Speakers:
  – Kendall Almerico, CEO, Bankroll Ventures LLC
  – Sandra Clarke, Associate Director of FINRA’s Membership Application Program group
  – Linda Rittenhouse, JD, Director, Capital Markets Policy, CFA Institute
Vladimir Ivanov
SEC Lead Economist for Regulation CF
Where Did Crowdfunding Come From?

Mozart
The First Rewards-Based Crowdfunding Campaign
In 1783, 176 backers paid him to list their names on a manuscript of three concertos he wanted to perform
Joseph Pulitzer
Raised $100,000 from 125,000 readers of his New York World newspaper to build the base of the Statue of Liberty
Modern crowdfunding was born as a result of the 2007-2008 financial crisis.
Where Did Modern Crowdfunding Come From?

2008

INDIEGOGO

2009

KICKSTARTER
$10,000 Watch
Pebble: E-Paper Watch for iPhone and Android
by Pebble Technology

Funded! This project successfully raised its funding goal on May 18, 2012.

68,929 backers
$10,266,845 pledged of $100,000 goal
0 seconds to go

Funding period
Apr 11, 2012 - May 18, 2012 (37 days)

Pebble is a customizable watch. Download new watchfaces, use sports and fitness apps, get notifications

Contact me
Website: getpebble.com
See full bio
Worldwide Phenomenal Growth

$7,000,000,000 Industry in 2013
$16,200,000,000 Industry in 2014

$34.4 billion in 2015
Congress Took Notice!

Four unrelated bills relating to opening up capital markets to small businesses were combined...
2012: The JOBS Act Was Born!

April 5, 2012
President Obama signed the JOBS Act into law.
The most talked about provision of the JOBS Act: True Equity Crowdfunding was finally here!

Startup companies would be allowed to raise up to $1,000,000 from “the crowd” online – Just like Kickstarter!

Congress mandated the SEC to create rules to implement the equity crowdfunding law by January 1, 2013!
Title III – Regulation CF

Four Years Five Months Six Days Later…

On May 16, 2016 Regulation CF finally became legal.
Intrastate Crowdfunding

INTRASTATE CROWDFUNDING EXEMPTIONS (As of April, 2016)

- Exemption Enacted
- Exemption In Progress
- Exemption Rejected

©Crowdfundinglegalhub.com
• A U.S. or Canadian company may raise up to $1,000,000 per year, online, by selling equity to anyone in the general public

  • Fairly straightforward form to file with the SEC, some review of financial records required

  • No state-by-state Blue Sky Law compliance

  • Companies must use a “funding portal” to raise funds

• Annual income or net worth less than $100,000, can invest 5% of lesser of annual income or net worth or $2000 (whichever is more)

Annual income and net worth more than $100,000, can invest 10% of their annual income or net worth (whichever is less), up to $100,000
Contact Kendall

Kendall Almerico
Kendall@BankRoll.Ventures
@KendallAlmerico
• FINRA Funding Portal (FP) Membership Program: Overview and Process

• Sandra Clarke, Associate Director, FINRA
Overview: FP Membership Application Program

• **Funding Portal Membership**
  - Types of applications
  - How to file an application for membership
  - When to File a continuance of membership application

• **Challenges**
  - Qualified Third Party Relationships
  - Source of Funding

• **The Review Process**
  - How does an applicant meet the standards for approval?
  - The Decision

**FP Membership Program Overview and Processes**
Copyright 2016 FINRA
Funding Portal New Member Application (NMA) Filing

• NMAs -- New member filings
  • File with the SEC
    – Complete SEC Form Funding Portal
    – Obtain Funding Portal File Number
  • Commence filing with FINRA through Firm Gateway
    – Obtain FINRA Entitlement
    – Submit Fingerprint filing

• Completing Form Funding Portal New Member Application (FP NMA)
  – Requires applicant to answer specific questions
  – Attach supporting documentation

• Pay Filing fee
  – Filing fee is a fixed cost of $2,700
  – Must be paid before application can be submitted

• Submit Application for Review and approval
FINRA must evaluate the application with its dedication to investor protection and market integrity through effective and efficient regulations: stopping bad actors “at the gate”, while expediting matters efficiently when the risk assessment is low.

- **Rule mandated timeframes that governs the process**
  - Staff has 14 days to deem application substantially complete and/or issue request for more information. All subsequent requests must be issued within 7 days of applicant’s response.
  - Applicant must respond within 7 days to each request for information.
  - Staff has 60 days to complete the entire review process and issue decision.
Funding Portal NMAs and CMAs are evaluated pursuant to the 5 Standards in Rule 110(a). For an application to be approved, the Firm must demonstrate that it can meet each of the Standards in Rule 110(a)(10):

- FP and its associated persons are capable of complying with applicable federal securities and FP rules.
- FP has adequate contractual arrangements in place to conduct its business.
- FP has adequate supervisory system that is reasonably designed to achieve compliance with rules.
- Adequate evidences the direct and indirect source of funding.
- Adequate recordkeeping system to be able to comply with rules and regulations.

FP Membership Program Overview and Processes
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Collaboration

- While MAP makes the ultimate decision on a matter, input from other areas of FINRA are also sought as part of the process (e.g., Advertising Regulation, Corporate Finance).

Membership Interview

- All new member applicant must have a Membership Interview
- Must be conducted before a decision can be issued.
Three types of Decision- Applications can be approved, denied, or lapsed by the Staff.

- **Approval** – The applicant has demonstrated it can meet each of the 5 standards in Rule 110(a)(10).

- **Denial** – The FP did not meet each of the 5 standards
  - Denied applications may be appealed to FINRA’s National Adjudicatory Council (NAC).
  - FINRA staff (including staff outside of MAP) may be called to testify in a hearing.

- **Lapse** – The rules allow the staff to close the application if:
  - The applicant did not timely provide the information requested or
  - The applicant did not attend the membership interview.

- An applicant may withdraw its application at any time.
Securing Qualified Third Party (QTP) Relationships.
- QTPs are banks, credit unions or a broker dealer that is allowed to carry customer or broker or dealer accounts and hold funds or securities for those persons.

Communication with the Public – Advertising Regulation
- Fair and Balance
- No Misrepresentation.

Source of Funding
- FP not able to provide the necessary documentation to evidence where the money came from to fund it.
  - Persons and or entities who invested in the FP not wanting to provide personal documentation
  - Persons and/or entities are located in foreign countries and not will to provide funding documentation.

Funding Portal Platform not ready for Review by Staff
FINRA Funding Portal (FP) Membership Program

Statistical Data

- Number of Applications Submitted to the SEC.
- Number of Applicants that have requested Entitlement with FINRA.
- Number of Applications filed with FINRA.
- Number of Approved applications.
- Number of Applications currently open.
Any Questions?

Any Questions?
MAP Resources – Links and Contacts

- Guidance Relating to Funding Portal
  [http://www.finra.org/industry/funding-portals/](http://www.finra.org/industry/funding-portals/)
  *Investor Alerts - What Investors Should Know*

- Funding Portal Rules

- List of Funding Portals Members
  [http://www.finra.org/about/funding-portals-we-regulate](http://www.finra.org/about/funding-portals-we-regulate)

- FINRA Regulatory Notices 16-06, 16-07,
  [http://www.finra.org/industry/notices](http://www.finra.org/industry/notices)

- MAP contacts:
  - Lisa Robinson, Director (Phone: 212-858-4764); Email: alissa.robinson@finra.org
  - Sandra Clarke, Associate Director (Phone: 212-858-4251); Email: sandra.clarke@finra.org
  - James Murphy, Application Manager (Phone: 212 416-0708); Email: james.murphy@finra.org
MAP FP Resources -- Five Standards of Rule 110(a)(10)

1. Capability of complying with rules, regulations, laws, and observing high standards of commercial honor.

2. Contractual arrangements and other business relationships with banks, broker-dealers, escrow agents etc. in place initiate the operations described in FP Applicant’s Form FP-NMA.

3. Supervisory system, that is reasonably designed to achieve compliance with applicable federal securities laws, the rules thereunder and the Funding Portal Rules.

4. The FP Applicant has fully disclosed and established through documentation all direct and indirect sources of funding.

5. Recordkeeping systems that enables the FP Applicant to comply with federal, state, and self-regulatory organization recordkeeping requirements.
### Map Resources – Map Deadlines (Calendar Days)

<table>
<thead>
<tr>
<th>Event</th>
<th>Required Action and Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filing of Application</td>
<td>Staff to determine if application is substantially complete in 14 days</td>
</tr>
<tr>
<td>Issue Initial Information Request</td>
<td>Staff to make request in 14 days of filing of initial application</td>
</tr>
<tr>
<td>Submit Response to Initial Request</td>
<td>Applicant to respond in 14 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Event</th>
<th>Required Action and Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Subsequent Information Request</td>
<td>Staff may make these at any time after the initial information request</td>
</tr>
<tr>
<td>Submit Response to Subsequent Requests</td>
<td>Applicant to respond in 7 days</td>
</tr>
<tr>
<td>Provide Notification of Membership Interview</td>
<td>Staff to provide notification 5 days before MI.</td>
</tr>
<tr>
<td>Conduct Membership Interview</td>
<td>Staff to conduct at least one MI</td>
</tr>
<tr>
<td>Issue Decision</td>
<td>Due within 60 days of filing of FP Application</td>
</tr>
</tbody>
</table>
Kendall Almerico

“He’s kind of a big deal” – Ron Burgundy

“Kendall Almerico is one of the top crowdfunding and JOBS Act attorneys in the country.”
Kendall Almerico

• 27 years experience starting, funding and growing businesses and taking new products to the market

• Columnist for Entrepreneur.com

A Case Study in How Equity Crowdfunding Should Work

BrewDog

Largest equity crowdfunding raise in the world: Raised more than £26M (+/- $36,000,000) from 46,000+ investors using the UK equity crowdfunding laws.

46,000 rabid fans, brand ambassadors, users of their products and online evangelists, making BrewDog the fastest growing food and drink company in the UK – 44 BrewDog bars across the world, 600+ employees.

How did BrewDog do it?
- Great product – Great brand integrity – Great culture
- Proper pricing - £95 for two shares
- Building a Community
- Mix Perks with Shares
- MARKETING, MARKETING MARKETING
What Equity Crowdfunding Looks Like Online

BrewDog Regulation A+ Offering on BankRoll

Looks virtually the same as reward-based crowdfunding sites like Kickstarter.

Videos, graphics, photos and texts illustrate the company and offering.

Invest by clicking button and being walked through online investment engine – compliance built in and all documents e-signed, money transferred online.
<table>
<thead>
<tr>
<th>JOBS Act: Title III vs. Title IV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regulation CF</strong></td>
</tr>
<tr>
<td>Raise up to $1M online from anyone in the general public</td>
</tr>
<tr>
<td>Stock <em>not</em> immediately liquid</td>
</tr>
<tr>
<td><em>Significant</em> restrictions on marketing</td>
</tr>
<tr>
<td>Minimal ongoing SEC reporting</td>
</tr>
<tr>
<td>Limits on all investors including accredited</td>
</tr>
<tr>
<td>Expensive?</td>
</tr>
</tbody>
</table>
Regulation CF Challenges

- Limit of $1M – Too Low
- No liquidity or secondary market
  - No SPVs
- Marketing limitations gut the model of crowdfunding
- Same marketing budget – raise far more with Reg A+
Title III vs. Regulation A+

Tombstone Ads vs. Real Marketing

Chrysler Corporation

has acquired

American Motors Corporation

including 41.4% of the Common Stock
and certain other securities owned by

Régie Nationale des Usines Renault

Lazard Frères & Co.

August 15, 1987
Regulation CF: The Good

Good for a company that needs to raise $1M and under

Good for a company with a large number of customers, fans, followers or users they can easily and inexpensively access

Able to set own valuation so no need to give away as much of company as with a private offering with angels or VCs

No loss of control of your company

Excellent for a popular local business looking to open another location
Since Title III – Regulation CF Went Into Effect on May 16, 2016
(as of Sunday, June 26, 2016)

<table>
<thead>
<tr>
<th>Platform</th>
<th>Live Offerings</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>WeFunder</td>
<td>23</td>
<td>8 have reached their goal</td>
</tr>
<tr>
<td>SeedInvest</td>
<td>3</td>
<td>None have raised 25% of their goal</td>
</tr>
<tr>
<td>Venture.co</td>
<td>3</td>
<td>None have reached their goal</td>
</tr>
<tr>
<td>StartEngine</td>
<td>7</td>
<td>None have raised 25% of their goal</td>
</tr>
<tr>
<td>FlashFunders</td>
<td>2</td>
<td>1 has reached its goal</td>
</tr>
<tr>
<td>NextSeed</td>
<td>2</td>
<td>1 at 60% of goal - 15 days remaining</td>
</tr>
</tbody>
</table>

**Cardinal Rule of Crowdfunding – 30% Rule**