

SEC finds U.S. Crowd-Funding Offers New Capital Source

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Crowdfunding has become an increasingly popular form of raising capital for small businesses and entrepreneurs.

Social Media platforms have come to play a large role in facilitating crowd funding. They also, as a platform for crowd funding, have enabled regulators to [foster fair valuations](#) in determining the value of enterprises whose shares are offered for sale.

In May 2016, the U.S. Securities and Exchange Commission (“SEC”) issued a new rule, Reg CF, to regulate crowd funding. The [Jumpstart Our Business Startups \(JOBS\) Act](#), passed into law in 2012, empowered the SEC to write new rules to create a regulatory regime for crowdfunding.

These new regulations allow crowdfunding, up to \$1 million, from accredited and non-accredited investors alike. Reg CF is essentially the first step in the capital ladder for early-stage companies. The [intent was to create a low barrier to capital formation](#) in order to enable businesses at their earliest stages to attain sufficient capital to get off the ground.

However, the new regulations, despite their intent to lower the barriers of capital formation, have been criticized by some as overly strict, costly, and ultimately creating barriers to capital formation. Many critics believe that the new regulations may actually be a deterrent to crowdfunding.

[Mike Piwowar, acting SEC Chairman](#), echoed concerns that the rules were too restrictive. Piwowar stated, “[t]he commission should consider whether any further steps should be taken to improve our crowdfunding regulations, including the use of exemptive authority.”

Likewise, the Division of Economic and Risk Analysis (“DERA”), published a report that provided updates on the current state of issuers utilizing these new regulations as well as some critiques for changes to be made in the future. The DERA report affirmed the sentiment that the industry is quickly evolving and that today’s activity is [probably not wholly indicative of future outcomes](#).

Looking forward, this is just the start for regulating crowdfunding. Changes are undoubtedly on the horizon. Congress is in the process of updating Reg CF to reflect some of the issues within the industry. Specifically, there are hopes that this update will [allow special purpose vehicles](#) which, in turn, would more easily align the interests of issuers and borrowers as well as more easily manage shareholder interests.

Despite the plethora of critiques, these new regulations are still a step in the right direction. They regulate crowd funding in a manner that will strike a balance to meet the needs of issuers, borrowers, and business in ultimately driving the success of newly formed businesses.