

Equity Crowdfunding in Canada

October 23, 2014

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Crowdfunding

Agenda

1. The status of crowdfunding
2. Canada's equity crowdfunding's regulatory environment
3. 10 + 1 tips for entrepreneurs.
4. What possibly lies ahead
5. Questions or discussion points

A blue circular logo with the text "MaRS" in white, bold, sans-serif font.

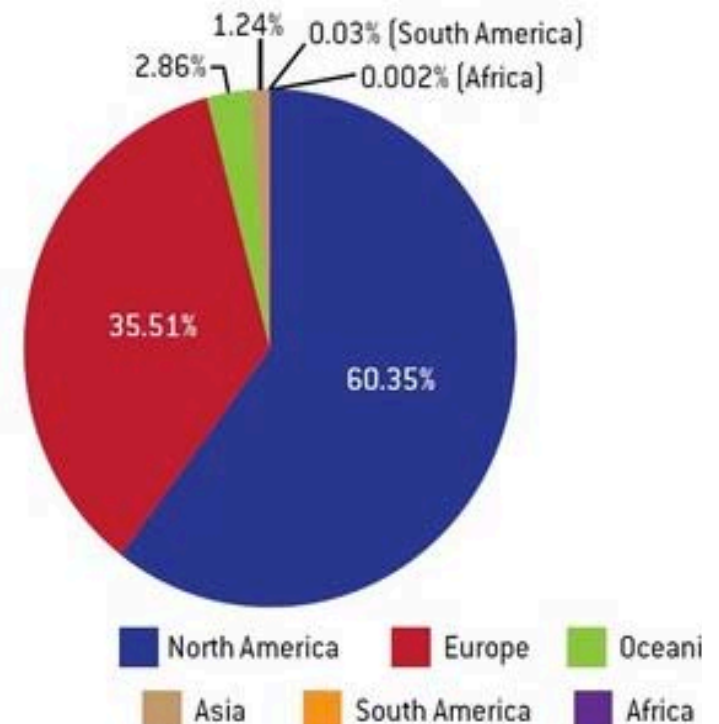
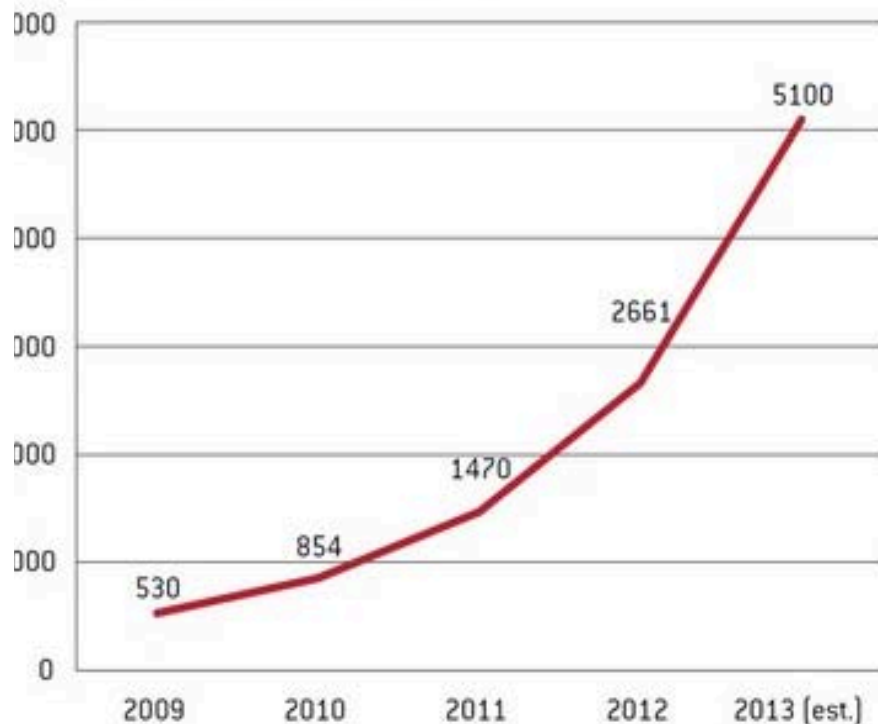
MaRS



Crowdfunding

The growth in crowdfunding

Figure 1: Worldwide funding volumes (\$millions) (left panel); geographical distribution (% of volumes, 2012) (right panel)



Source: Bruegel on the basis of *Crowdfunding Industry Report 2013* (Massolution).


Crowdfunding

What we are used to seeing

by Alan Wood

Home Updates **7** Backers **401** Comments **18** Downtown Toronto, Canada Product I

Funded! This project was successfully funded on July 17.




401 backers
\$36,612 CAD pledged of \$35,000 goal
0 seconds to go

Project by

TinyScreen: A color display the size of your thumb!

by Ken Burns

Home Updates **3** Backers **1,164** Comments **98** Akron, OH DIY Electron



1,164 backers
\$99,569 pledged of \$15,000 goal
8 days to go

Back This Project
\$1 minimum pledge

This project will be funded on Sat, Oct 25 2014 4:00 PM EDT.

Women & Children & YOU First

Story Updates **2** Comments **11** Funders **115** Gallery **12**

A New Chapter for Women & Children First



\$8,833 USD
RAISED OF \$35,000 GOAL

25% 28 days left

This campaign started on Oct 14 and will close on November 13, 2014 (11:59pm PT).

Flexible Funding

CONTRIBUTE NOW

Art House Cinema & Pub

Story Updates **0** Comments **9** Funders **98**

from Art House Billings



\$19,815 USD
RAISED OF \$30,000 GOAL

66% 4 hours

This campaign started on Sep 16 and will close on October 16, 2014 (11:59pm PT).

Verified Nonprofit
Flexible Funding

CONTRIBUTE NOW

Crowdfunding

Success stories

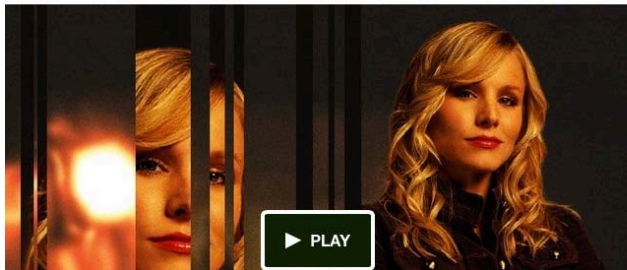


The Veronica Mars Movie Project

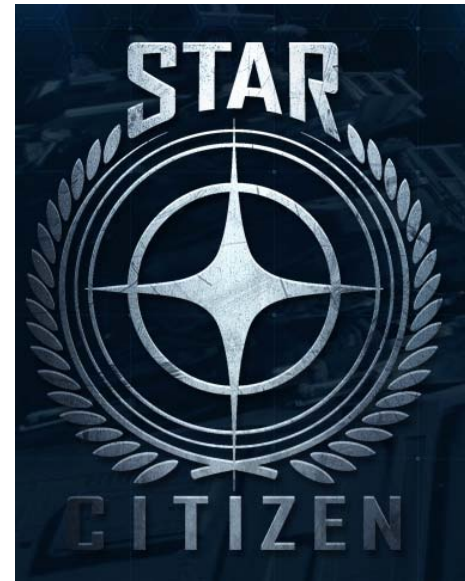
by Rob Thomas

Home Updates **101** Backers **91,585** Comments **22,422** San Diego, CA Narrative Film

Funded! This project was successfully funded on April 12, 2013.



91,585
backers
\$5,702,153
pledged of \$2,000,000 goal
0
seconds to go



Equity Crowdfunding

The Regulatory Environment

Crowdfunding

A Brief look at the Canadian Backstory on Equity Crowdfunding

- **For the past two years:** Increasing calls for securities regulators to democratize the way the public access private equity deals by purchasing them on the Internet.
- **December 2013:** Saskatchewan Financial and Consumer Affairs Authority (FCAA) adopted in their jurisdiction a crowdfunding model aimed at start-ups in their province.
- **March 20, 2014:** Seven Canadian securities regulators published for comments new private placements securities exemptions or amendments to existing exemptions in their jurisdictions.
- **June 18, 2014:** Deadline for comments. MaRS submitted a comment letter supporting the crowdfunding exemption.

Crowdfunding

New Private Placement Securities Exemptions

- **Four exemptions may be used for crowdfunding:**
 - Two of the exemptions are crowdfunding specific:
 - The start-up crowdfunding exemption
 - The integrated crowdfunding exemption
 - The remaining two exemptions are new to Ontario:
 - The offering memorandum exemption
 - The existing security holder exemption

Crowdfunding

New Private Placement Securities Exemptions

- **There are a number of changes to the industry in the crowdfunding proposals.**
 - The most important is the ability to access private equity deals will be available to potentially every individual and no longer be reserved for those investors who meet the regulators' definition of wealthy or sophisticated

Crowdfunding

Crowdfunding Specific Exemptions

- **Start-up crowdfunding exemption:** Based on the FCAA crowdfunding exemption adopted in that province in December 2013.
- **Integrated crowdfunding exemption:** Follows the concept release the Ontario Securities Commission
- The two proposals are significantly different

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Equity Crowdfunding in Canada Today – Part 1

	Integrated Model	Start-up Model
Jurisdictions adopted or proposed	Adopted: None Proposed: Ontario, Quebec, Manitoba, Nova Scotia, New Brunswick and Saskatchewan	Adopted: Saskatchewan Proposed: British Columbia, Manitoba, New Brunswick, Nova Scotia and Quebec
Offering Size	\$1.5 million per year	\$150,00 up to twice per year
Types of Securities	All, except derivatives	All, except derivatives
Disclosure	Disclosure documents required at point of sale	Minimal disclosure
Ongoing disclosure obligations	Annual financial statements along with proper securities registers and documentation on how funds were spent.	Not specified, but presumably as required under corporate legislation.

Crowdfunding

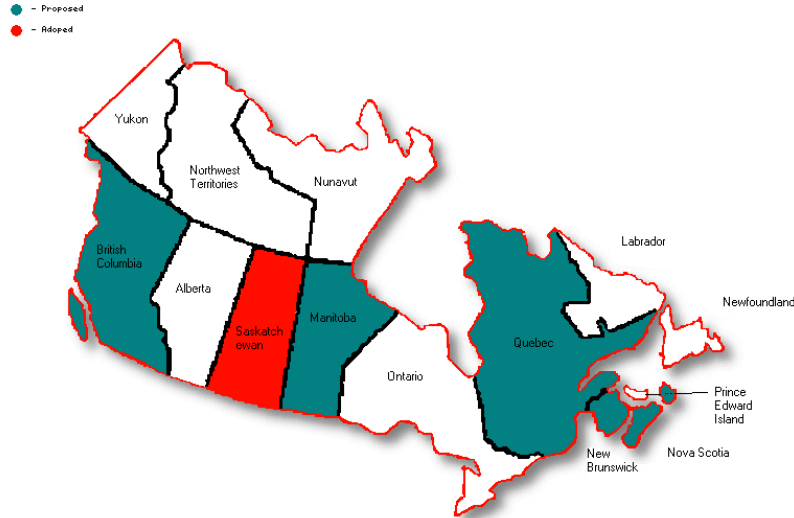
Equity Crowdfunding in Canada Today – Part 2

	Integrated Model	Start-up Model
Audits	Audited if more than \$500,000 is raised and/or expenditure exceeds \$150,000 or if issuer is a reporting issuer Reviewed statements if less than \$500,000 raised	Optional
Investor Risk Acknowledgement	Yes, signed by each investor	Yes, signed by each investor
Caps per Investor	\$2500/issuer \$10,000/rolling year	\$1,500 per issuer No annual cap
Statutory Rights of Action	Disclosure documents required at point of sale	None
Registration Requirements of Funding Portals	Must be registered as a restricted dealer	Provide 30 days notice of intent to act as a portal

Crowdfunding

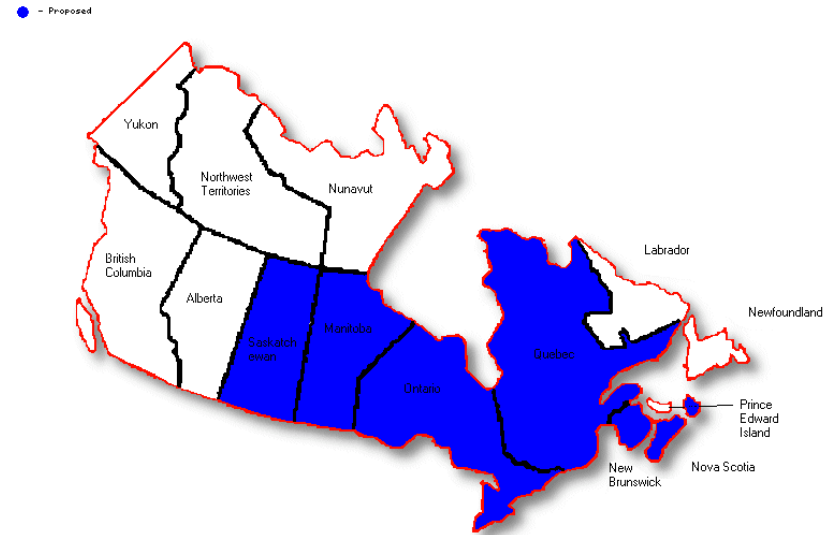
Equity Crowdfunding in Canada Today – Part 3

Start Up Crowdfunding Model



Source: digmaps.net (c)

Integrated Crowdfunding Model Proposal



Source: digmaps.net (c)

Start Up Crowdfunding Proposal

Provinces which have either indicated they will adopt or have adopted the proposal

Integrated Crowdfunding Proposal

Provinces which have indicated they will adopt the proposal

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Issues with having Two Proposals

- **Two significantly different proposals:** If left as is, will create a bifurcated crowdfunding regime, which may limit the success of crowdfunding in Canada
- **B.C. is a proponent of the start-up model:** B.C. regulators feel that crowdfunding in their province can be served best by the offering memorandum exemption; however, the differences between provinces on the T&C's for the offering memorandum exemptions only serve to widen the gaps.
 - The issuers, investors and the industry will bear the increased costs and confusion of varied systems
- **Success:** Based on the accessibility of a large number of people; therefore, the smaller crowds means less available money for prospective issuers

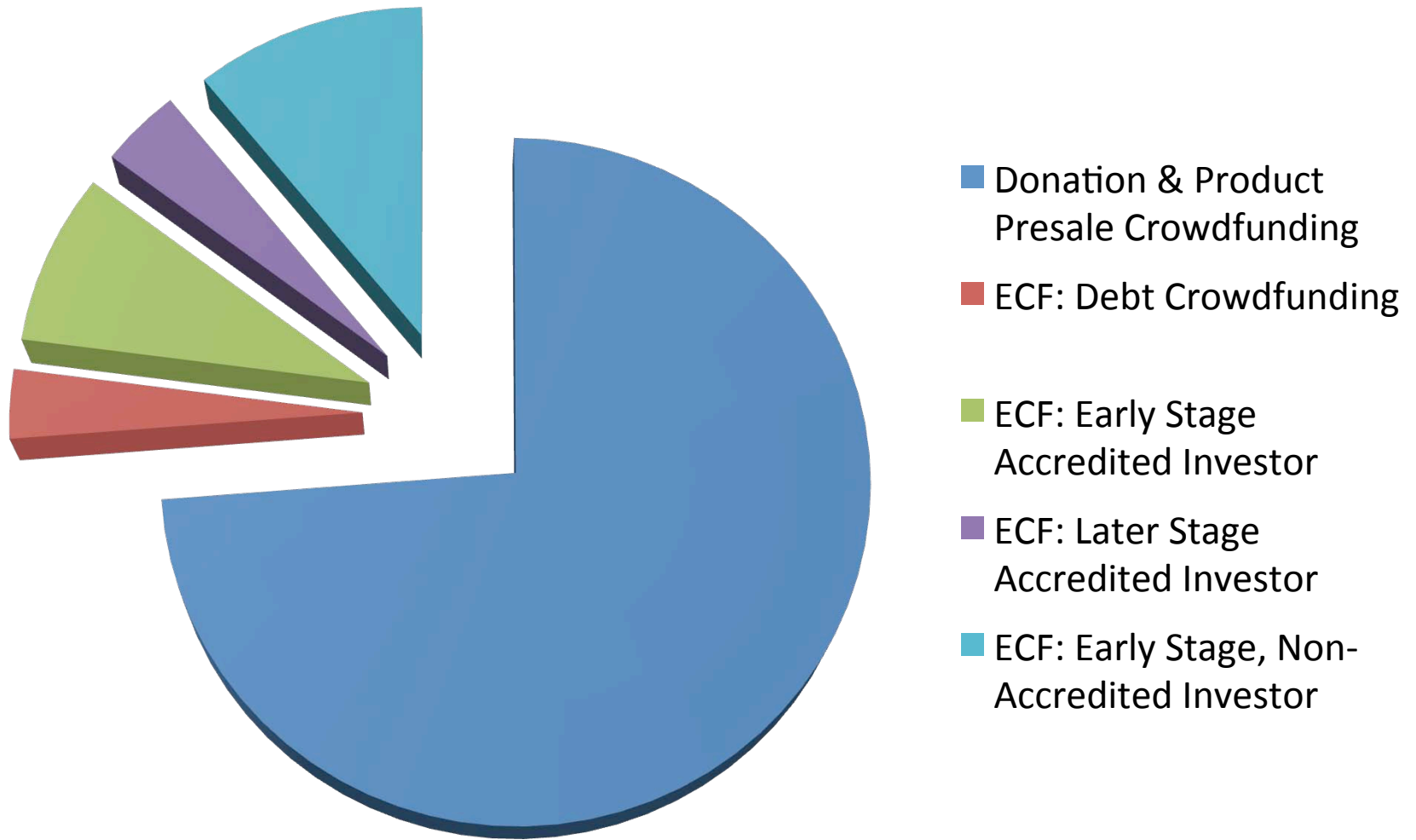
Crowdfunding

Potential Issues with Crowdfunding

- **Size of the Market:**
 - UK \$45 million (600% increase year over year)
 - UK is predominantly debt based financing (P2P lending) with an average \$3,000 investment
 - ASSOB for the past 8 years have run 146 companies with an 86% survival rate
- **Investor Expectations:** OSC survey showed that the majority of people questioned stated they expected to participate, but at the same time they said they were afraid of risk?!
- **Liquidity:** There are no liquidity or exit options
- **Success:** Crowdfunding is a small drop in the investment industry.

Equity Crowdfunding: Current Status

930 Worldwide Crowdfunding Portals as of May 2014



Crowdfunding

European Equity Crowdfunding Portals

Portal	Home Country	Total Raised	# of Offerings	Mean Offering Size
Our Crowd	Israel	\$45,000,000	37	\$1,200,000
CrowdCube	UK	\$36,800,000	116	\$317,000
Seedmatch	Germany	\$16,800,000	60	\$281,000
Seedrs	UK	\$14,900,000	96	\$155,000
SyndicateRoom	UK	\$10,700,000	11	\$975,000
Companisto	Germany	\$6,900,000	30	\$230,000
Anaxago	France	\$6,500,000	19	\$342,000

Crowdfunding

U.S. Accredited Investor Equity Crowdfunding Portals

Portal	Market focus	Total Raised	# of Offerings	Mean Offering Size
Equity Net	All	\$231,000,000	18,896	\$12,200
Fundable	All	\$114,000,000	651	\$175,000
Crowdfunder	All	\$111,000,000	9,778	\$11,400
Microventures	All	\$39,600,000	56	\$707,000
Rock The Post	All	\$30,600,000	62	?
Circle Up	Consumer	\$30,000,000	30	\$342,000
Realty Mogul	Realty	\$18,000,000	67	\$268,000

Crowdfunding

Current Status

- **September 23, 2013:**

- The SEC allowed platforms to solicit funds directly from accredited investors, lifting a ban on the practice that had existed since 1933.

- **What the market accomplished:**

- \$160 million has been raised by online crowdfunding platforms since September in the U.S.

- **Equity Crowdfunding Alliance of Canada (ECFA):** Purpose is to:

- Create standards for portals.
- Create educational tools for investors and issuers.
- Advocate on behalf of the industry with the regulators.

Crowdfunding

Current Status

- **June 18, 2014:**

- Comment period ended on the prospectus exemptions
 - There is no guarantee which of the two crowdfunding exemptions will be adopted;
 - The comments will be collated and hopefully the CSA will pick a path forward. Best guess...September 2014 at the earliest.

- **Private Equity Marketplace:**

- Shorcan and Aequitas have both announced they are in the process of discussion with regulators to create a private equity marketplace which could provide liquidity and exit options for investors.

Equity Crowdfunding: So, You Want to Launch a Successful Campaign!

Crowdfunding

Tips for Entrepreneurs to Prepare for an Equity Crowdfunding Campaign

1. Build your social networks
2. Interact with your social media (*AKA: Be active*)
3. Engage writers and bloggers. Let them become your advocates
- 4. WRITE A GOOD BUSINESS PLAN**
5. Get an accountant and a lawyer (*AKA: Don't wade into trouble*)
6. Show, don't just tell.
7. Zero in on your lead investors and remember the rule of 1/3's
8. Don't give up too much – this is your company...**KEEP IT!**
9. Ask for feedback
10. Don't argue.
- 11. BE BOLD AND CONFIDENT** – *“Opportunities multiply as they are seized.” Sun Tzu, “Art of War”.*

Equity Crowdfunding: The Road Ahead

Crowdfunding

Upcoming Milestones

▪ **Fall 2014:**

- Possible launch of potential collaborators Shorcan/Aequitas given that:
 - It takes about 9 months to register a new exchange, ATS or service provider.
 - Rande Pavalow, CCO of Aequitas, told me there are a lot of regulatory knots to unravel
- Regulators should release their comments on the proposals

▪ **Winter 2015**

- First annual National Crowdfunding Alliance Conference to be held at MaRS DD.
- Hopefully new crowdfunding rules are released.

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The Changing Landscape Ahead

- **Portals Already Announced in Canada:** The following is a short list of companies that either exist as a portal or have indicated interest in starting up a portal:
 - SeedUps Canada
 - Koreplatforms
 - ECN
 - Co-power
 - Open Avenue
 - Petro Plata
 - Silver Maple Ventures

Questions or Optional Discussion Points

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Discussion Points

- **Is Equity Crowdfunding a viable future?**
- **SVX is the model but is this enough?:** SVX is the industry standard for a crowdfunding portal in the integrated crowdfunding model; however, do we develop a MaRS platform?
- If we create an MaRS crowdfunding platform we will need:
 1. To register again as a restricted dealer: Time consuming, but doable.
 - Will the regulator be favourable to the MaRS operating two restricted dealers?
 - What are the pitfalls?

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Discussion Points

2. Is the MaRS market large enough?

- Is this the only market we focus on? Do we/could we include RICs

3. Funding Structure:

- How do we maintain sustainability?
- What is our fee structure?
- Is this new entity a not-for-profit? Could it survive as one?

4. Transaction and trade processing capabilities:

- Will partnerships with Shorcan and/or Aequitas be in place quickly enough?
- What are the costs?
- SeedUps and Co-Power have partnered with Waverly Capital to provide them this service.

Crowdfunding

Discussion Points

5. Governance costs:

- A crowdfunding portal will require a different, and an elevated level of governance. Is the MaRS and its collaborators prepared for this and willing to pay for this?

6. What would be the model we adopt?

- Lead angel model?
- First come first serve?
- Something else or a hybrid?

Thank You

Carlos Pinto Lobo

Chief Compliance Officer, SVX

Carlos.pintolobo@svx.ca

cpintolobo@marsdd.com

