



ONTARIO  
SECURITIES  
COMMISSION

# INTRODUCING Equity Crowdfunding

A PRIMER FOR ONTARIO INVESTORS



## ABOUT CROWDFUNDING

At its core, crowdfunding is a simple concept: an individual or organization can raise money over the internet by asking a large number of people each for a small contribution. There's a long history of projects and initiatives that have been funded through crowdfunding campaigns, but using this concept as a model for investing is something that's new for Ontario, and it comes with a number of risks and caveats that potential investors need to know about.



You may have participated in a crowdfunding project in the past, but you likely received a gift or some other token of appreciation in exchange for your pledge. That's because there are a few different types of crowdfunding models, and each is distinguished by what (if anything) you received in return for your money.

## CROWDFUNDING MODELS

**Donation-based crowdfunding** is strictly charitable, allowing people to give money to fundraise for a cause or assist someone in need with no expectation of receiving anything in return.

**Reward-based crowdfunding** sees individuals or organizations providing rewards as incentives for people to contribute to their projects. These projects can range from creating a new type of kitchen gadget to publishing a cookbook, and successfully-funded campaigns may provide backers with exclusive products, such as an early edition of the gadget or a first-run copy of the book.

**Equity crowdfunding** allows people to make an investment. In return for their money, investors are given a small stake in a business.

## EQUITY CROWDFUNDING

**New to Ontario**<sup>1</sup> is equity crowdfunding, where the goal is for a new business or start-up to raise capital by selling many small stakes, usually in the form of shares, to a large number of investors over the internet. Instead of making a donation or funding a specific project in exchange for a reward, you're investing in a business, essentially becoming one of its owners.

Why would a business use equity crowdfunding to raise capital? The answer is in how expensive it can be for a new venture to get off the ground. Bringing investors on board is one way that these businesses can fund their early operations, but selling investments to the public is a process that's subject to a number of legal and regulatory obligations that can take considerable time and money.

Equity crowdfunding allows these early-stage businesses to streamline those obligations in order to raise small amounts of money. Equity crowdfunding in Ontario is part of the exempt market, meaning that there are fewer requirements imposed upon the businesses offering these investment opportunities. This opens the door for everyday investors to support homegrown innovation and have a chance to participate alongside Ontario's community of entrepreneurs.

## Understanding the Risks

Sounds great, right? Equity crowdfunding can offer some exciting opportunities for investors, but there are also a number of risks that you need to be aware of before you make any investment decisions, including (but not limited to):

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<sup>1</sup> Read the full rules: [https://www.osc.gov.on.ca/en/SecuritiesLaw\\_csa\\_20151105\\_45-108\\_multilateral-crowdfunding.htm](https://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20151105_45-108_multilateral-crowdfunding.htm) MI 45-108 Crowdfunding Initiative, effective January 25, 2016.

## RISK OF LOSS

Much of the risk stems from the fact that most businesses seeking financing through crowdfunding are start-ups. Statistically speaking, the vast majority of start-ups do not survive past five years, and if you invest in a business that does not succeed, you will not get your money back.

## LOCKED-IN INVESTMENT & NO INCOME

Equity crowdfunding is typically conducted over the internet through **funding portals**<sup>2</sup> registered with the Ontario Securities Commission. Unlike a stock market, funding portals allow investors to buy shares, but not sell them. There's a good chance that you won't be able to resell your shares in the business you invested in. You will likely have to hold onto your investment until there is a change with the business, like if it gets listed on a stock exchange. This could take several years to happen (if it ever does), and until then your money will likely remain locked in the investment.

Start-ups also rarely pay **dividends**<sup>3</sup> or **interest**<sup>4</sup> while they're in their ramp-up or growth stages, so if you're investing for income, a crowdfunded offering is not likely for you.

## LACK OF INFORMATION & ADVICE

You should expect to receive significantly less information about your investment than you would with more traditional investment products. Businesses raising capital through equity crowdfunding are not required to provide the same amount of **disclosure**<sup>5</sup> as a public company. You will receive some information, such as an offering document, financial statements, updates about how the money raised is being spent and notices about key events like a change in control of the business, but this may not be enough for you to make informed decisions about your money.

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2 Funding portals, sometimes known as crowdfunding platforms, are websites that allow investors to find equity crowdfunding offerings and make investments. In order for a funding portal to operate in Ontario, it must first be registered with the Ontario Securities Commission. You can confirm whether or not a portal is registered by visiting [AreTheyRegistered.ca](https://www.ontario.ca/en/are-they-registered) or by contacting the **Ontario Securities Commission**.

3 Dividends are portions of a company's profits that are distributed to the company's shareholders. Dividends can be issued as cash payments, shares of stock or as other property.

4 Interest is a form of compensation paid by a company to investors for the use of invested money. Interest is typically paid out as a fixed annual percentage.

5 Public companies and investment funds are required to prepare various disclosure documents that provide key information about the company or fund, and the securities they issue. This is to help provide investors with timely and accurate information for making informed investment decisions.

Unless the funding portal is operated by a **registered investment dealer**<sup>6</sup> or **exempt market dealer**<sup>7</sup>, it will not provide you with any information about whether the investment is a good fit for you.

## FEWER PROTECTIONS

These investments are not reviewed or approved by a securities regulator. You also won't have the same legal rights that you would if had you purchased an investment under a **prospectus**<sup>8</sup> or through a stock exchange.

# Knowing Your Protections

The Ontario Securities Commission has introduced some measures to help protect investors who participate in crowdfunding. Despite these measures, equity crowdfunding remains extremely risky for investors. Investors who choose to participate in equity crowdfunding should do so with their eyes wide open.

## INVESTMENT LIMITS

There is a cap on the amount of money that investors can invest in order to limit the money they could lose. **Everyday investors**<sup>9</sup> in Ontario can only invest up to \$2,500 per investment and cannot invest more than \$10,000 in total per year. **Certain investors can invest more**<sup>10</sup>, but these people must first prove their high net worth and income.

## 48 HOUR CANCELLATION

Investors also have an opportunity to change their minds about their decision to invest, and can cancel a deal within 48 hours of agreeing to make an investment.

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6 A registered investment dealer is a business that sells a broad selection of investments, including shares, bonds and mutual funds. These dealers are registered with the Ontario Securities Commission to ensure that they meet the proper qualifications required to sell securities to the public.

7 An exempt market dealer is a business that sells securities without a prospectus. These dealers are registered with the Ontario Securities Commission.

8 A prospectus is a document that provides investors with critical information about the company and the security being purchased.

9 The majority of investors in Canada are referred to as “retail investors” or “small investors”. They are investors who are buying a relatively small amount of securities on their own behalf.

10 Accredited investors can invest up to \$25,000 per investment but no more than \$50,000 in total per year. Learn more: <http://www.osc.gov.on.ca/en/21943.htm>

## RISK ACKNOWLEDGEMENT FORM

The funding portal is also required to provide you with a Risk Acknowledgement Form to confirm that you understand the risk warnings and information in the crowdfunding offering document. You must complete this form in order to make an investment.

# Finding a Crowdfunding Offering

If you're familiar with the risks of equity crowdfunding and feel ready to invest, you can start searching for offerings available to Ontario investors on a funding portal. Funding portals are websites that post current equity crowdfunding offerings and are responsible for conducting background checks on the businesses and executive officers behind these ventures. In order for a funding portal to operate in Ontario, it must first be registered with the Ontario Securities Commission. You can confirm whether or not a portal is registered by visiting [AreTheyRegistered.ca](http://AreTheyRegistered.ca) or by contacting the **Ontario Securities Commission**.

Funding portals also provide investors with offering documents from businesses selling crowdfunding investments. These documents contain basic information about a business, its activities, its officers, its financial condition, the amount it wants to raise, the investment, how the money raised will be used and the risks. A crowdfunding offering document is not as detailed as a prospectus would be, but it does provide some information that investors can use to get started. If a business makes any changes to its offering document during the offering period, the funding portal is responsible for notifying anyone who had already invested in the business under the earlier offering document.

Offering documents are not reviewed nor approved by the Ontario Securities Commission, so it is up to you to ensure that you fully understand all of the information found in an offering document before you invest.

## Making a Decision

Only you can decide whether equity crowdfunding is the type of investment you want to make. Every investment decision should be carefully considered and thoroughly researched ahead of time. Equity crowdfunding is just one of several potential investment options available to you. Many investors opt not to put all their eggs in one basket and instead choose different kinds of things to invest in to minimize their risk. This is referred to as **diversification**<sup>11</sup>.

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<sup>11</sup> Learn more about how diversification works: <http://www.getsmarteraboutmoney.ca/en/managing-your-money/planning/investing-basics/Pages/Diversification.aspx>

## SELF-CHECK

Before you invest, do a self-check on how comfortable you are with the risks of equity crowdfunding. Can you afford to lose all of your invested money? Are you willing to wait, potentially for years, before you might be able to get your money out of this investment, let alone a return? Do you believe you have enough information about this investment opportunity to make an informed decision?

## OFFERING DOCUMENT

Take time to thoroughly review the offering document. Make sure you understand what the business's objectives are and the risks associated with investing in it. How is the business going to grow? How will it make money and within what timeframe?

## INVESTIGATE

You can search the internet for information on the business, the industry, the people managing the business, as well as the viability of its business plan. You can also search for information on the particular funding portal where you see the offering document and verify that it's operated by a registered dealer.

# Learning More

More information about Ontario's equity crowdfunding initiative can be found on the **Ontario Securities Commission website**.

This message is brought to you by Ontario's Investor Office. We're here to give you information to help you invest wisely and confidently, ensure your needs are understood by those who make the rules, and share your voice with the boardrooms of Bay Street. Learn more about what we do at **InvestorOffice.ca**.

For more information about investing, including how to better understand your risk tolerance, visit **GetSmarterAboutMoney.ca**.

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