

SEC Proposes Crowdfunding Rules Under JOBS Act

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Yesterday the Securities and Exchange Commission proposed rules under the JOBS Act that would permit startups and other businesses to raise investment capital through “crowdfunding” – the process of seeking relatively small investments from a broad group of investors via the Internet. Crowdfunding has historically not been used to raise investment capital (as opposed to being used, for example, to solicit donations) because offers and sales of securities to the public generally require compliance with the registration requirements of the Securities Act of 1933.

The proposed rules provide a limited exemption from the Securities Act registration requirements in order to –

- permit companies to raise investment capital through crowdfunding, up to certain offering-size and per-investor dollar thresholds;
- require disclosure from companies raising capital; and
- create a regulatory framework for intermediaries that facilitate crowdfunding transactions.

Many senior officials of the SEC, worried about potential fraud, spoke out against crowdfunding when the JOBS Act was first considered. The proposed rules contain a number of restrictions and safeguards to help mitigate these concerns.

The SEC is seeking comment from the public on the proposals for 90 days (the deadline for comments is expected to be shortly after January 21, 2014).

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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