OSC EXEMPT MARKET REVIEW
OSC NOTICE 45-712
APPENDIX B – INVESTOR SURVEY REPORT

Exempt Market Study On Crowdfunding

Prepared For The Ontario Securities Commission
Written By: Edwin L. Weinstein, PhD
May 28, 2013

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0.0 Executive Summary

The Ontario Securities Commission (OSC) is considering several ideas for new capital raising prospectus exemptions that may provide business enterprises, particularly start-ups and Small-Medium Enterprises (SME), with greater access to capital. New exemptions may also provide individual investors with more investment opportunities, subject to appropriate investor protections and limitations. "Crowdfunding" is one of the proposed ideas for new capital raising prospectus exemptions.

This survey will help to assess what matters to potential SME and crowdfunding investors. This includes discussion of circumstances that both encourage and discourage investment, as well as the kinds of people likely to invest under different circumstances.

The survey was executed on the Internet and took 15-20 minutes to complete, depending on interest in crowdfunding. A total of 1501 adult Canadians took part in the survey. All online interviews were conducted between March 13-April 4, 2013. Online interviews were conducted in both English and French, according to the respondent's choice.

The sample is a broad cross-section of Canadians, which is nationally representative by age and region. Median savings and investments (including RRSP but excluding home) in our sample are about $45,000. Almost 6 out of 10 respondents have less than $50,000 in savings and investments. In every age group, more than half of respondents have less than $50k in savings and investment. This rises to three-quarters in the youngest age group.

The survey itself is divided into three broad sections.

- **All Respondents.** This included: Demographic information; Investment behaviour; Propensity for business investing; and Decision influences.
- **Potential Crowdfunding Investors.** Those showing interest in investing via crowdfunding were asked to: Identify risks; Motivations; Desire for professional advice; Information needs; and Factors affecting the amount of money they would invest.
- **Crowdfunding Non-Investors.** Those showing virtually no interest in investing in SMEs via crowdfunding were asked: Potential interest in investing in unregulated mutual funds; Reasons for not investing in SMEs and in unregulated mutual funds (if applicable).

There are several choices to make in designing surveys, and because we were very concerned about getting enough response on a very new topic like crowdfunding, we elected to use crowdfunding as a basis for streaming participants into one of the two mutually exclusive streams. We also used low cut-off scores to identify those potentially interested in crowdfunding, in an effort to ensure sufficient response to the crowdfunding questions.

It is important to understand the cut-off scores. Willingness to invest was rated on a 1 (Definitely NOT interested) to 10 (Definitely Interested) scale in all three questions where it is asked. Only those giving ratings of 1-3 were deemed 'Not interested' in investing, whether in SME generally or crowdfunding specifically. Thus all those giving ratings of 4-10 were deemed 'interested in investing'. Based on the typical psychological distances on a 1-10 scale, however, it is useful to think of the interested investors in two groups. There is a "core investor" that is likely to invest and gave 7-10 ratings; as well as a set of "potential investors" who are less likely to invest and gave 4-6 ratings.

As you read the survey results, it is important not to over-interpret small differences. While the survey has overall statistical accuracy of ±2.5%, that reflects the likelihood of getting the same numbers by asking the same questions. It does not reflect the likelihood that people will do what they say. Much of the survey asks people to speculate on what they would do in response to a complex set of alternatives. The simple answer is we can't be sure what they will do until they are in the situation. Nonetheless, we can be reasonably certain that when a much larger group expresses interest in one alternative over another, the preferred alternative will remain so in practice. The immediate practical impact of this warning is that you should be reluctant to interpret differences in response unless they are quite substantial. We have aimed to do this when we select information to present and discuss in this report.

Propensity for Business Investing

- Interest in SME investing and interest in crowdfunding are highly related. Overall, the two groups overlap by about 80% (42.0% + 37.3%). Some three-quarters of SME investors are interested in crowdfunding, and conversely, 86% of those interested in crowdfunding are interested in SME investing. The simple graphic below shows how the total population divides up in terms of interest in SME investing and crowdfunding.

- As we will see later, when people are interested in one type of investing (SME or crowdfunding) and not the other, the main difference is their familiarity and comfort with the Internet. That explains most differences, and other than demographics related to Internet usage, other demographic differences are largely immaterial. As a result, it should be understood that a conclusion applied to one of the two groups of investors would almost certainly apply to the other group.

Relationship Between Interest in SME Investing & Crowdfunding
(% Total)

	Crowdfunding		
New/Young Investment	Yes	No	
Yes	42.0	13.8	55.8
No	6.9	37.3	44.2
	48.9	51.1	

- Risk tolerance, age and gender are the three personal characteristics that are most indicative of propensity for business investing, whether we are talking about investing in SME or crowdfunding.

- Five things have a strong positive impact on willingness to invest in SME, while lack of information and lack of liquidity deter investment. The positive influences in descending order of net impact are:
    - The business is in an industry you know well.
    - It is a well-established business with a new plan for growth.
    - It is a local business that you might use.
    - It is a start-up company with an idea that sounds good.
    - You can buy it through your financial advisor and get advice.

- Roughly half of respondents are not willing to invest in SME or via crowdfunding. About one-sixth expressed strong interest in SME investing and crowdfunding. The remaining one-third were deemed potential investors.

- Regression analysis identifies four demographic variables that have a major impact on willingness to invest in SME, whether through crowdfunding or not: age (younger), gender (male), risk appetite (high) and ownership of complex investments. Age has the greatest influence.

- Besides the demographic variables, regression analysis identifies two equally important primary influences on the crowdfunding decision: It is easy to buy into the company on the Internet; and It has an idea that sounds good to you. "It could take a few years to find out if the business is profitable" is a negative influence as powerful as either positive influence.

Investing Via Crowdfunding

- Almost half of respondents expressed an interest in "Investing via Crowdfunding". Half also expressed an interest in SME investing. While the two groups are not identical, it was only the group that expressed an interest in crowdfunding that answered the questions in this section. With the exception of issues related to the Internet, the difference in response between SME investors and crowdfunding investors is largely immaterial.

- Respondents were shown a list of nine potential risks of investing in an unregulated market and asked which ones concerned them. Roughly two-thirds of those willing to invest were concerned about Potential for fraud and the Risk of losing their money. Roughly half of respondents cited additional reasons reflecting a concern with the lack of unbiased information and the lack of liquidity.

- More than one-third of those interested in investing via crowdfunding would be willing to invest $1000 or more when provided with good information about the company and its plans. Conditions that increase willingness to invest are: good track record; high growth industry; know the owners; an independent annual financial report; and a highly detailed business plan.

- When asked about the importance of having some seven different types of information, three types of information were important to three-quarters: Financial information about the company; Yearly information about how the company is doing; and How the company will use the money it gets from investors.

- When given a choice about how they would prefer to invest, responses made it clear that getting advice from a financial advisor is important. Methods involving an advisor appealed to roughly three times as many investors compared to methods that by-passed an advisor. If using an advisor is not possible, providing an Offering Memorandum slightly increases willingness to invest using the Internet.

- Among the group with an interest in investing via crowdfunding, some 4 out of 10 would invest under $1000, 2 out of 10 would invest $1000-1999, 2 out of 10 would invest $2000-4999, and the remaining 2 out of 10 (17%) would invest $5000 or more.

- Focusing on the group willing to invest $5000 or more, we note a few characteristics that make this group distinct. Compared to those willing to invest smaller amounts, they are: Higher income; Have more money saved/invested; Male; Own more financial products; Have higher risk tolerance; and Are more likely to read and understand financial statements.

NOT INTERESTED IN SME INVESTING

- Those not interested in SME investing are older and less educated. They are also more likely to be women. They own fewer investment products overall, and are less likely to own each investment product we surveyed. They also have less money saved or invested than average and they are lower income. Those not interested in SME investing are less comfortable using the Internet, and in fact, 4 out of 10 did not use the Internet for any buying activity in the past month. This is typical for the age, income, and education distribution that characterizes those not interested in SME investing. Those not interested in SME investing also have less tolerance for risk.

- The single dominant reason for not investing in new or young businesses was Risk of losing their money, which reflects the relatively low risk tolerance we observed in their demographics. The Potential for fraud, which is effectively another way of losing money, was the second most common reason for unwillingness to invest in SME.

- After an explanation of the implications of an unregulated mutual fund (hedge fund or pooled fund), those not interested in SME investing were asked about willingness to invest in an unregulated mutual fund. About 9% showed some interest (4-10 rating), but only 1% showed a strong interest as gauged by a 7-10 rating on a 1-10 scale. Risk of losing money was the most common reason for lack of interest, followed closely by Don't know enough about unregulated funds to invest comfortably, and Potential for fraud.

1.0 Introduction

The Ontario Securities Commission (OSC) is considering several ideas for new capital raising prospectus exemptions that may provide business enterprises, particularly start-ups and Small-Medium Enterprises (SME), with greater access to capital. New exemptions may also provide individual investors with more investment opportunities, subject to appropriate investor protections and limitations. "Crowdfunding" is one of the proposed ideas for new capital raising prospectus exemptions.

Information about the investment knowledge and behaviour of individual investors is difficult to obtain. In order to ensure that any new prospectus exemptions considered by the Commission include appropriate investor protections, the Commission would like to gain insight into individual investors' views about investing in start-ups and SMEs. This survey is designed to get information that will help the Commission better understand:

- The nature of investors' desire to invest in start-ups and SMEs, including risk appetite and size of investment;
- Investors' perceptions of the risks associated with investing in the exempt market;
- The specific information needs of investors investing in start-ups and SMEs; and
- The role of professional advisors in investors' investment decision-making process.

"Crowdfunding" is one of several ideas for new capital raising prospectus exemptions investigated in this study. The broader notion of "crowdsourcing" is familiar to many people. "Crowdsourcing is the practice of obtaining needed services, ideas, or content by soliciting contributions from a large group of people, and especially from an online community, rather than from traditional employees or suppliers" (Wikipedia, 12 April 2013). In its many forms, crowdsourcing is often a mix of donation, money for goods to be produced, or simply the desire to be a part of a socially meaningful exercise.

The focus of crowdfunding is narrower, especially within the context of this survey. Here we are explicitly referring to "the funding of a company by selling small amounts of securities to many investors", typically using the Internet (adapted from Wikipedia, 12 April 2013). This type of funding has been actively developing in the UK in recent years, and over the past year it was given heightened prominence by the proposed crowdfunding exemption in Title III of the U.S. JOBS Act. But while the focus of crowdfunding is selling securities, we cannot assume that the primary motivation of investors is solely monetary return on investment.

This survey will help to assess what matters to potential SME and crowdfunding investors. This includes discussion of circumstances that both encourage and discourage investment, as well as the kinds of people likely to invest under different circumstances.

1.1 Method

Formulating questions to improve the Commission's understanding of this market required a great deal of discussion. Crowdfunding is largely unknown territory. There was little prior research to provide any guidance. As a result, the process of question development involved a series of steps.

- The Brondesbury Group ("Brondesbury") met with Commission staff to discuss issues, the kinds of questions that were feasible, and the prioritization of issues to fit survey time limits.
- An initial outline of survey issues was developed and discussed until agreement was reached.
- Brondesbury developed the first draft of survey questions.

- Brondesbury and the Commission staff reviewed and revised items a number of times to make the best possible use of survey time.
- The final set of questions was pilot tested with the public and amended accordingly before going "live".

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The sample is a broad cross-section of adult Canadians, which is nationally representative by age and region. Median savings and investments (including RRSP but excluding home) in our sample are about $45,000. Almost 6 out of 10 respondents have less than $50,000 in savings and investments. In every age group, more than half of respondents have less than $50k in savings and investment. This rises to three-quarters in the youngest age group.

Only two groups were completely excluded from participation in the survey: Adults under age 20; and people who ever held any form of securities-related registration with a provincial securities commission. Some 320 potential respondents were eliminated from participation due to their securities registration.

Among those who were eligible for participation, we also put a limit of 400 respondents on the number of people who did not own financial products for saving or investment. Including this group was based on the belief that crowdfunding might attract people who don't invest now. Limiting the sample of people without investments was based on the notion that those already investing were more likely to provide informed opinion on a more complete range of questions. This limitation meant that 452 willing participants were not allowed to complete the survey. The final survey data were weighted in a way that gave those without savings or investment their true amount of impact as a proportion of the general population. Thus the 400 respondents we surveyed were treated as if we had actually surveyed all 852 people without savings or investment. This is standard practice for ensuring the general population is correctly represented.

The Brondesbury Group analyzed the survey data moving from consistency checks and simple frequencies to more complex cross-tabulations. Both chi-square and analysis of chi-square residuals were used in the analysis. In addition, multiple linear regression was used to identify those most likely to invest via crowdfunding and predictors of the amount invested. Regression provided a guide to the most meaningful variables for discussion in the report.

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- **All Respondents.** This included: Demographic information; Investment behaviour; Propensity for business investing; and Decision influences.
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There are several choices to make in designing surveys, and because we were very concerned about getting enough response on a very new topic like crowdfunding, we elected to use crowdfunding as a basis for streaming participants into one of the two mutually exclusive streams. We also used low cut-off scores to identify those potentially interested in crowdfunding, in an effort to ensure sufficient response to the crowdfunding questions.

It is important to understand the cut-off scores. In all three questions where willingness to invest was asked, it was rated on a 1-10 scale with 1 meaning 'Definitely NOT interested' and 10 meaning 'Definitely Interested'. Only those giving ratings of 1-3 were deemed 'Not interested' in investing, whether in SME generally or crowdfunding specifically. Thus all those giving ratings of 4-10 were deemed 'interested in investing'. Based on the typical psychological distances on a 1-10 scale, however, it is useful to think of the interested investors in two groups. There is a "core investor" that is likely to invest and gave 7-10 ratings; as well as a set of "potential investors" who are less likely to invest and gave 4-6 ratings.

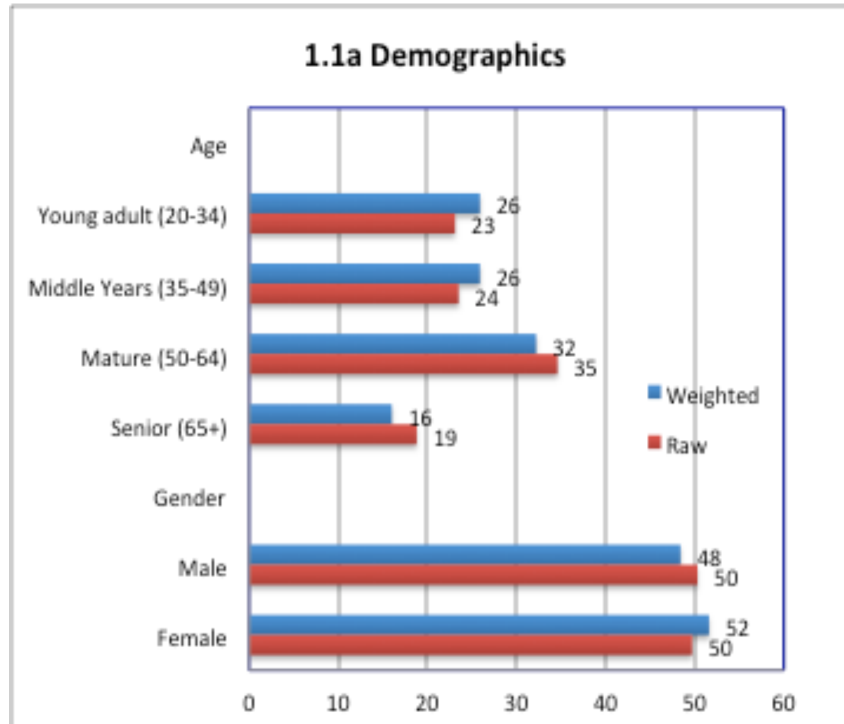
1.2 Who Was Interviewed

A total of 1501 people participated in the survey drawn from across Canada giving us a sampling error of +2.5%. A total of 320 people were excluded from participation because they were either currently or formerly registered with a provincial securities commission. In addition, 452 people were excluded from participation because we set a quota on the number of respondents we would accept who owned no major financial products (i.e., GIC, mutual fund, stocks, bonds, complex investments).

While sampling was done to ensure proper representation of gender and age groups within region, weighting was done to ensure the balance corresponds to the 2011 Census. In addition, we weighted those without investments to ensure that the final sample reflected all adult Canadians rather than just those with investments.

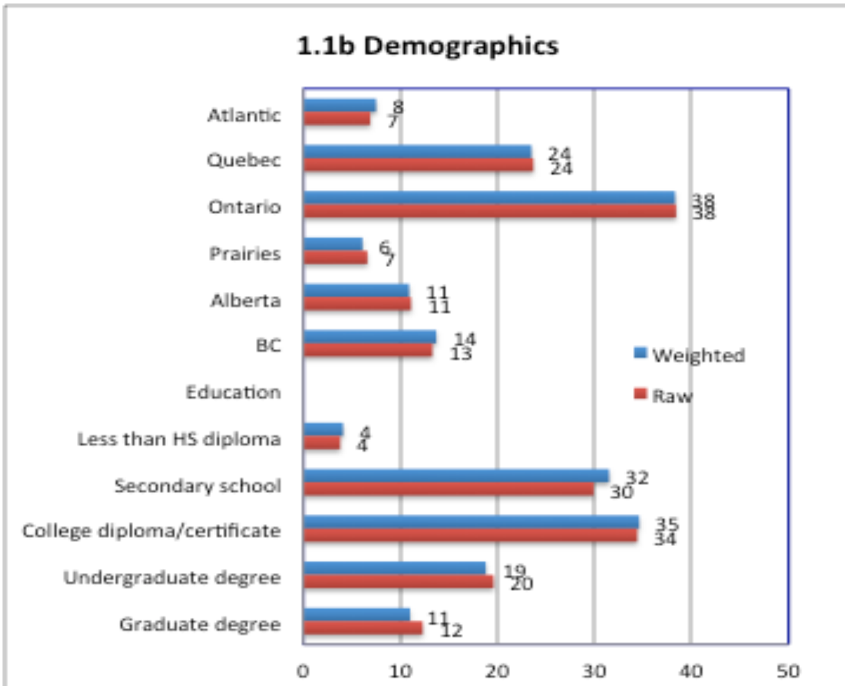
Exhibit 1.1 shows the demographics of our sample before weighting (raw) and after weighting (weighted). The differences are quite small, which indicates that the original sample was a good representation of respondents across Canada.

- By age, one-quarter of respondents were age 20-34, one-quarter 35-49, one-third 50-64 and one-sixth were age 65 or older. Half of the sample is female.



- By region, we have 38% Ontario, 24% Quebec, 7% East and 31% from the West.

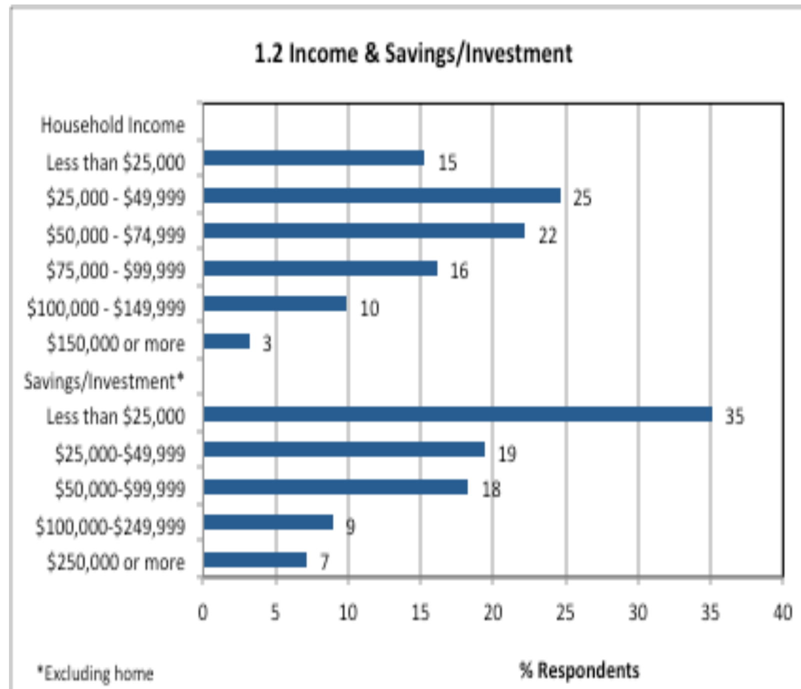
- 3 out of 10 respondents have a university degree and the remaining 7 out of 10 are split between people with a college diploma/certificate and those with a secondary school diploma or less.



FINANCIAL PROFILE OF THE CANADIAN POPULATION

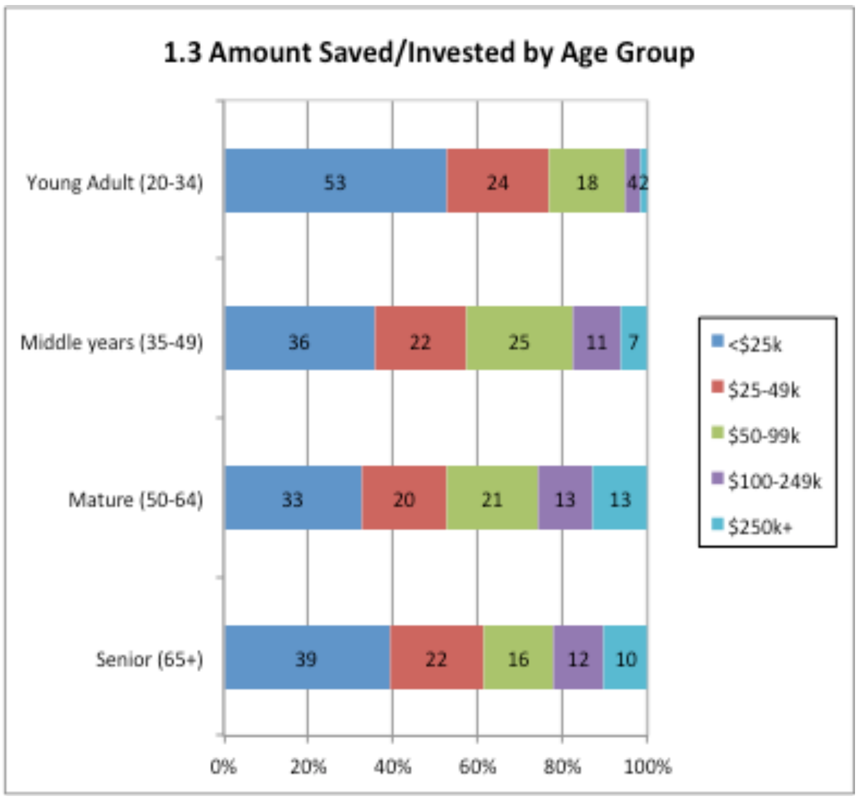
Exhibit 1.2 provides an overview of household income and savings in the general population. In this and all subsequent exhibits, we will show weighted results to give a proper sense of the population as a whole.

- As the exhibit shows, over 4 out of 10 (44%) have household income under $50k. One-quarter have household income in the $50-74k range and 3 out of 10 have household incomes in the $75-149k range. Only 3% have household income of $150,000 or more. Median household income is about $61k.

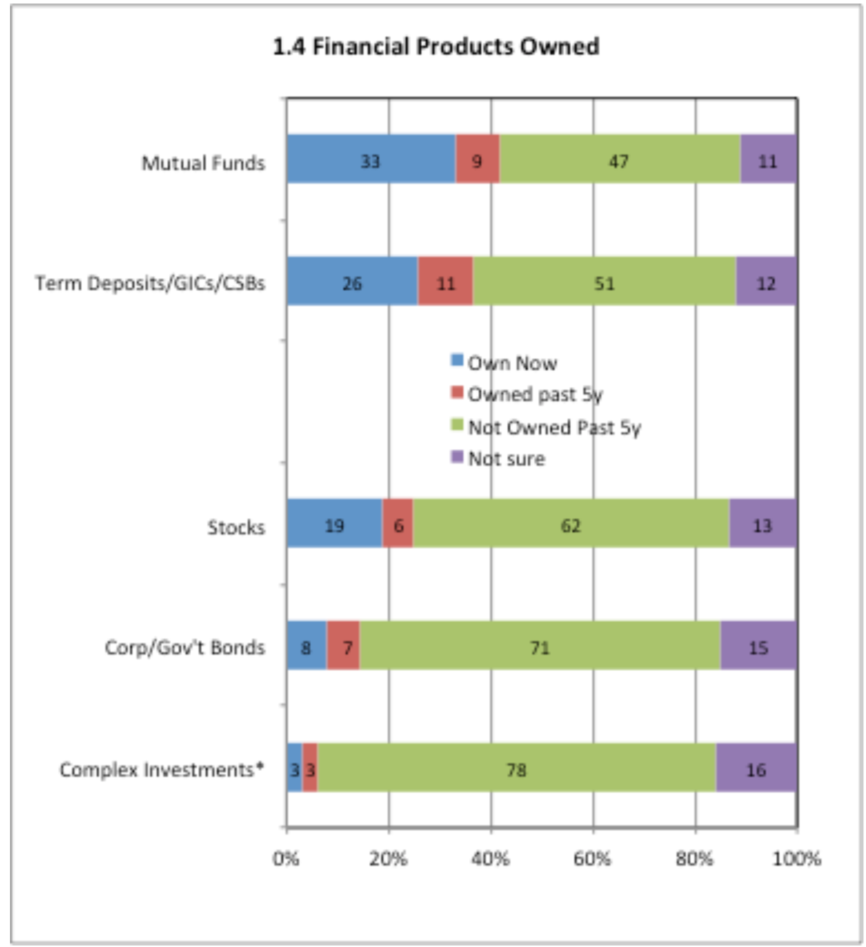


- **Median savings and investments (including RRSP but excluding home) are about $45,000.** Almost 6 out of 10 respondents have less than $50,000 in savings and investments, 2 out of 10 have $50-99k and another 2 out of 10 have $100k or more in savings and investments. Fewer than 1 out of 10 have as much as $250k in investments (7%).

- **In every age group, more than half of respondents have less than $50k saved and invested** (see Exhibit 1.3). At best, only one-quarter have $100k or more saved/invested. In the young adult age group, three-quarters have less than $50K saved and invested.



- Exhibit 1.4 shows ownership of five categories of financial products. They are listed in descending order of current ownership. Looking at mutual funds, we see that 33% of respondents own them now and another 9% owned them sometime during the past five years but not now. We can also see that 11% of respondents are not sure if they owned them in the past five years or not.



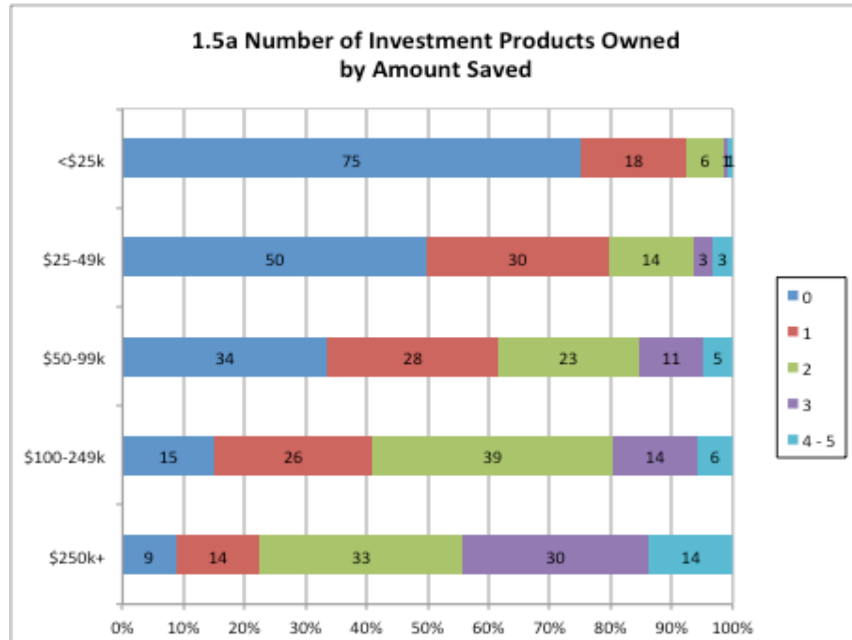
- **Other than mutual funds, GICs/Term Deposits/CSBs are the only product that is owned by at least one-quarter of people.** Stocks (not in a mutual fund) are not far behind. Fewer than 1 out of 10 own corporate or government bonds or complex investments.

- What this exhibit doesn't show is that **43% of those surveyed (and by extension the general population) do not own any of these five categories of financial products to their knowledge.** "To their knowledge" is mentioned as a qualifier for two reasons. First, more than 1 out of 10 is not sure about ownership for each and every product. Second, many people own these products within a company retirement plan (defined contribution plan or group RRSP). Past research has shown that they often do not remember they own these products since the decision about what products to buy was made long ago[1].

- There are some age differences in ownership of financial products, but this is most pronounced for mutual funds. Ownership of mutual funds rises from 4 out of 10 for young adults (20-34) to 6 out of 10 among those age 35-64 and back down to 5 out of 10 for seniors. For other products, age differences are minimal.

- **People with higher household income are more likely to own financial products than those with lower income**. They are also more likely to accumulate significant savings/investment. For households with under $50k income, two-thirds don't own any financial products and 6 out of 10 have less than $25k saved. By contrast, households with income of $100k or more have median savings of $130k and own two categories of financial products.

- Similarly, **the number of products owned rises with the amount saved or invested (see Exhibit 1.5). People's knowledge of financial matters also grows along with the amount invested[2].** Thus as a broad generalization from the OSC study just cited and numerous proprietary studies we have done over the years, we can say that those with more money saved and invested are likely to be more knowledgeable about financial products.

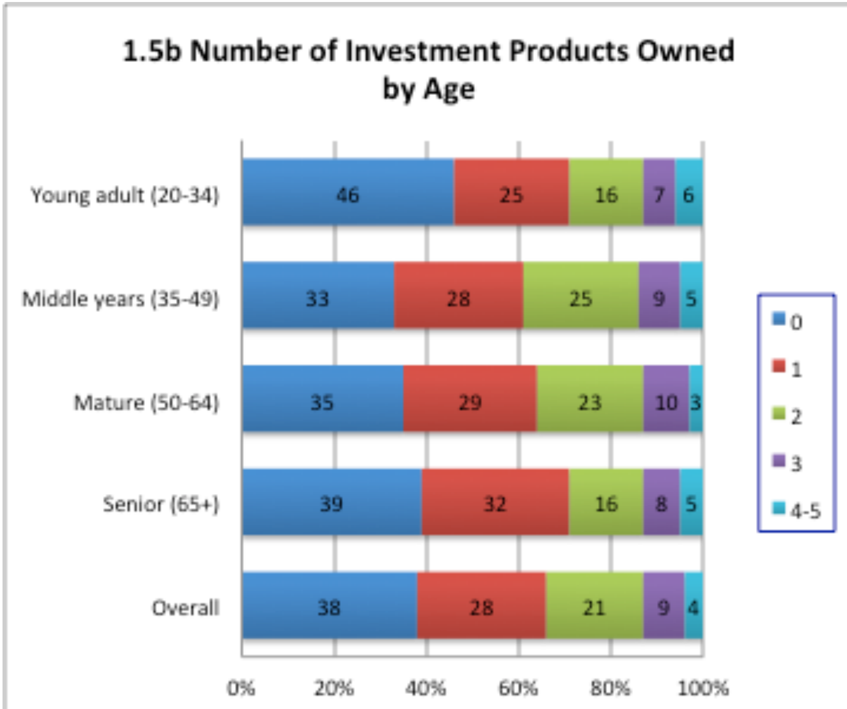


The relationship between age and the number of different types of investments owned is not so linear. It is lowest for Young Adults and peaks in the Middle Years. The number of different types of

[1] E. Weinstein, Group RRSPs and Small Pension Plans: Employee Survey, Brendan Wood International, 1997, 1999, 2001.

[2] OSC, Performance Reporting & Cost Disclosure, September 2010. http://www.osc.gov.on.ca/documents/en/Securities-Category3/rpt_20110622_31-103_perfomance-rpt-cost-disclosure.pdf

investments declines after that, but the total amount of money saved or invested does not. They simply focus on a smaller range of investments.



Online Profile

Crowdfunding is primarily an Internet-based activity, so knowing about the Internet usage of respondents is critical to understanding the results. Here we encounter a problem with bias because the survey was done on the Internet. A person who does not use the Internet or who has a low level of comfort using it cannot respond to this survey.

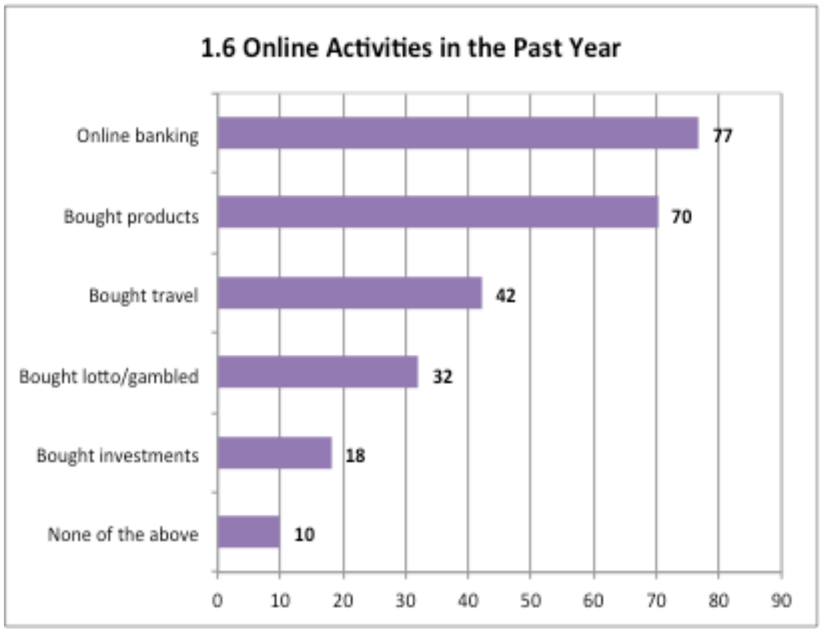
A recent study that measured Internet usage[3], shows that for Young Adults (age 25-34), this limitation will have virtually no impact because 96% use the Internet. For Middle Years (35-49), the impact will also be quite small (6-7%). With 14% of the Mature (50-64) not using the Internet, we will overestimate uptake more for that age group. The problem will be most critical for Seniors, where 29% don't use the Internet.

We have chosen not to correct the data for this bias largely because crowdfunding is an Internet-based activity and the potential users of crowdfunding are Internet users.

As we will see later, heavier users of the Internet are more likely to participate in crowdfunding. With that fact in mind, it is important to understand current usage. We profiled current usage (see Exhibit 1.6) with a range of online transaction activities: banking, shopping, travel booking, gambling and buying investments. The extent that someone engages in more Internet-based transactions is a measure of their comfort and trust of the Internet. As the data shows, those engaging in more types of Internet-based transactions are more likely to be comfortable with crowdfunding.

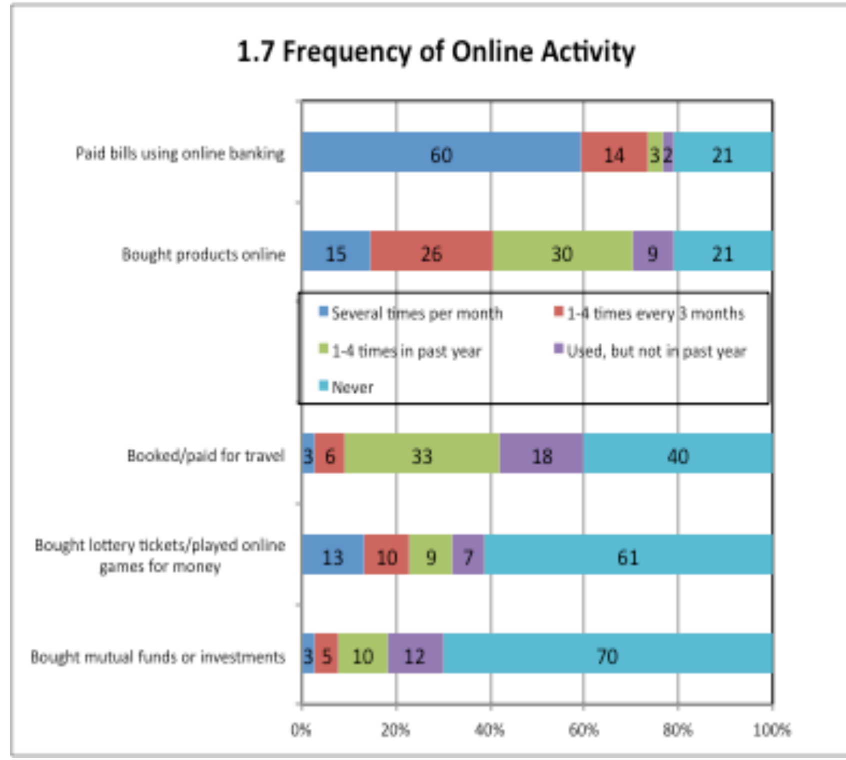
[3] Omnibus Survey, Research House, June 2012.

- Looking at five online transaction activities, we find that 9 out of 10 respondents have used at least one of these activities in the past year. More than 7 out of 10 have bought products online and paid bills using online banking over the past year. More than 4 out of 10 have bought and paid for travel, while 3 out of 10 have bought lottery tickets or played online games for money. Fewer than 2 out of 10 bought mutual funds or other investments online.

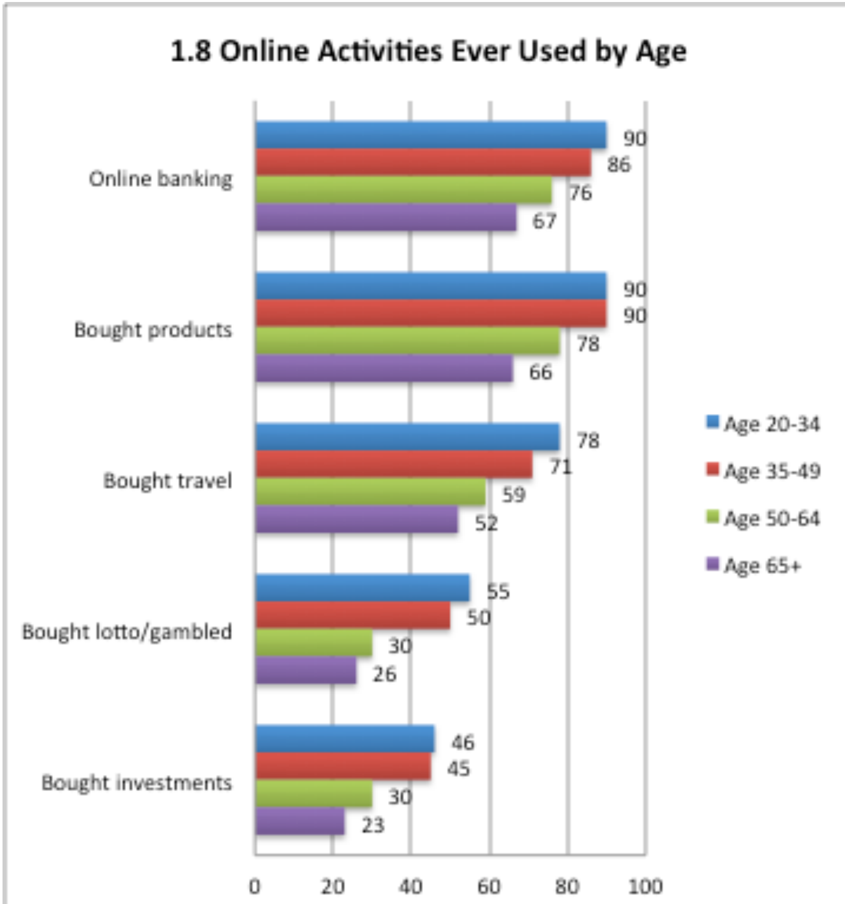


- While not shown, we note that the number of online activities in the past year rises with both amount saved/invested (up to $250k) and with household income. Tied to the same underlying economics, we find that the heaviest Internet users are also the most likely to own each financial product category.

- For those who would like a more detailed view of online activity, Exhibit 1.7 profiles the frequency of each online activity. As we can clearly see, online banking dominates Internet activity in these five categories.



- Internet activity also varies with age (see Exhibit 1.8). Those age 20-49 used 3.0 of the 5 listed activities in the past year. This drops to 2.2 for Internet users age 50-64 and 1.9 for Internet users age 65 and older.



1.3 ORGANIZATION OF THIS REPORT

The report contains five chapters plus an Executive Summary and an Appendix with the study questionnaires.

In addition to this Introduction, the remaining four chapters are as follows.

- **Propensity for Business Investing** (chapter 2) looks at the factors that affect willingness to invest in young or new small businesses.
- **Investing via Crowdfunding** (chapter 3) looks at the practices that will encourage or discourage equity participation via crowdfunding.
- **Not Interested in SME Investing** (chapter 4) looks at the barriers to SME investment, a well as potential investment in unregulated mutual funds.
- **Summary & Conclusions** (chapter 5) ties together the findings of the survey and concisely answers some of the questions raised by the OSC.

As you read the survey results, **it is important not to over-interpret small differences**. While the survey has overall statistical accuracy of ±2.5%, that reflects the likelihood of getting the same numbers by asking the same questions. It does not reflect the likelihood that people will do what they say. Much of the survey asks people to speculate on what they would do in response to a complex set of alternatives. The simple answer is we can't be sure what they will do until they are in the situation. Nonetheless, we can be reasonably certain that when a much larger group expresses interest in one alternative over another, the preferred alternative will remain so in practice. The immediate practical impact of this warning is that you should be reluctant to interpret differences in response unless they are quite substantial. We have aimed to do this when we select information to present and discuss in this report.

2.0 PROPENSITY FOR BUSINESS INVESTING

HIGHLIGHTS

- Interest in SME investing and interest in crowdfunding are highly related. Overall, the two groups overlap by about 80% (42.0% + 37.3%). Some three-quarters of SME investors are interested in crowdfunding, and conversely, 86% of those interested in crowdfunding are interested in SME investing. The simple graphic below shows how the total population divides up in terms of interest in SME investing and crowdfunding.

- As we will see later, when people are interested in one type of investing (SME or crowdfunding) and not the other, the main difference is their familiarity and comfort with the Internet. That explains most differences, and other than demographics related to Internet usage, other demographic differences are largely immaterial. As a result, it should be understood that a conclusion applied to one of the two groups of investors would almost certainly apply to the other group.

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- Risk tolerance, age and gender are the three personal characteristics that are most indicative of propensity for business investing, whether we are talking about investing in SME or crowdfunding.

- Five things have a strong positive impact on willingness to invest in SME, while lack of information and lack of liquidity deter investment. The positive influences in descending order of net impact are:
  - The business is in an industry you know well.
  - It is a well-established business with a new plan for growth.
  - It is a local business that you might use.
  - It is a start-up company with an idea that sounds good.
  - You can buy it through your financial advisor and get advice.

- Roughly half of respondents are not willing to invest in SME or via crowdfunding. About one-sixth expressed strong interest in SME investing and crowdfunding. The remaining one-third were deemed potential investors.

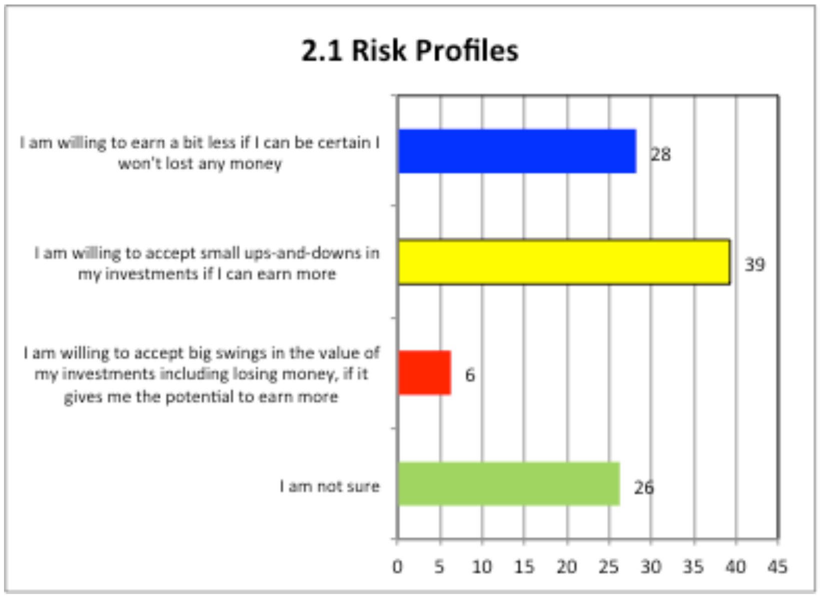
- Regression analysis identifies four demographic variables that have a major impact on willingness to invest in SME, whether through crowdfunding or not: age (younger), gender (male), risk appetite (high) and ownership of complex investments. Age has the greatest influence.

- Besides the demographic variables, regression analysis identifies two equally important primary influences on the crowdfunding decision: It is easy to buy into the company on the Internet; and It has an idea that sounds good to you. "It could take a few years to find out if the business is profitable" is a negative influence as powerful as either positive influence.

2.1 RISK PROFILES

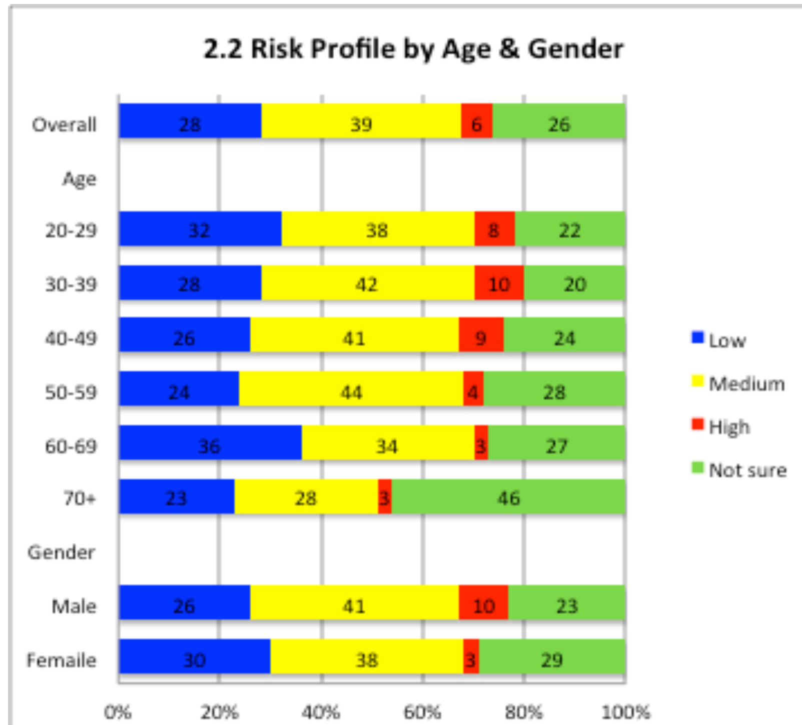
Before we discuss propensity for business investing, we should discuss risk profiles. In the survey, we asked people to choose one of three statements that best describes their way of thinking about investing.

- 28% say "I am willing to earn a bit less if I can be certain I won't lose any money (low risk);
- 39% say "I am willing to accept small ups-and-downs in my investments if I can earn a bit more (medium risk);
- 6% say "I am willing to accept big swings in the value of my investments including losing my money, if it gives me the potential to earn more (high risk); and
- 26% say "I am not sure".



As we will see later, **risk tolerance, age and gender are the three personal characteristics that are most indicative of propensity for business investing, whether we are talking about SME or crowdfunding.** With this in mind, it is important to get an understanding of how risk changes by age and gender.

- The high-risk group is about 8-10% before age 50 and about 3-4% thereafter. The proportion of low-risk peaks at age 60-69. Uncertainty about risk grows after age 50, and by age 70, almost half of respondents are 'not sure' about their risk profile.
- There are four times as many men (10.3%) that identify themselves as high risk compared to women (2.5%). Women are also more likely to rate themselves as 'not sure'.



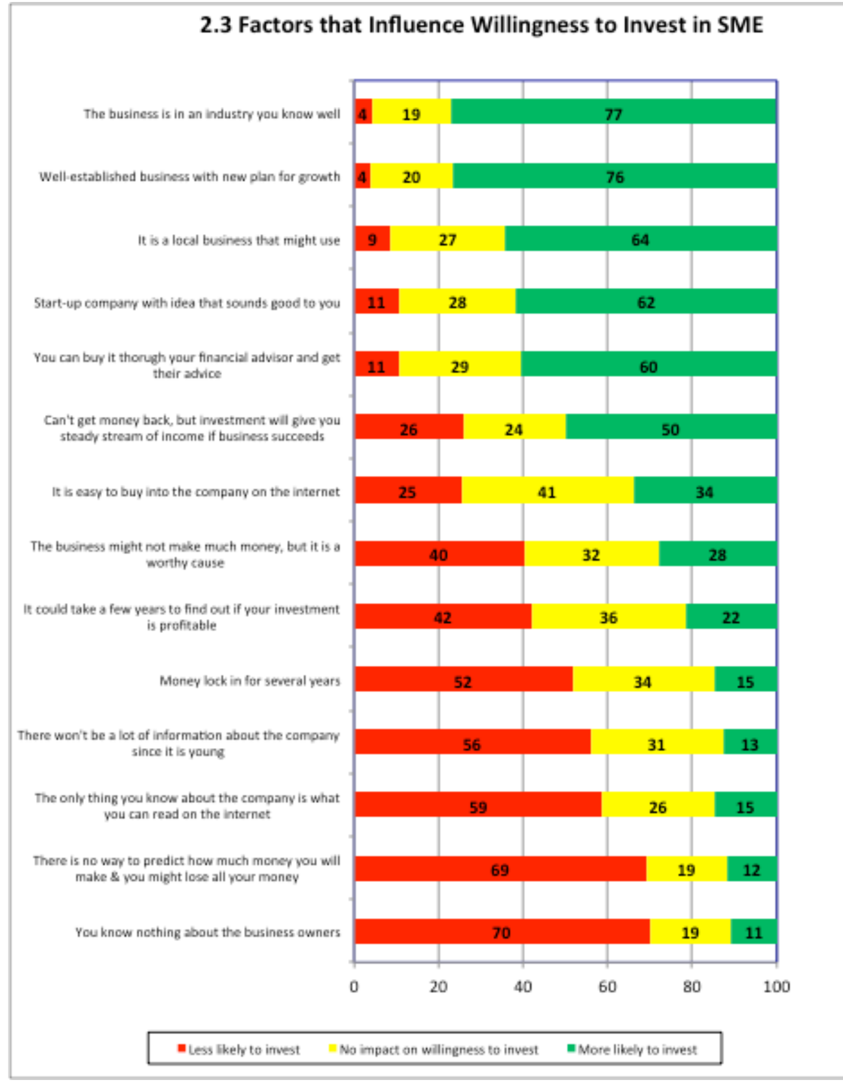
2.2 DECISION INFLUENCES

As an indicator of potential for investing in young companies, we asked people about their prior investment in small business. Some 16% have invested in their own small business and 5% have invested in someone else's. Those who have invested in someone else's small business are more likely to be interested in crowdfunding (61% versus 46%).

As a preliminary, we asked two separate questions about willingness to invest in unlisted Canadian companies. One question asked about a "brand new start-up company" and the other asked about a "young company". Responses on a 1-10 scale were comparable with 45-47% not willing to invest (1-3), 37-38% potentially interested (4-6) and 14-18% showing willingness to invest (7-10). There is no point distinguishing the answers to the two questions, because 90% of respondents were either "not willing to invest" for both questions or potentially/willing to invest for both questions.

We then asked about some 14 influences that might make a person more or less likely to invest in SME. We have classified the responses on a 1-5 scale into less likely (1-2), no impact (3) and more likely (4-5) as you can see in Exhibit 2.3. The 14 influences are listed in descending order starting with the influence that is most likely to encourage investing.

Exhibit 2.4 shows the same information transformed into a net impact score. Net impact is "% more likely minus % less likely". Thus if we look at **the most powerful influence, "The business is an industry you know well", the net impact score is 73**% (77%-4%) meaning that overall 73% of people are more likely to invest in an industry they know well. It is worth noting that this influence has been found in other studies as well[4].



[4] M.J. Robinson & T. Cottrell, "Investment Pattern of Informed Investors in the Alberta Private Equity Market", J. Small Business Management, 2007, 45(1), 47-67.

Five things have a strong positive impact on willingness to invest in SME, while lack of information and lack of liquidity deter investment. The positive influences in descending order of net impact are:

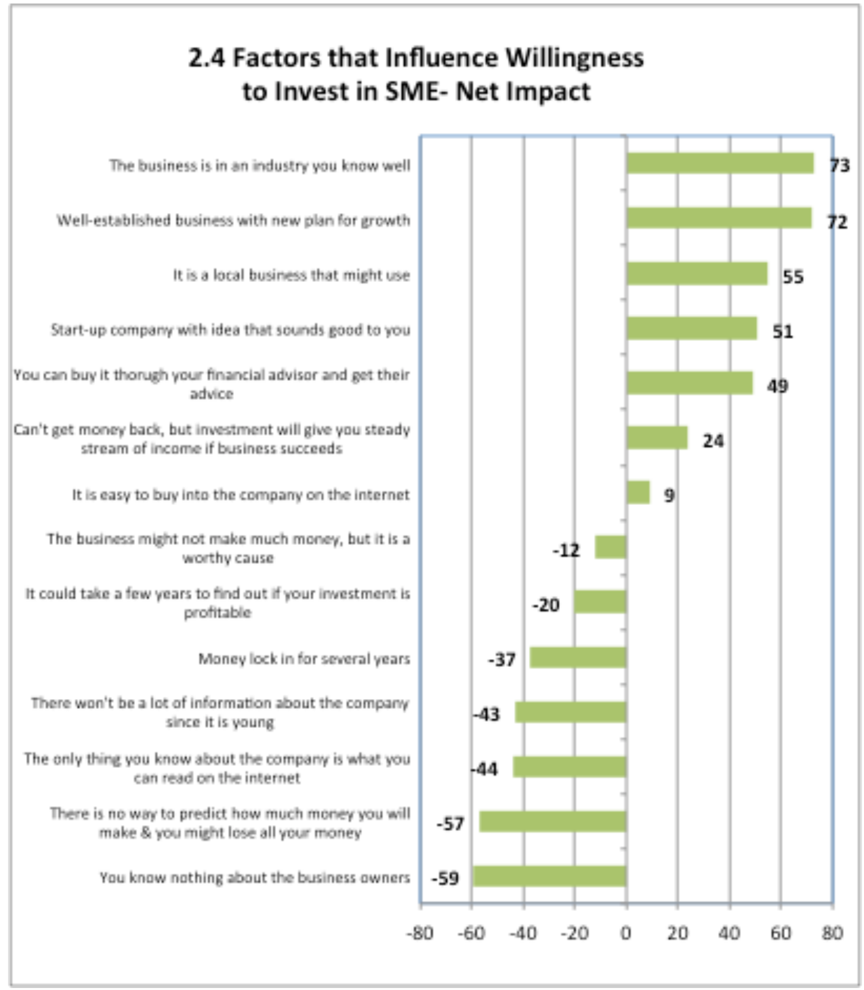
- The business is in an industry you know well.
- It is a well-established business with a new plan for growth.
- It is a local business that you might use.
- It is a start-up company with an idea that sounds good to you.
- You can buy it through your financial advisor and get their advice.

As with knowing the industry, the Alberta research cited earlier also shows a bias in favour of local business. Other studies point to the bias towards local investing[5] that we see here. While we are not yet talking about crowdfunding as a method of SME investing, it is worth noting that the crowdfunding research mentions two additional motivations for investing, namely "the excitement of a start-up" and the personal recognition that investors sometimes get[6].

Five things make investing far less likely. Starting with the most negative influence the things that deter investing are as follows.

- You know nothing about the owners of the business.
- There is no way to predict how much money you will make and you might lose all your money.
- The only thing you know about the company is what you can read on the Internet.
- There won't be a lot of information about the company since it is young.
- Once you put your money in, you can't get it out for several years.

In short, **lack of information and lack of liquidity hinder investment while knowledge and advice encourage it.**



[5] Dr. Allan Riding (Equinox Management Consultants), "Practices and Patterns of Informal Investors, Industry Canada, May 2001.
[6] A. Schwienbache & B. Larralde, "Crowdfunding of Small Entrepreneurial Ventures", Handbook of Entrepreneurial Finance, Oxford University Press, 2010.

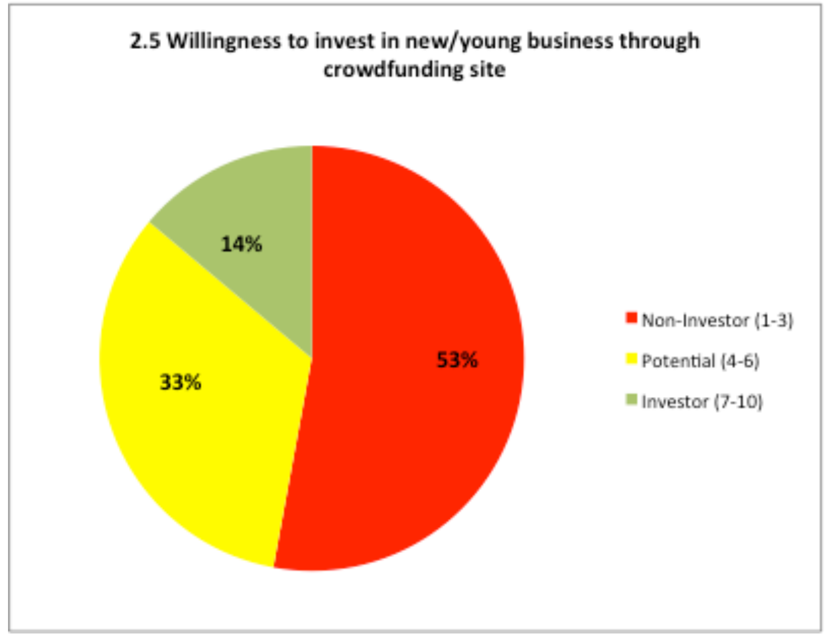
2.3 WILLINGNESS TO INVEST VIA CROWDFUNDING

Reviewing the potential decision influences was an important prelude to our critical question about willingness to invest via crowdfunding. Before looking at public willingness, it is important to understand that these questions will have provoked more thinking about investments as usual. It is also important to understand the exact context that respondents were given before being asked to respond. Our aim was to make this 'context' relatively neutral with a balance of positives and negatives.

"One of the new investing trends emerging on the Internet is called "crowdfunding". There are some examples in the U.K. and it is getting started in the US. The basic idea of crowdfunding is that a bunch of small investors invest relatively small amounts of money in ***<u>new or young businesses</u>*** *that appeal to them. This isn't a regulated market like a stock market, but it is more like e-Bay where you read a "product" description on-line and decide whether you are going to buy. The big difference here is that you are buying an investment rather than something you can hold in your hands. There is no guarantee that you will make money on the money you invest, and a very real risk that you will lose all your money. It is up to you to decide whether the idea is one you want to support and one that you think might succeed.*

Assuming that you are comfortable with the amount of money involved and the business idea appeals to you, how likely would you be to invest in a new or young business through a crowdfunding site on the Internet? Please rate your likelihood of investing on a 1-10 scale where 1 means 'Definitely would NOT invest' and 10 means 'Definitely WOULD invest'."

- **More than half of all respondents (53%) are not willing to invest via crowdfunding** (1-3 ratings) with 30% of all respondents giving the lowest possible rating on the scale. About 14% expressed strong interest and most of those were ratings of 7 on the 7-10 part of the scale. This 14% is the real core of crowdfunding investors. The remaining 33% showed weaker interest and were deemed "potential investors" with ratings of 4-6 on the 1-10 scale.



- **Regression analysis identifies four demographic variables that have a major impact on willingness to invest** (4-10 rating) via crowdfunding. The same findings apply to SME investing more generally. Age has the greatest influence on decision-making. Willingness to invest varies as follows.
  - age: 67% for ages 20-34, 53% for 35-49, 38% for 50-64, 23% for ages 65 and older;
  - gender: 56% of men and 39% of women;
  - risk appetite: 43% at low risk, 55% at medium, 72% at high risk;
  - own complex investments: 70% versus 46% for non-owners.

Relative willingness to invest via crowdfunding is shown for several selected groups in Exhibit 2.6. You will note that the likelihood of crowdfunding goes down as the amount saved/ invested increases. This is because the amount of money saved/invested increases with age, while willingness to crowdfund declines with age. The driver here is age rather than money. We included this to make a point though, namely **crowdfunding investors will typically have less money saved/invested than non-investors**.

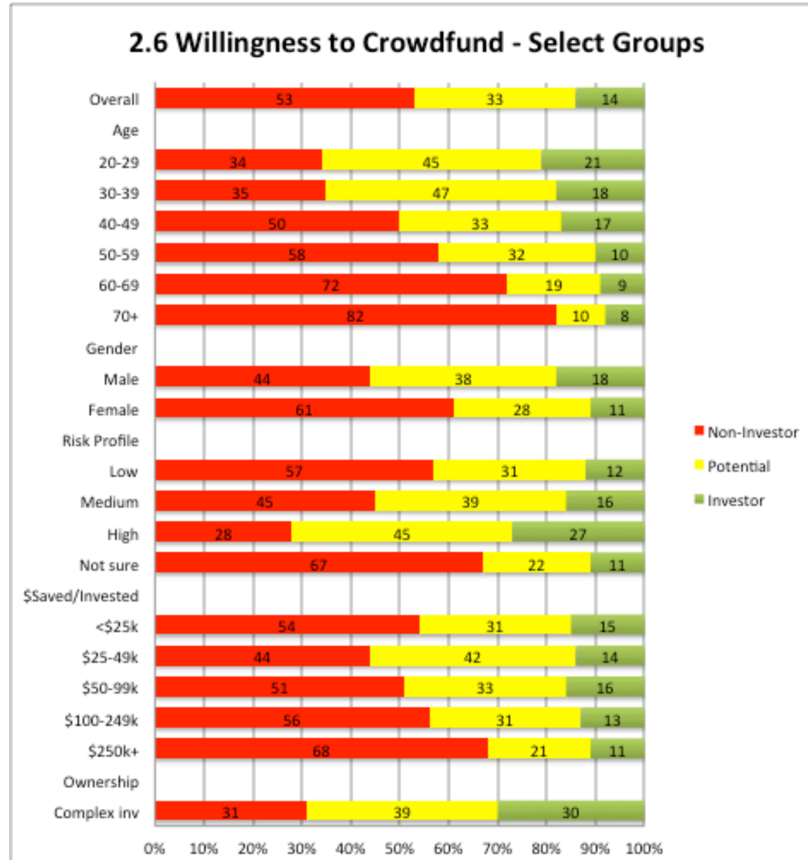
To forestall any unwarranted assumptions, we think it is also useful to identify some demographic variables that have no relationship to willingness to crowdfund. These include: Language, Household income, ownership of mutual funds, and ownership of equities.

Besides the demographic variables, regression analysis identifies two equally important positive influences on the crowdfunding decision: "It is easy to buy into the company on the Internet"; and "It has an idea that sounds good to you". "It could take a few years to find out if the business is profitable" is a negative influence as powerful as either positive influence.

Significant secondary influences are familiar from our earlier analysis. The first influence is negative. The other two are positive.

- There won't be a lot of information about the company since it is young.
- The business is in an industry you know well.
- It is a well-established business with a new plan for growth.

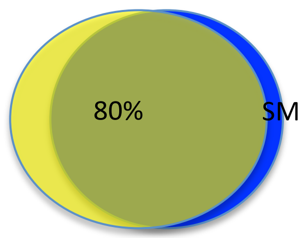
The archetype of a crowdfunding investor will be a well-educated male under the age of 40 with a high risk tolerance and a lot of comfort with the Internet. While the person won't have much money invested yet, they will still have bought more complex products. Of course, only a small portion of actual buyers would look like this in reality, but most will have some of these elements in their background.



As a matter worth noting in Exhibit 2.6, some 12% of people who identify themselves as "low risk" are strongly interested in crowdfunding (7-10 ratings). It is unclear why this group is strongly interested in crowdfunding given the identified risks, but an attraction to activities that are Internet-based is likely at the heart of it.

2.4 SME Investing and Crowdfunding

Interest in SME investing and interest in crowdfunding are highly related. Overall, the two groups overlap by about 80% (42.0% + 37.3%).



Some three-quarters of SME investors are interested in crowdfunding (i.e., 42.0/55.8=75%), and conversely, 86% of those interested in crowdfunding are interested in SME investing (i.e., 42.0/48.9=86%). The simple graphic below shows how the total population divides up in terms of interest in SME investing and crowdfunding.

2.7 Relationship Between Interest in SME Investing & Crowdfunding
(% Total)

	Crowdfunding		
New/Young Investment	Yes	No	
Yes	42.0	13.8	55.8
No	6.9	37.3	44.2
	48.9	51.1	

What the graphic shows is that 42% of the general population show some interest (4-10 rating) in both SME investing and crowdfunding. Conversely, 37% show no interest in either (1-3 rating) type of investing. The roughly 20% remaining show an interest only in investing in one of the two ways.

When people are interested in one type of investing (SME or crowdfunding) and not the other, the main difference is their familiarity and comfort with the Internet. That explains most differences, and other than demographics related to Internet usage, other demographic differences are largely immaterial. As a result, it should be understood that with the exception of things directly related to Internet usage, **a conclusion applied to one of the two groups of investors (SME or Crowdfunding) would almost certainly apply to the other group.**

After examining a range of alternative explanations using statistical analysis (i.e., Analysis of Chi-Square Residuals), we concluded that the major difference between the two groups is their comfort with the Internet and the trust they put in buying on the Internet. For interested SME investors (4-10 rating), ease of buying online had a net impact of +18%. This is very small compared to the net impact of +45% for interested crowdfunding investors. The enormous difference is due to the fact that those not comfortable with the Internet are not part of those interested in crowdfunding. As further evidence, we note that those who are not interested in investing via crowdfunding use half as many internet activities regularly and are only one-third as likely to have invested online (11% versus 30%).

Both logically and statistically, we conclude that comfort with doing business on the Internet is the main differentiator between all SME investors and those interested in crowdfunding. In fact, as Exhibit 2.7 shows, there is a small group of people (6.9%) who will only invest in small business if they can do so via crowdfunding.

3.0 Investing Via Crowdfunding

Highlights

- Almost half of respondents expressed an interest in "Investing via Crowdfunding". Half also expressed an interest in SME investing. While the two groups are not identical, it was only the group that expressed an interest in crowdfunding that answered the questions in this section. With the exception of issues related to the Internet, the difference in response between SME investors and crowdfunding investors is largely immaterial.

- Respondents were shown a list of nine potential risks of investing in an unregulated market and asked which ones concerned them. Roughly two-thirds of those willing to invest were concerned about Potential for fraud and the Risk of losing their money. Roughly half of respondents cited additional reasons reflecting a concern with the lack of unbiased information and the lack of liquidity.

- More than one-third of those interested in investing via crowdfunding would be willing to invest $1000 or more when provided with good information about the company and its plans. Conditions that increase willingness to invest are: good track record; high growth industry; know the owners; an independent annual financial report; and a highly detailed business plan.

- When asked about the importance of having some seven different types of information, three types of information were important to three-quarters: Financial information about the company; Yearly information about how the company is doing; and How the company will use the money it gets from investors.

- When given a choice about how they would prefer to invest, responses made it clear that getting advice from a financial advisor is important. Methods involving an advisor appealed to roughly three times as many investors compared to methods that by-passed an advisor. If using an advisor is not possible, providing an Offering Memorandum slightly increases willingness to invest using the Internet.

- Among the group with an interest in investing via crowdfunding, some 4 out of 10 would invest under $1000, 2 out of 10 would invest $1000-1999, 2 out of 10 would invest $2000-4999, and the remaining 2 out of 10 (17%) would invest $5000 or more.

- Focusing on the group willing to invest $5000 or more, we note a few characteristics that make this group distinct. Compared to those willing to invest smaller amounts, they are: Higher income; Have more money saved/invested; Male; Own more financial products; Have higher risk tolerance; and Are more likely to read and understand financial statements.

3.1 Assessment of Risks

All of the findings in this chapter come from the 707 respondents who we classified as potential (4-6) or willing (7-10) investors via crowdfunding.

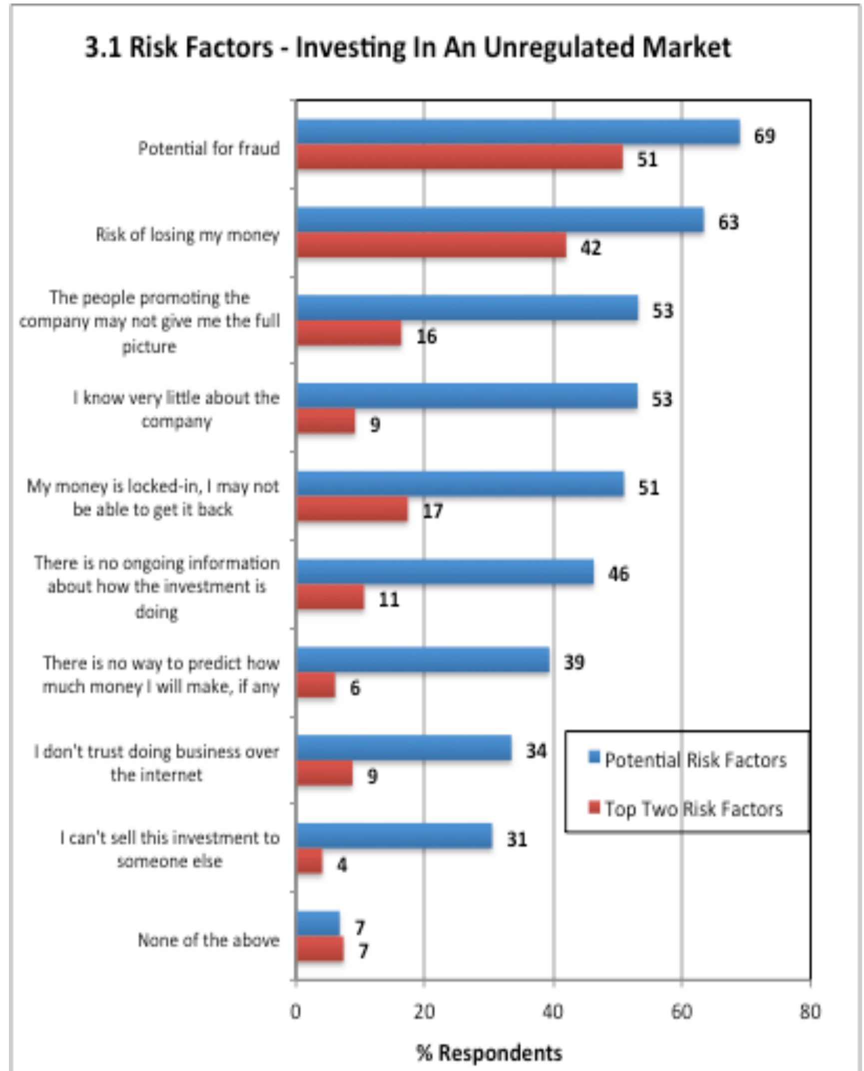
Respondents interested in crowdfunding were shown a list of nine potential risks of investing in an unregulated market (see Exhibit 3.1) and asked which ones concerned them. On average, people chose 4-5 risks. They were then asked to identify the two risks that are their biggest concerns.

- Roughly two-thirds of those willing to invest were concerned about Potential for fraud and the Risk of losing their money.
- As you can see in Exhibit 3.1, four additional risks were cited by roughly half of respondents reflecting a concern with the lack of unbiased information and the lack of liquidity.
- Even the three remaining risks were concerns for 3 out of 10
- Only 7% had no real concerns.

When asked to select the top two risks that concerned them from among the 4-5 typically selected, the top two choices reflected the same concerns as they showed when all risks could be identified.

- **The two dominant risks were the potential for fraud (51%) and the risk of losing my money (42%).**
- The next most identified risks were cited as a “top two” risk factor by fewer than 20%: My money is locked-in and the People promoting the company may not give me the full picture.

Younger investors have fewer concerns than older investors, and concomitantly, those with less savings/investment and less income show fewer concerns about the risks of an unregulated market. More active Internet usage also reduces risk concerns.



If we look at the number of financial products owned now as an indicator of investment experience, we see a few patterns.

- More experienced investors show more concern about the inability to sell the investment.
- Those without investments now show greater concern about money being locked in and the unpredictability of returns.

If we look at the age differences in concerns, we find several risk concerns increase markedly with age. For the most part, concerns increase at age 50 and become more accentuated.

- The biggest increase is for "No ongoing information about how the investment is doing", which is 38% for young adults and 61% for seniors.
- "The people promoting the company may not give me the full picture" increases from 46% for young adults to 64% for seniors.
- "Potential for fraud" increases from 63% to 78%; and
- "I can't sell this investment to someone else" increases from 28% among young adults to 43% for seniors.

3.2 Decision Influences

What Affects Amount Invested

People were then asked what was the most they would invest under some nine different conditions. The amounts they could state were open-ended, eliminating any potential concern about leading people to a specific answer. Exhibit 3.2 (next page) shows the conditions starting with the condition that would raise the most money on average and then in descending order of the money they would raise on average.

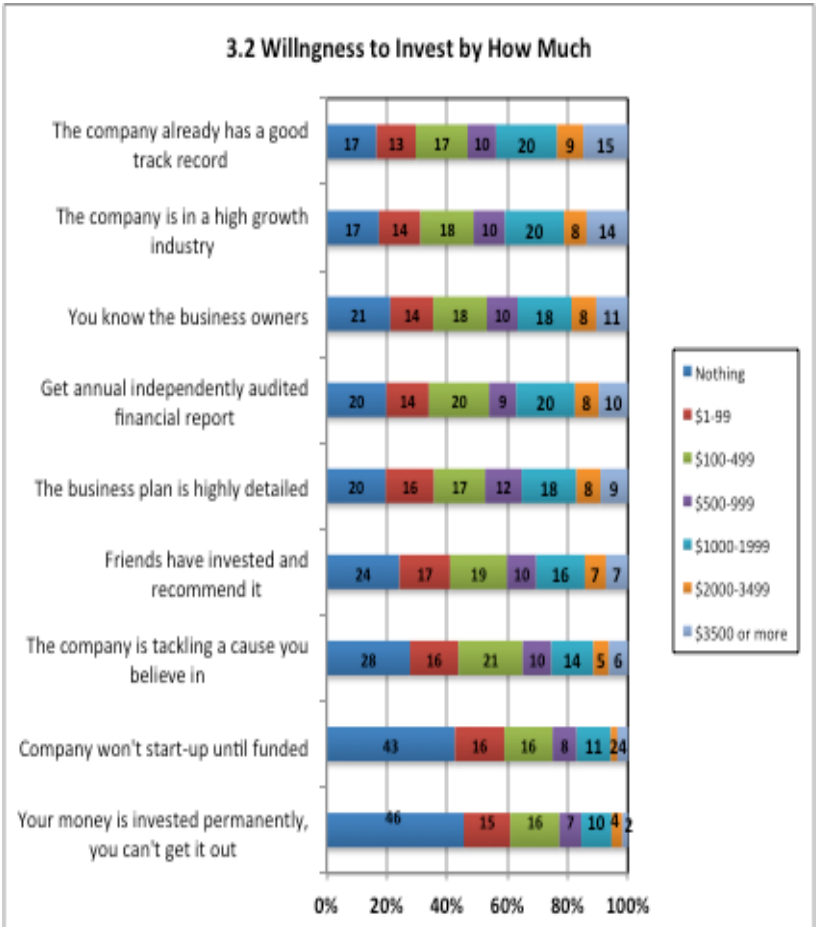
More than one-third of those interested in investing via crowdfunding would be willing to invest $1000 or more under the first five conditions. As well, these conditions show average investments in the $950-$1300 range. **Good information is the key to greater investment as you can see.** Conditions that increase willingness to invest more money are:

- The company already has a good track record;
- The company is in a high growth industry;
- You know the business owners;
- Each year you get a financial report verified by an independent accounting firm; and
- The business plan is highly detailed.

The conditions least likely to encourage investing yield average investments of $400 or less.

- The company won't start up until funded; and
- Your money is invested permanently – you can't get it out.

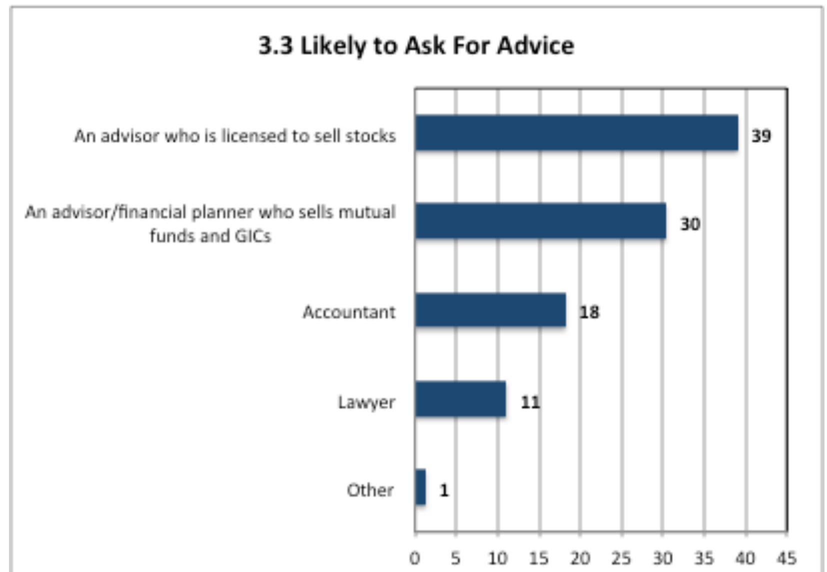
Regression analysis shows three significant influences here. Of the three, "The company already has a good track record" has the most influence Also significant are "The business plan is highly detailed" and "The company won't start up until they get enough investment money".



The Role of Advice & Information

People were asked whether they would seek professional advice before deciding to invest (see Exhibit 3.3).

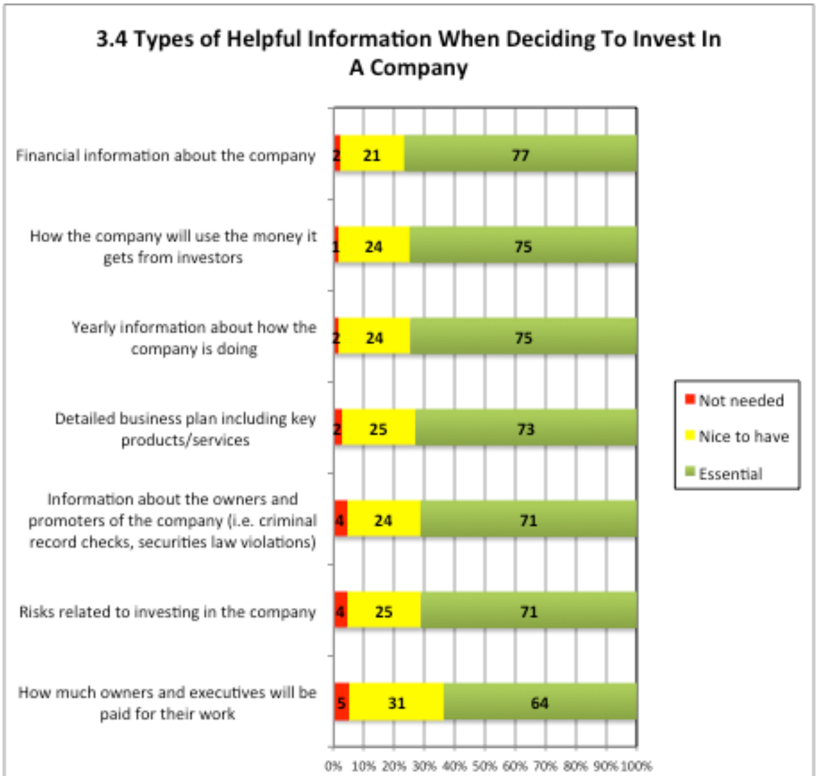
- One-quarter (24%) simply weren't sure.
- **Three-quarters of those with an opinion said they would seek professional advice** (58% of all respondents).
- The advisor most likely to be consulted was an advisor licensed to sell stocks (39%), followed by a financial planner (30%), accountant (18%) and lawyer (11%).



When asked about the importance of having some seven different types of information using a 1-5 scale, **all types of information were rated important (4-5 rating) by at least 6 out of 10** (see Exhibit 3.4). Some 3 types of information were important to three-quarters:

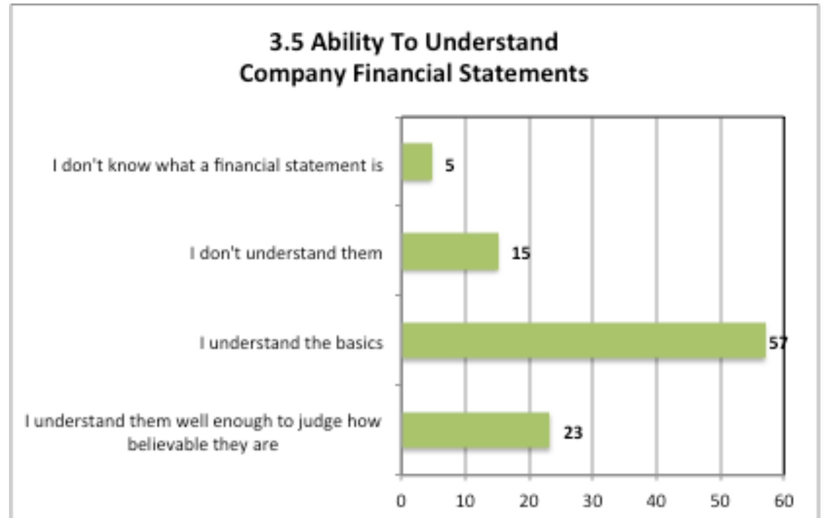
- Financial information about the company;
- Yearly information about how the company is doing; and
- How the company will use the money it gets from investors.

In addition, regression analysis shows that when investors are provided with better information about "How the company will use the money it gets from investors" they are likely to invest more money.

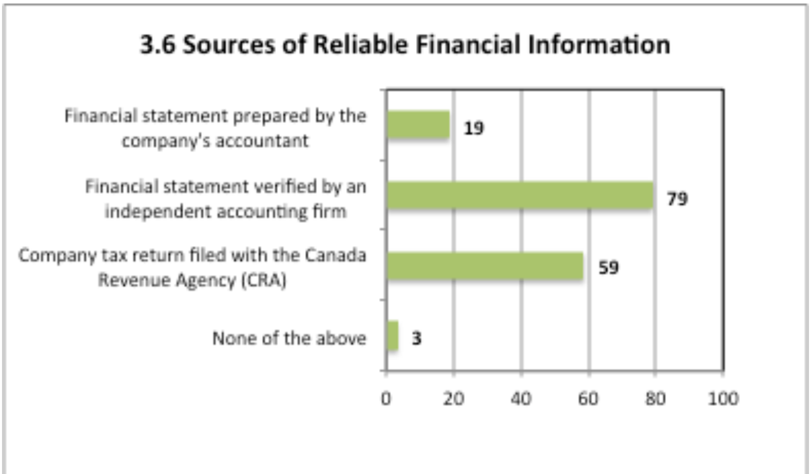


Looking at Exhibit 3.4, we note that three-quarters of investors want financial information about the company, as well as yearly information about how the company is doing.

Among those wanting a financial statement, only one-quarter understands financial statements well enough to judge how believable they are (see Exhibit 3.5)**.** Most just understand the basics. In short, while they may want a financial statement, most are incapable of really using it.



We also asked about the type of information they consider to be "reliable financial information" (see Exhibit 3.6). It is clear from the responses that people understand the principle of 'independent information', even if they can't read a financial statement as well as might be expected. Financial statements verified by an independent accounting firm were deemed most reliable followed by company tax returns.



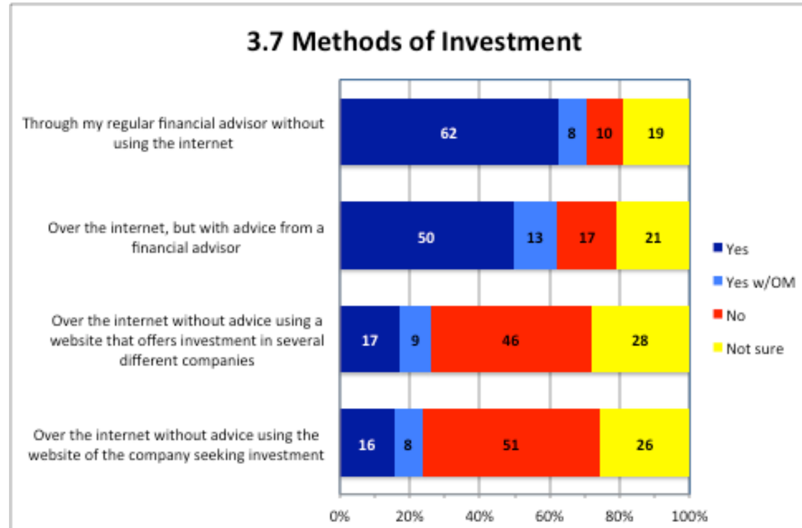
Some 7 out of 10 investors also who want information about the owners and promoters of the company (71%). Among those who want information, they typically (8 out of 10) want to know:

- Business background and experience;
- A character check including criminal record and securities law violations; and
- Information about prior bankruptcies and insolvencies.

Methods of Investing

When given a choice about how they would prefer to invest, responses made it clear that getting advice from a financial advisor is important (see Exhibit 3.7). **Methods involving an advisor were roughly three times more attractive than methods that by-passed an advisor.**

Without benefit of an Offering Memorandum (OM)[7], fewer than 2 out of 10 chose a method that by-passed the advisor and bought directly over the Internet. Even for crowdfunding, the advisor's advice takes precedence over the appeal of the Internet.



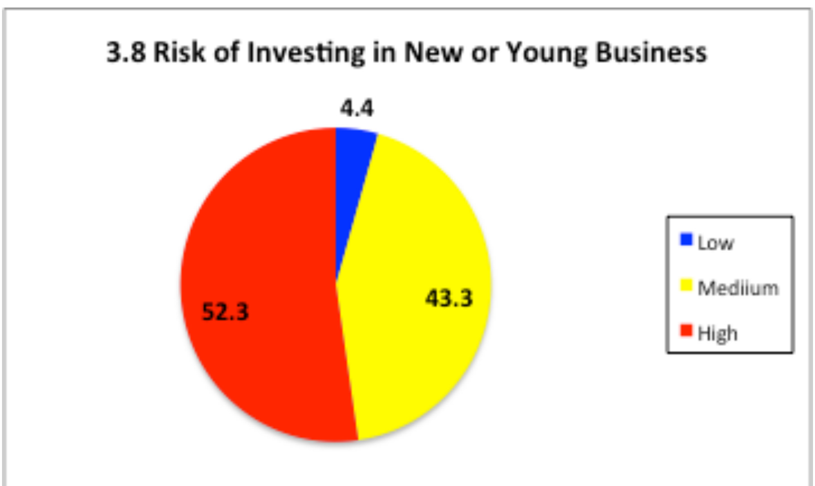
Respondents were first asked which methods they would use to buy and those responses were shown in dark blue in Exhibit 3.7. We then explained the benefit of an OM and asked about their willingness to buy by previously unacceptable methods if an OM was available. The addition of the OM added 8-13% (light blue) to the base response.

[7] A legal document stating the objectives, risks and terms of investment involved with a private placement. This includes items such as the financial statements, management biographies, detailed description of the business, etc. An offering memorandum serves to provide buyers with information on the offering and to protect the sellers from the liability associated with selling unregistered securities. Source: Investopedia (http://www.investopedia.com/terms/o/offeringmemorandum.asp)

3.3 INFORMED PROPENSITY FOR INVESTING

The logic of the survey design led respondents to think about the risks of SME investing and what would mitigate those risks. Then, for those who thought crowdfunding was attractive, we led them to think about the risks of crowdfunding and the kinds of advice and information that would mitigate those risks. At this point in the survey, after being prodded to think about these issues, we wanted to get a final summary judgment of their view of SME investing. In doing so, we recognized that only SME investors interested in crowdfunding could provide this information. As we mentioned earlier, the differences between SME and crowdfunding investors are largely immaterial, so we had little concern about substantive differences in response.

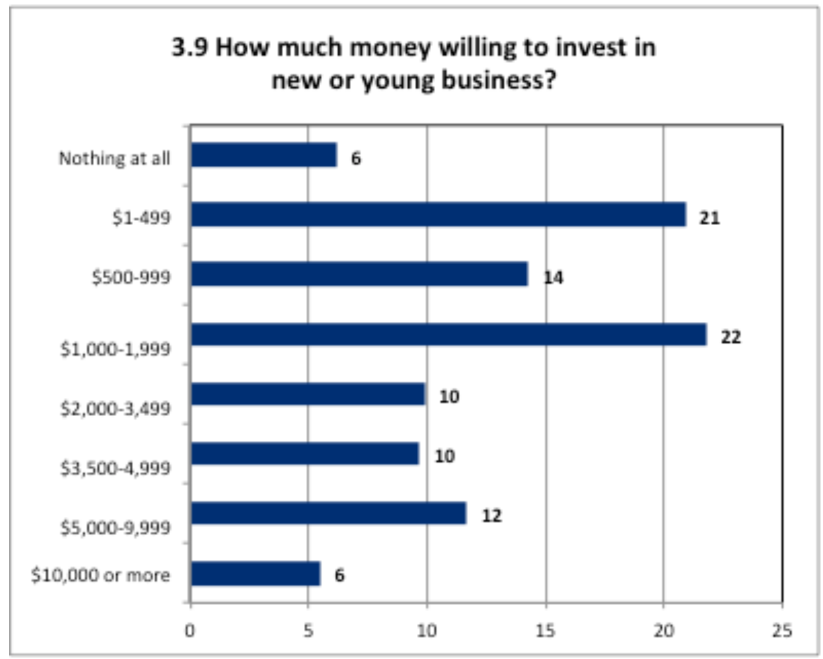
When we asked crowdfunding investors about the riskiness of investing in new or young business (see Exhibit 3.8), some 52% deem it high risk (4-5 on a 5-point scale), 43% deem it medium risk, and only 4% think it is low risk. The risk profile is the same for those who are potential (4-6)and core (7-10) crowdfunding investors.



To get a summary judgment on the amount people would invest after being informed about the risks, we asked the following question and gave **seven choices** for the amount they could choose to invest (see Exhibit 3.9).

"And finally, if you could get the information you have identified as important to you about the timing and the risks of investing in a new or young business, how much money would you be prepared to invest at most? "

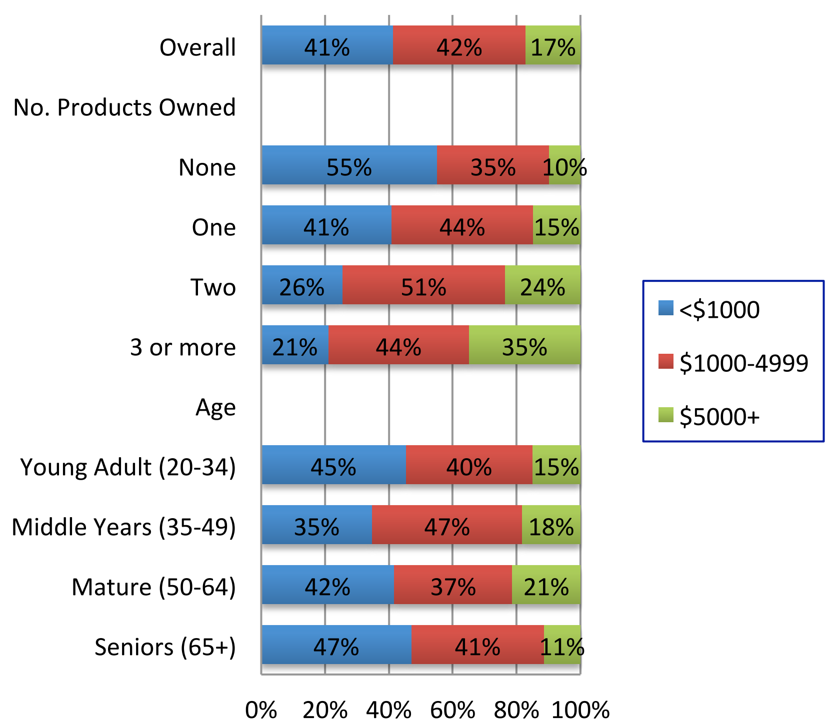
Some 4 out of 10 would invest under $1000, while fewer than 2 out of 10 (17%) would invest $5000 or more. The remaining 4 out of 10 would invest amounts in the $1000-4999 range.



Using three broad groups to illustrate small (<$1000), medium ($1000-4999) and large amounts ($5000+) that people would be willing to invest, we show the amounts people will invest by the number of types of investment products they own now and by age (see Exhibit 3.10).

Statistical analysis shows that age is not significantly related to the amount investors are willing to invest. Propensity to buy a wider range of financial products is significant, but especially in terms of willingness to invest large amounts.

3.10 Amount Willing to Invest by No. Products Owned & Age



Focusing on the group willing to invest $5000 or more, including some demographic groups not shown in the exhibit, we note a few characteristics that distinguish those willing to invest more.
Compared to those willing to invest smaller amounts, they are:

- Higher income (30% @$100k+ versus 8% @ <$50k);
- Higher dollar amount saved/invested (43% @ $250k+ versus 10% @ less than $50k);
- Male (22% versus 11% female);
- Own more financial products (43% @ 4-5 products versus 10% with 0);
- Have higher risk tolerance (32% @ high risk versus 12% @ low risk); and
- Are more likely to read and understand financial statements (27% @ can judge believability versus 11% @ don't understand).

As a final observation, we note that it is the younger investors with less income and financial assets that are the most enthusiastic about crowdfunding. But when it comes to investing sums like $5000 or more the emphasis shifts to financial capability. It is only those with more money from income or financial assets that can afford to invest $5000. As our analysis showed, among crowdfunding investors, age has nothing to do with willingness to invest large sums.

4.0 Not Interested in SME Investing

Highlights

- Those not interested in SME investing are older and less educated. They are also more likely to be women. They own fewer investment products overall, and are less likely to own each investment product we surveyed. They also have less money saved or invested than average and they are lower income. Those not interested in SME investing are less comfortable using the Internet, and in fact, 4 out of 10 did not use the Internet for any buying activity in the past month. This is typical for the age, income, and education distribution that characterizes those not interested in SME investing. Those not interested in SME investing also have less tolerance for risk.

- The single dominant reason for not investing in new or young businesses was Risk of losing their money, which reflects the relatively low risk tolerance we observed in their demographics. The Potential for fraud, which is effectively another way of losing money, was the second most common reason for unwillingness to invest in SME.

- After an explanation of the implications of an unregulated mutual fund (hedge fund or pooled fund), those not interested in SME investing were asked about willingness to invest in an unregulated mutual fund. About 9% showed some interest (4-10 rating), but only 1% showed a strong interest as gauged by a 7-10 rating on a 1-10 scale. Risk of losing money was the most common reason for lack of interest, followed closely by Don't know enough about unregulated funds to invest comfortably, and Potential for fraud.

4.1 Who Is Not Interested in SME Investing

A total of 794 people rated their willingness to invest via crowdfunding as 1-3 on a 1-10 point scale. After weighting the data, we find that this is 53% of the general population. Out of this group, we further selected those who said they were not willing to invest in new or young business (1-3 rating on a 1-10 scale). This group of 589 respondents (37% after weighting) is the base we used for this chapter.

The findings in this chapter are solely based on the 589 people who showed no interest (1-3 rating) in both SME investing and crowdfunding. **For simplicity, we will refer to this group as 'Non-Investors'.** Our sampling error for Non-Investors is ±4.0% some 19 out of 20 times.

Those not interested in SME investing are older and slightly less educated. They are also more likely to be women. They own fewer investment products overall, and are less likely to own each investment product we surveyed. They also have less money saved or invested than average and they are lower income.

Those not interested in SME investing are less comfortable using the Internet, and in fact, 4 out of 10 did not use the Internet for any buying activity in the past month. This is typical for the age, income, and education distribution that characterizes those not interested in SME investing. Those not interested in SME investing also have less tolerance for risk.

A more detailed analysis highlights some of the key differences.

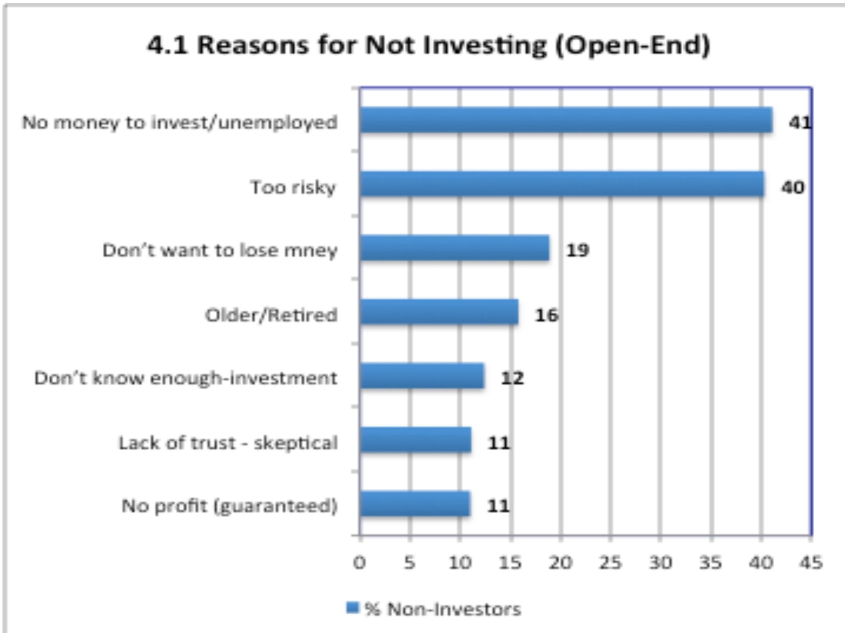
Taking the extremes to highlight differences, **we compared Non-Investors (1-3 rating) with Core Investors (7-10 rating)** based on willingness to invest in SME. What we know about Non-investors compared to Core Investors is the following.

- **They are older** – 49% on Non-Investors are age 50 or older versus 35% for Core investors.
- They have less education. Some 40% of Non-Investors have a secondary school diploma or less versus 34% for Core investors.
- Some 60% of Non-investors are women compared to 32% women among Core Investors.
- **They own fewer types of investment products.** 21% of Non-investors own 2 or more products compared to 39% of Core Investors. Some 58% of non-investors own no investment products versus 38% for Core investors.
- 42% of Non-investors have less than $25k saved/invested compared to 28% of Core investors.
- 49% of Non-investors have under $50k in pre-tax household income versus 34% of Core investors.
- Non-investors are less comfortable on the Internet. They regularly use half as many of the five key Internet activities compared to Core Investors. During the past year, two-thirds of Non-investors used 0-2 of the five types of transactions we surveyed compared to 32% for Core investors.
- **Non-investors are less likely to invest over the Internet. Only 25% of Non-Investors have invested over the Internet versus 55% of Core investors.**
- Non-investors are less sure about their risk tolerance with 36% saying "Not sure" versus 14% of Core Investors. When the "Not sure" group is excluded from percentages, 48% of Non-investors show low tolerance for risk versus 33% of Core Investors.

4.2 Reasons for Not Investing

As a first stage in understanding those not interested in SME investing, we asked an open-ended question about why they were not interested in investing in new or young businesses. Nearly 40 different reasons were given, which we have combined into the six themes shown in Exhibit 4.1. **Two reasons dominate the responses** and the third reason (don't want to lose money) could easily be seen as the same as "too risky".

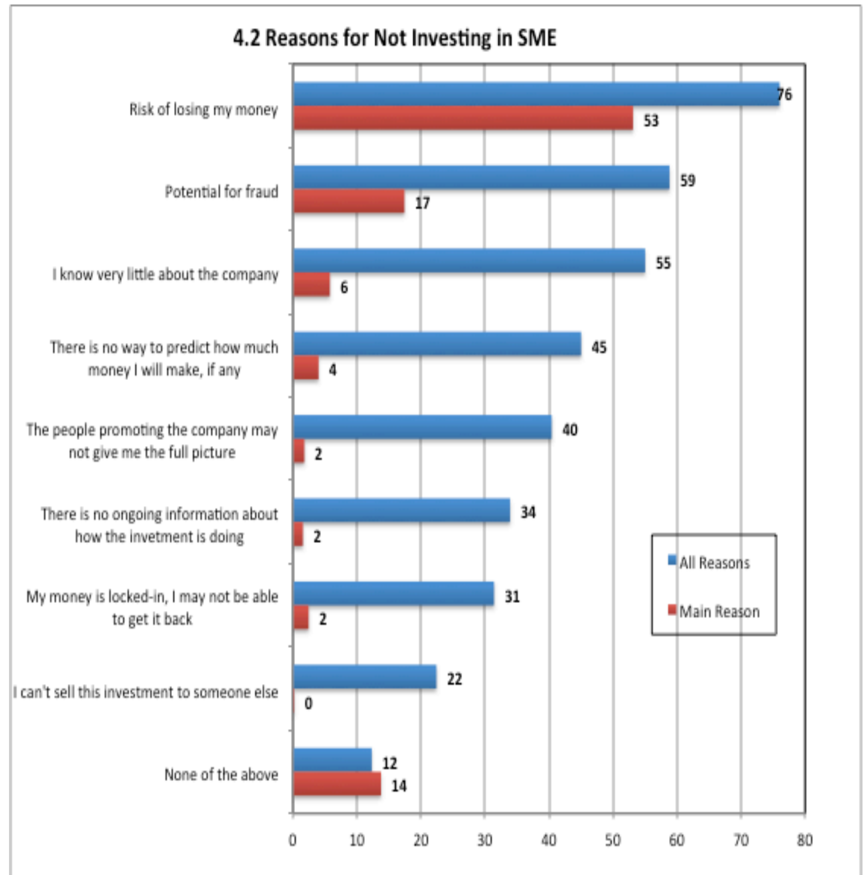
- **No money to invest/unemployed (41%); and**
- **Too risky /Prefer conservative investment (40%).**



Respondents were then shown a list of nine potential reasons for not investing in new or young businesses and asked which reasons applied to them. On average, people chose 4-5 reasons. They were then asked to identify their one main reason for not investing.

The dominant reasons were:

- **The risk of losing their money (53%); and**
- **The potential for fraud (17%).**

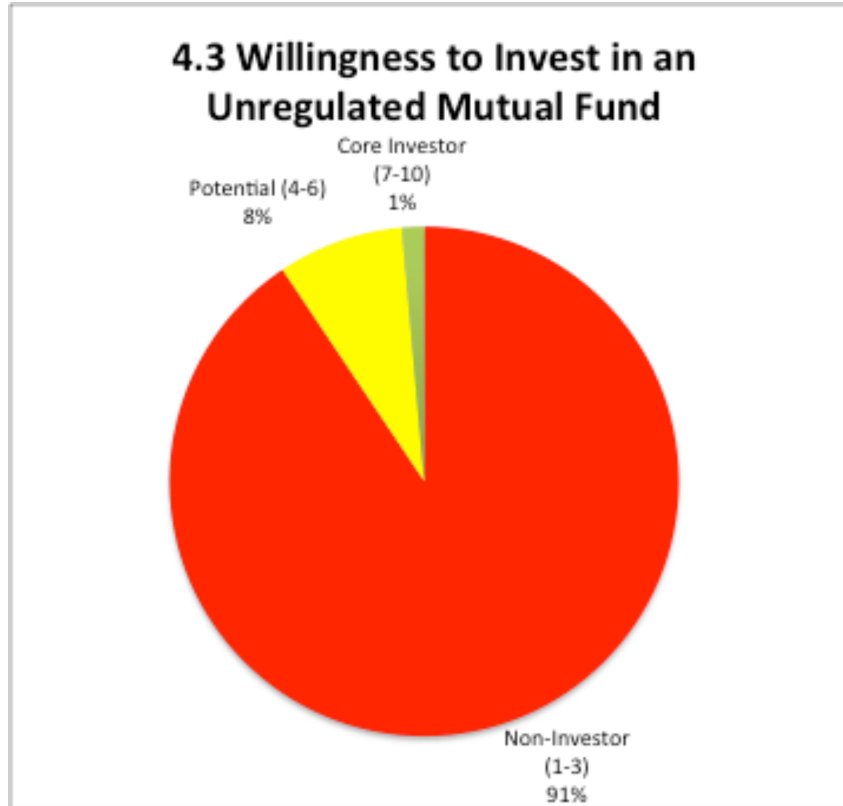


4.3 Unregulated Mutual Funds

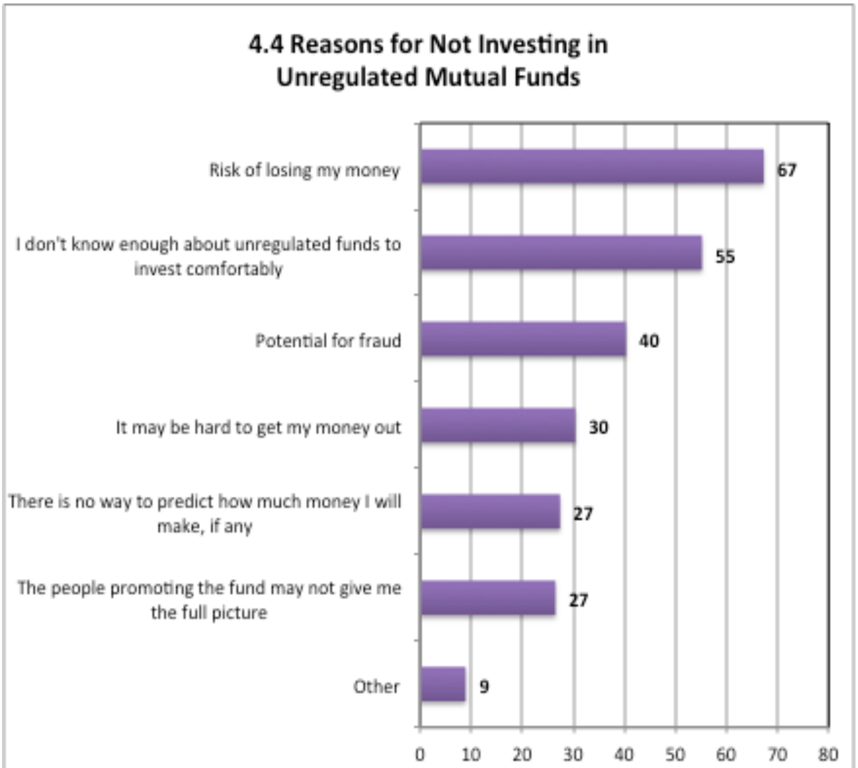
After being given some explanation about the implications of an unregulated mutual fund (hedge funds/pooled funds), Non-Investors were asked about willingness to invest in an unregulated mutual fund. The explanation they were given is as follows.

"By an unregulated fund, we mean any fund that makes riskier investments. This means you are more likely to lose your money, but you have the potential to earn more. As well, it is sometimes difficult to get your money out. The regulator does not look at these funds."

Over **9 out of 10 (91%) gave ratings of 1-3, which reflects 'no interest in investing' in unregulated mutual funds** (see Exhibit 4.3). The remaining 1 out of 10 showed some interest, but the Core investor (7-10 rating) for unregulated mutual funds is only 1%. It is reasonable to expect that interest in investing in unregulated mutual funds would be higher among those interested in SME investing, but since they were not asked this question, we have no way to know their interest with any certainty.



As you can see in Exhibit 4.4, those not interested in investing in unregulated mutual funds mention the Risk of losing their money as the main reason not to invest (67%). Lack of knowledge about unregulated mutual funds is also an important deterrent for more than half of those who responded (55%). Potential for Fraud is a concern for 4 out of 10 as well.



We did ask those with a Core interest in unregulated mutual funds (7-10 rating) how they would invest their money. With only 8 responses, no graphic is warranted. With 7 out of 8 preferring to use a method that involves their advisor, the preference for getting advice is clear.

5.0 SUMMARY & CONCLUSIONS

After considerable consultation and consideration of the time available to ask people questions, the OSC identified five high priority research questions that this study was designed to address. In this chapter, our aim is to provide concise answers to these questions.

1. What is the nature of investors' desire to invest in start-ups and SMEs, including risk appetite and size of investment?
2. What are investors' perceptions of the risks associated with investing in the exempt market?
3. What are the specific information needs of investors investing in start-ups and SMEs?
4. What is the role of professional advisors in investors' investment decision-making process?

In this chapter we would like to comment on each of these issues. We will relate the key findings on the issue and provide our views about the meaning of those findings. As distinct from the preceding chapters, we will provide more synthesis of findings here and more opinion about their meaning and implications.

1. What is the nature of investors' desire to invest in start-ups and SMEs, including risk appetite and size of investment?

- Just over half of the general population (56%) is potentially willing to invest in start-ups and young SMEs (4-10 rating). Just under half are willing to invest by crowdfunding (49%). The real core of people (7-10 rating) who would be likely to invest without considerable persuasion is only about 14% for both SME and crowdfunding.

- When people are interested in one type of investing (SME or crowdfunding) and not the other, the main difference is their familiarity and comfort with the Internet. With the exception of matters related to Internet usage, comments made about either SME or crowdfunding investors typically apply to the other group as well.

- If we define a 'traditional investor' as someone who invests in stocks, bonds, mutual funds and complex investments. Among traditional investors, some 53% are potentially willingness to invest in SME with a core of 16% that are very likely to invest. For those who are not traditional investors, some 42% are potentially willing to invest with a core of 12% that are very likely to invest. This has two major implications. First, traditional investors are more likely to invest via crowdfunding by virtue of their stated attitude and because they already have experience with investing. While the potential for uptake may be as high as 42% among those who have not invested before, the fact that they have not invested constitutes a behavioral barrier that they will need to overcome.

- Risk profile plays a key role in deciding to invest via crowdfunding. There is no difference between traditional investors and others in these findings.
  - Among those with low risk tolerance, 43% are potentially willing to invest including a core of 12% that are very likely to invest;
  - For medium risk, 55% are potentially willing with a core of 16%;
  - For those with high risk tolerance, 72% are potentially willing to invest including a core of 27% that are very likely to invest.

- While it is clear that investing via crowdfunding is more likely as risk tolerance increases, we are concerned with the high proportion of low risk people who might potentially invest via crowdfunding. In our view, the survey made the risks quite visible and explicit leaving us to wonder how they concluded that crowdfunding was appropriate for them.

- Looking solely at the group of people who are potentially interested in investing via crowdfunding, some 4 out of 10 would invest under $1000, 2 out of 10 would invest $1000-$1999, 2 out of 10 would invest $2000-4999 and roughly 2 out of 10 would invest $5000 or more.

- The group potentially willing to invest $5000 or more is about 9% of the general population, but more than three-quarters of this group are traditional investors. Among people who have not bought traditional investments, willingness to invest that much is less than half as strong.

- Focusing on the group willing to invest $5000 or more, we note a few characteristics that make this group distinct. Compared to those willing to invest smaller amounts, they are: Higher income; Have more money saved/invested; Male; Own more financial products; Have higher risk tolerance; and Are more likely to read and understand financial statements.

- While not addressed here, one of the biggest factors in participation in crowdfunding is publicity. This will come from both mass media and social media. Without a doubt Title III of the UA JOBS Act and local cultural funding efforts will generate both positive and negative stories about crowdfunding and crowdsourcing. The general public, regardless of legal distinctions, will view the two terms as synonymous. The nature, speed and amount of publicity will play a major role in the uptake and success of crowdfunding for new and young businesses.

2. What are investors' perceptions of the risks associated with investing in the exempt market?

- In decision theory, risk is generally defined as "decision-making under conditions of uncertainty". The biggest uncertainty for investing in new or young business is the lack of information for making a reliable prediction about the value of the investment. More directly, tying together results from different parts of the survey, we conclude that the biggest risks are deemed to be: insufficient information about the investment, and its corollary, the uncertainty of the outcome of the investment including the risk of losing money. Lack of liquidity is also noted.

- The role of information comes through first in its impact on willingness to invest. We find that people are more prone to invest in new or young businesses if they know the industry or its environment (i.e., local business) and if they can read its plan for growth and find the idea compelling. At the same time, lack of information about the company and its owners is clearly a deterrent to investing and this covers both initial and ongoing information.

- In a nearly identical way, the amount of information available or absent affects judgments of the amount of money it is worth investing. Regression analysis shows that information about "How the company will use the money it gets from investors" is the main driver of the amount of money likely to be invested. To put it another way, in an honest effort to raise money, enlightened self-interest dictates that a company should provide as much information as possible about how they will use their investors' money.

- The uncertainty of outcome and the risk of losing money are identified in several different ways. First, most people recognized that uncertainty is part of investing in new or young business. With that comes less predictability of return on investment, if any. But in addition, there is a recognized risk of fraud and misleading information from the promoters that raises the risk of losing money. Particularly (but not exclusively) for Non-investors, this same concern is manifest by their distrust of doing business over the Internet. Conversely, those who are the most active users of the Internet for purchases, whose behaviour suggests more trust of the Internet, are also the most likely to do business via crowdfunding. They see one less significant risk.

- Bridging the concerns just mentioned, we noted that one of the three primary drivers of the decision to (not) invest via crowdfunding is that "It could take a few years to find out if the business is profitable". This again recognizes the uncertainty of the situation.

- Lack of liquidity is ranked fifth among potential risks, but nonetheless, half of investors identify the risk of their money being locked-in and possibly not getting it back. A much smaller group, about one-third, recognize that the inability to sell the investment to someone else is another aspect of lack of liquidity. From our analysis of factors influencing willingness to invest, it is clear that a real likelihood of a steady income stream from an investment can offset its lack of liquidity. When we looked at decision factors, "Can't get money back but investment will give you a steady stream of income if it succeeds" had a positive impact on willingness to invest. This is a familiar marketing appeal for many limited partnerships and royalty trusts.

3. What are the specific information needs of investors investing in start-ups and SMEs?

- This question has two types of answers. The first is what specific information is considered essential for investing. The second is what kinds of information will increase the likelihood of investing and the amount invested.

- In the survey we asked about seven kinds of information that might be helpful when deciding to invest. Six of the seven types of information were deemed 'Essential' (4-5 on a 1-5 scale) by 7 out of 10 investors with little discrimination amongst them. The seventh item was not far behind (64%). Ideally, investors want regular financial information about the company and what it is doing with their money. They also want information about the risks of investing. Clearly, information about the probity and track record of the owners is also very desirable, and to a lesser extent, so is their compensation.

- While three-quarters want financial information, only one-quarter of this group understands financial statements well enough to assess their credibility. The vast majority just understands the basics. Nonetheless, investors understand the value of independence and fewer than 2 out of 10 deem a financial statement prepared by the company's accountant to be reliable information. A financial statement verified by an independent accounting firm is the 'gold standard' for reliability, but failing that, the tax return filed with CRA will do.

- Our questions about Offering Memorandum (OM) also bear on the kind of information people need with the question indicating that an OM would provide both basic company information and information on investor rights. The addition of an OM raised the proportion of potential investors by 8-13% under four different scenarios. Based on our understanding from related research on use of prospectuses and given the more sophisticated profile of traditional Exempt market investors[8], it is our sense that few investors will know what an OM is and that it is available.

- Our answer to question 2 ("What are the risks associated with investing in the exempt market") indicates the kinds of information that will encourage crowdfunding investment, both in terms of the number of participants and how much they will invest. The only point we would like to emphasize is that the most decisive information for fostering investment is a detailed explanation of how the company will use the money it gets from investors.

4. What is the role of professional advisors in investors' investment decision-making process?

- Starting with willingness to invest through crowdfunding, we find there is a clear preference for getting advice from a financial advisor before buying an investment. Methods that use an advisor are 3-4 times more acceptable than methods that bypass an advisor.

- The best indications from this survey are that 60-75% of crowdfunding investors would seek advice if it were available. Most would seek advice from a registered dealer or adviser, but accountants and lawyers also played a small role.

- The fact remains that financial advisors provide investors with guidance and comfort about their decisions. If financial advisors are not allowed to play a role, the uptake of crowdfunding as an investment would likely be lower than with their involvement. The caveat about this is that advisors may be more motivated to advise investment in regulated markets, and by doing so, may delay the growth of crowdfunding. The trade-off here is not one that we can evaluate from the evidence here, but it is certainly worth noting if crowdsourcing is to be an effective means of increasing the capital available to new or young businesses.

While we did not directly assess the experiences of Exempt Market Investors, we do have some observations that are relevant.

What is known about the experiences of those investors that do or have considered investing in securities through the exempt market (EM)?

- As a prelude to this study, we estimated the incidence of exempt market investing in Canada based on the Cottrell & Robinson study cited earlier in this report, as well as Exempt Market (EM) Studies done for the OSC (see footnotes 4 & 8). Based on the low incidence of exempt market investing (<½%) we estimated, we knew we could not get sufficient response from EM investors, so we did not include any direct questions about their experience. Nonetheless, in this study we asked about ownership of "complex investments", which were described as "Complex investments like options, forwards, hedge funds, exempt market investments or limited partnership units". While imperfect, we can use this group as a proxy since it is a very small and select part of the general population and our survey sample (6%).

[8] Advisor Report, Investor Education Fund, 2003; Advisor Relationships and Investor Decision-Making, Investor Education Fund, 2012; Performance Reporting & Cost Disclosure, OSC, 2010; Exempt Market Investors, OSC, 2012; and Focus Group with Retail Investors on Investor Rights & Protection, OSC Investor Advisory Panel, 2011.

- Before doing that, let us look at the group who are now considering investing in securities through the exempt market by crowdfunding. Compared to the general population, they are: younger (<50); more likely male; better educated; and have a higher risk tolerance. They are more likely to own (now or past 5 years) complex investments, bonds and GICs. They are also likely to be very comfortable with buying things on the Internet, including investments. By virtue of their younger age, they have less money saved or invested than the older group, but have good breadth of product experience. It should be understood that while this is the profile that best describes the group, few people will embody all of these properties.

- Looking at the potential EM investors (as indicating by crowdfunding responses) who will invest $5000 or more shifts the focus from enthusiasm and risk tolerance to financial capability. Those that can afford to invest this much are higher income and have more money saved or invested than is typical for their cohort. They also own a wider variety of financial products, and as such, they are likely to be more knowledgeable about financial products than average. Confirming this is the fact that they are more likely to be able to read and understand financial statements, although this capability is still a minority. Not surprisingly, this group is the most demanding with regard to getting detailed information about how the company plans to use investors' money. Overall, the profile is one that is suitable for this type of investing, although suitability at the individual level is in no way certain.

- Those currently buying complex investments are our proxy for current EM investors, while those interested in buying exempt market investments via crowdfunding are the potential market. Those who buy complex investments differ from the general population in several ways. In many ways they are like the profile of potential EM investors (i.e., crowdfunding investors) we just described, but even more so.
    - Owners of complex investment products own more types of investment products.
    - They are more likely to have a university education, especially a graduate degree.
    - They do far more activities on the Internet, especially buying investments. Some 60% of those with complex investments have bought investments over the Internet versus 15% of others.
    - Those with complex investments have a much higher risk tolerance – 25% high risk versus 5% for others.
    - They are far more likely to have already invested in either someone else's small business or their own.
    - They are more likely to seek out advice from a financial advisor before buying.

Our overall assessment is that EM investors, both actual and potential, have the kind of profile that is suited to more risky investment. Nonetheless, not everyone in the group of buyers fits this profile. It is unclear how to deter those who shouldn't be investing in this market from taking part. It is likely that a better strategy will be limiting the amount they can invest to limit the impact of a poor decision.

APPENDIX A.

ONLINE SURVEYS

ALL INVESTORS -- EXEMPT MARKET INVESTMENT OPPORTUNITIES (Part One, 12-Mar-13)

This survey is being done on behalf of a government agency that is responsible for some special types of consumer financial protection and education. The survey will take about 15-20 minutes of your time and your responses will be kept completely confidential. What you tell us can make a major difference to the kinds of investment opportunities that will be available to people like you in the future.

Before we begin the survey, there are a few questions we need to ask.

A. SCREENER

1. What is your current age?
____ <Enter age, terminate if less than 20 years old>.

2a. Have you ever held any type of securities-related registration? That is, have you been registered with any provincial securities commissions, for example as a dealer or a financial adviser?
1 Yes, I am currently registered. [Terminate]
2 Yes, I was registered in the past but am no longer registered [Terminate]
3 No, I have never been registered.

2b. Please indicate which of the following financial products you own now including products inside an RRSP. If you don't own the product now, please indicate if you have owned this financial product in the past five years <randomize order of products>?

Own Now	Owned Past 5y	Not Owned	Not Sure	
1	2	3	9	Mutual funds (or other investment funds)
1	2	3	9	Stocks (equities) not in a mutual fund
1	2	3	9	Government or corporate bonds (excluding Canada Savings Bonds)
1	2	3	9	Term deposits, GICs or Canada Savings Bonds
1	2	3	9	Complex investments like options, forwards, hedge funds, exempt market investments or limited partnership units

<Continue if any product is "own now" or "owned past 5y". If not, accept 400 who don't qualify by ownership and then terminate all others. Report on rate of termination. >

3. Are you…? <set quotas for gender to 50+/-2%>
1 Male
2 Female

4. In what region do you live? <Balance regional representation by 2011 census>
1 Atlantic
2 Quebec
3 Ontario
4 Prairies (MB, SK)
5 Alberta (including NWT, NU)
6 British Columbia (including YT)
9 Outside Canada <Terminate survey>

B. CLASSIFIERS – Demographics+

1a. What is the highest level of education that you have completed?

1 Elementary and/or some secondary school <Skip to B2>
2 A secondary school (high school) diploma <Skip to B2>
3 A college diploma or certificate program <Skip to B2>
4 An undergraduate degree from a university
5 A graduate degree from a university

1b. Which of the following degrees or professional designations do you hold? [Check all that apply]

1 MBA
2 CFA
3 Accounting (CA, CGA, CMA)
4 Law (LL.B, JD)
5 Chartered Investment Manager (CIM)
6 Bachelor of Commerce (B.Comm.)
9 None of the above

2. Considering all savings and investments (whether in an RRSP or not) but excluding your home, what is the total amount you have currently saved and/or invested?

1 Less than $25,000
2 At least $25,000 but less than $50,000
3 At least $50,000 but less than $100,000
4 At least $100,000 but less than $250,000
5 $250,000 or more
9 Don't know/Don't want to say

3. What is your household income before taxes? Is it…

1 Less than $25,000
2 $25,000 - $49,999
3 $50,000 - $74,999
4 $75,000 - $99,999
5 $100,000 - $149,999
6 $150,000 or more
8 Don't want to say

4. Over the past year, roughly how often did you use the Internet for each of the following activities? <randomize order of activities>
<Create scale with (1) Several times per month, (2) 1-4 times every three months (3) 1-4 times in the past year, (4) Used but not in the past year, (5) Never>

a. Booked and paid for travel
b. Bought lottery tickets or played online games for money
c. Paid bills using online banking
d. Bought products online (e.g., Amazon, e-Bay, Kobo, company website, etc.)
e. Bought mutual funds or other investments

5. Which of the following statements best describes your way of thinking about investing.

1 I am willing to earn a bit less if I can be certain I won't lose any money
2 I am willing to accept small ups-and-downs in my investments if I can earn more
3 I am willing to accept big swings in the value of my investments including losing money, if it gives me the potential to earn more

9 I am not sure

C. PROPENSITY FOR BUSINESS INVESTING

1. Have you ever invested in a small business?
   1 Yes, my own business
   2 Yes, someone else's business
   3 No
   9 Don't know/Not sure

2. The government is thinking about making it easier for people to invest in Canadian companies. Assuming that you are comfortable with the amount of money involved and the risks, how likely would you be to invest in a **brand new start-up company** that is not listed on any stock market? Please rate your likelihood of investing on a 1-10 scale where 1 means 'Definitely would NOT invest' and 10 means 'Definitely WOULD invest'.
   _____ Rating: Willing to invest

3. Using the same 1-10 scale, how likely would you be to invest in a **young company** that is not listed on any stock market?
   _____ Rating: Willing to invest <If rating is 1-3, skip to B5>

4. There are a number of things about a company that might make you more or less likely to invest in the company. For each of the descriptions below, please rate how this would affect your willingness to invest using a 1-5 scale where 1 means 'Much LESS likely to invest', 5 means 'Much MORE likely to invest' and 3 means 'No impact on your willingness to invest'. <Randomize order – Add a "Not Sure" column>
   a. It is a local business that you might use
   b. Once you put your money in, you can't get it out for several years
   c. It is a well-established business with a new plan for growth
   d. It is a start-up company with an idea that sounds good to you
   e. You know nothing about the owners of the business
   f. The business is in an industry you know well
   g. You can buy it through your financial advisor and get their advice
   h. You can't get your money back, but your investment will give you a steady stream of income if the business succeeds
   i. The business might not make much money, but it is a worthy cause
   j. There won't be a lot of information about the company since it is young
   k. It could take a few years to find out if your investment is profitable.
   l. It is easy to buy into the company on the internet
   m. There is no way to predict how much money you will make and you might lose all your money
   n. The only thing you know about the company is what you can read on the internet.

*One of the new investing trends emerging on the Internet is called "crowdfunding". There are some examples in the U.K. and it is getting started in the US. The basic idea of crowdfunding is that a bunch of small investors invest relatively small amounts of money in **new or young businesses** that appeal to them. This isn't a regulated market like a stock market, but it is more like e-Bay where you read a "product" description on-line and decide whether you are going to buy. The big difference here is that you are buying an investment rather than something you can hold in your hands. There is no guarantee that you will make money on the money you invest, and a very real risk that you will lose all your money. It is up to you to decide whether the idea is one you want to support and one that you think might succeed.*

5. Assuming that you are comfortable with the amount of money involved and the business idea appeals to you, how likely would you be to invest in a new or young business through a crowdfunding site on the Internet? Please rate your likelihood of investing on a 1-10 scale where 1 means 'Definitely would NOT invest' and 10 means 'Definitely WOULD invest'.

_____ Rating: Willing to invest

<If rating is 1-3, skip to section E (Part 3), ELSE skip to section D (Part 2)>

<u>BUSINESS</u> INVESTORS – EXEMPT MARKET INVESTMENT OPPORTUNITIES (Part 2, 12-Mar-13)

D. INVESTING VIA CROWDFUNDING

1a. There are several potential risks when you invest in a company in an unregulated market like this. When we talk about an unregulated market, we mean a market with riskier investments. This means you are more likely to lose your money, but you have the potential to earn more. As well, it is sometimes difficult to get your money out. The regulator does not look at unregulated markets. Using the list of risks below, please identify the risks that concern you about investing in unregulated markets through crowdfunding. <randomize order>

1b. Which <u>TWO</u> of these risks are the biggest concerns for you?

1	1	My money is locked-in – I may not be able to get it back
2	2	I can't sell this investment to someone else
3	3	Potential for fraud
4	4	The people promoting the company may not give me the full picture
5	5	Risk of losing my money
6	6	I know very little about the company
7	7	There is no way to predict how much money I will make, if any
8	8	There is no ongoing information about how the investment is doing
9	9	I don't trust doing business over the internet
0		None of the above

2. Assuming you like the company's ideas for growth and you think it has good potential, what is the most you would be willing to invest <u>using crowdfunding</u> under each of the following circumstances. Please enter a number on each line identifying the most you would be willing to invest. Do not use commas, decimal points or dollar signs when you enter the number."

   a. You know the business owners
   b. Friends have invested and recommend it
   c. The business plan is highly detailed
   d. Your money is invested permanently – You can't get it out
   e. The company is tackling a cause you believe in
   f. The company already has a good track record
   g. The company is in a high growth industry
   h. Each year you get a financial report verified by an independent accounting firm
   i. The company won't start-up until they get enough investment money

3a. Considering the sum of money potentially involved, would you seek professional advice before deciding to invest?

1 Yes

2 No <Skip to D4>
3 Not sure <Skip to D4>

3b. Who would you be most likely to ask for advice? Choose one.
1 An advisor who is licensed to sell stocks
2 An advisor/financial planner who sells mutual funds and GICs (but not stocks)
3 Accountant
4 Lawyer
5 Other (please describe)

4. Please rate the importance of each of the following types of information for helping you decide whether to invest in a company. Please rate using a 1-5 scale where 1 means the information is 'Not needed at all', 3 means it is 'Nice to have' and 5 means it is 'Essential'. <randomize order>
a. Financial information about the company
b. Detailed business plan including key products/services
c. Information about the owners and promoters of the company, including criminal record checks and checks on securities law violations
d. Yearly information about how the company is doing
e. How much owners & executives will be paid for their work
f. How the company will use the money it gets from investors
g. Risks related to investing in the company

5a. What best describes your ability to understand a company financial statement? [check one]
1 I don't know what a financial statement is
2. I don't understand them
3 I understand the basics
4 I understand them well enough to judge how believable they are

5b. <Ask ONLY if D4a is rated 4 or 5> Which of the following types of financial information do you consider to be "reliable financial information"? Please check all that apply.
1 A financial statement prepared by the company's accountant
2 A financial statement verified by an independent accounting firm
3 A company tax return filed with the Canada Revenue Agency (CRA)
4 None of the above

5c. <Ask only if D4c is rated 4 or 5> Which of the following types of information about the owners and/or promoters of the company do you want to see before deciding to invest? Check all that apply.
1 Business background and experience
2 Prior bankruptcies or insolvencies
3 Character check including criminal record and securities law violations
4 None of the above

6. Which of the following methods would you be willing to use to invest in a new or young business? <Yes, No, Not sure – Randomize order of methods>
a. Over the Internet without advice using the website of the company seeking investment
b. Over the internet without advice using a website that offers investment in several different companies
c. Over the internet, but with advice from a financial advisor
d. Through my regular financial advisor without using the internet

7. **<ONLY present methods that were marked 'No' or 'Not sure' in D6>** An 'Offering Memorandum' (OM) provides basic information about a company. It also gives you a number of rights to take action if the company misrepresents itself, but you will probably need to hire a lawyer to do this. Assuming an offering memorandum was available, would you then be willing to invest by each of the following methods.

a. Over the Internet without advice using the website of the company seeking investment
b. Over the internet without advice using a website that offers investment in several different companies
c. Over the internet, but with advice from a financial advisor
d. Through my regular financial advisor without using the internet

8. How risky do you think it is to invest in new or young businesses? Please rate using a 1-5 scale where 1 means 'Low risk', 3 means 'Medium risk' and 5 means 'High risk'?

____ Risk Rating

9. And finally, if you could get the information you have identified as important to you about the timing and the risks of investing in a new or young business, how much money would you be prepared to invest at most? Would you say….

0 Nothing at all
1 $1-499
2 $500-999
3 $1,000-1,999
4 $2,000-3,499
5 $3,500-4,999
6 $5,000-9,999
7 $10,000 or more
9 Don't know/Not sure

<Add closing and thank you>

<u>NON</u>-INVESTORS – EXEMPT MARKET INVESTMENT OPPORTUNITIES (Part Three, 12-Mar-13)

E. NOT INTERESTED IN SME INVESTING

1. What are the three main reasons why you aren't interested in investing in new or young businesses? <Note: Use E2 for coding. We will provide additional codes for other categories>

a. ____
b. ____
c. ____

2a. Which of the reasons listed below explain why you are <u>not</u> willing to invest in new or young businesses? Please choose all that apply. <randomize order>

2b. Which ONE of these reasons BEST explains why you are not willing to invest?

1	1	My money is locked-in – I may not be able to get it back
2	2	I can't sell this investment to someone else
3	3	Potential for fraud
4	4	The people promoting the company may not give me the full picture
5	5	Risk of losing my money
6	6	I know very little about the company
7	7	There is no way to predict how much money I will make, if any
8	8	There is no ongoing information about how the investment is doing
9	9	I don't trust doing business over the internet

0 None of the above

3. Please rate your interest in investing in unregulated mutual funds or investment funds using a 1-10 scale where 1 means 'No interest at all' and 10 means 'Very interested'. By an unregulated fund, we mean any fund that makes riskier investments. This means you are more likely to lose your money, but you have the potential to earn more. As well, it is sometimes difficult to get your money out. The regulator does not look at these funds.
_____ Rating (1-10)

4. **<Ask only if E3 is rated 7-10, Else Skip to E5>** Would you be comfortable investing in unregulated funds in the following ways. Please check all that apply.
1 Over the Internet without advice using the website of the fund
2 Over the internet without advice using a website that offers investment in several different funds
3 Over the internet but with advice from a financial advisor
4 Through my regular financial advisor without using the internet
8 None of the above

<Skip to Closing>

5. <Ask only if E3 is rated 1-4> Which of the reasons listed below explain why you are not interested in investing in unregulated funds? Please choose all that apply. <randomize order>
1 It may be hard to get my money out
2 I don't know enough about unregulated funds to invest comfortably
3 Potential for fraud
4 The people promoting the fund may not give me the full picture
5 Risk of losing my money
7 There is no way to predict how much money I will make, if any
8 Other reasons (please describe)
____

<Add closing and thank you>

NOTE: PROGRAMMING INSTRUCTIONS IN THE FRENCH VERSION ARE IN ENGLISH. ONLY THE QUESTION TEXT IS TRANSLATED. RESPONDENTS DO NOT SEE THE PROGRAMMING INSTRUCTIONS.

TOUS LES INVESTISSEURS – POSSIBILITÉS DE PLACEMENTS EXONÉRÉS SUR LE MARCHÉ (partie 1, 12 mars 2013)

Ce sondage est mené au nom d'un organisme gouvernemental qui est responsable de certains types spéciaux de protection et d'éducation financières des consommateurs. Le sondage prendra environ 15-20 minutes de votre temps et vos réponses seront gardées strictement confidentielles. L'information que vous nous communiquez peut faire une grande différence pour les types de possibilités de placements qui seront offerts aux personnes comme vous dans le futur.

Avant de commencer le sondage, voici quelques questions que nous devons vous poser.

A. PRÉ-SÉLECTION

1. Quel âge avez-vous?
____ <Enter age, terminate if less than 20 years old>.

2a. Avez-vous déjà détenu un type d'inscription lié aux valeurs mobilières? C'est-à-dire, vous êtes-vous inscrit auprès de commissions des valeurs mobilières provinciales, par exemple : une firme de courtage ou un conseiller financier?

1 Oui, je suis présentement inscrit. [Terminate]
2 Oui, j'étais inscrit dans le passé, mais je ne le suis plus [Terminate]
3 Non, je n'ai jamais été inscrit.

2b. Veuillez indiquer lesquels des produits financiers suivants vous possédez maintenant, y compris les produits inclus dans un REER. Si vous ne possédez pas le produit maintenant, veuillez indiquer si vous l'avez possédé au cours des cinq dernières années <randomize order of products>?

Posséder Maintenant	Posséder au cours des 5 dernières années	Ne pas posséder	Pas certain	
1	2	3	9	Fonds communs de placement (ou d'autres fonds de placement)
1	2	3	9	Actions qui ne sont pas dans un fonds commun de placement
1	2	3	9	Obligations d'État ou de société (sauf les obligations d'épargne du Canada)
1	2	3	9	Dépôts à terme, CPG ou obligations d'épargne du Canada
1	2	3	9	Placements complexes, comme Les options, les contrats à terme de gré à gré, les fonds spéculatifs, les placements exonérés sur le marché ou les parts de société en commandite.

<Continue if any product is "own now" or "owned past 5y". If not, accept 400 who don't qualify by ownership and then terminate all others. Report on rate of termination. >

3. Êtes-vous de sexe…? <set quotas for gender to 50+/-2%>

1 Masculin
2 Féminin

4. Dans quelle région habitez-vous? <Balance regional representation by 2011 census>

1 Atlantique
2 Québec
3 Ontario
4 Prairies (Man., Sask.)
5 Alberta (y compris les Territoires du Nord-Ouest, Nt)
6 Colombie-Britannique (y compris Yn)
9 À l'extérieur du Canada <Terminate survey>

B. CLASSIFICATEURS – Données démographiques et plus

1a. Quel est le niveau supérieur d'éducation que vous avez atteint?

1 Études primaires ou une partie des études secondaires <Skip to B2>
2 Un diplôme d'études secondaires <Skip to B2>
3 Un diplôme d'études collégiales ou un programme de certificat <Skip to B2>
4 Un grade de premier cycle d'une université
5 Un diplôme d'études supérieures d'une université

1b. Lesquels des diplômes ou titres professionnels avez-vous? [Cochez toutes les réponses qui correspondent]

1 MBA
2 Analyste financier agréé
3 Comptabilité (CA, CGA, CMA)

4 Droit (LL.B, JD)
5 Gestionnaire de placement agréé (CIM)
6 Baccalauréat en commerce (B.Com.)

2. En prenant toutes les épargnes et tous les investissements en considération (dans un REER ou pas), mais en excluant votre maison, quel est le montant total actuel que vous avez épargné ou investi?
1 Moins de 25 000 $
2 Au moins 25 000 $, mais moins de 50 000 $
3 Au moins 50 000 $, mais moins de 100 000 $
4 Au moins 100 000 $, mais moins de 250 000 $
5 250 000 $ ou plus
9 Ne sais pas/Ne veux pas le dire

3. Quel est le revenu de votre foyer avant les impôts? Est-ce…
1 Moins de 25 000 $
2 25 000 $ - 49 999 $
3 50 000 $ - 74 999 $
4 75 000 $ - 99 999 $
5 100 000 $ - 149 999 $
6 150 000 $ ou plus
8 Ne veux pas le dire

4. Au cours de l'année dernière, à quelle fréquence approximative avez-vous utilisé l'Internet pour chacune des activités suivantes? <randomize order of activities>
<Create scale with (1) Plusieurs fois par mois, (2) De 1 à 4 fois tous les trois mois (3) De 1 à 4 fois au cours de l'an dernier, (4) Jamais>
f. Réserver et payer pour des déplacements
g. Acheter des billets de loterie ou jouer à des jeux d'argent en ligne
h. Payer des factures en utilisant les services bancaires en ligne
i. Acheter des produits en ligne (p. ex. : Amazon, e-Bay, Kobo, site Web d'entreprise, etc.)
j. Acheter des fonds communs de placement ou d'autres placements

5. Lequel des énoncés suivants décrit le mieux ce que vous pensez des placements?
1 Je suis prêt à gagner un peu moins d'argent si je peux être certain de ne pas en perdre
2 Je suis prêt à accepter des petites baisses et des petites hausses dans mes placements si je peux gagner plus d'argent
3 Je suis prêt à accepter des fortes variations de la valeur de mes placements, y compris des pertes d'argent si j'ai la chance d'en gagner plus
9 Je ne suis pas certain

C. PROPENSION POUR LES PLACEMENTS COMMERCIAUX

1. Avez-vous déjà investi dans une petite entreprise?
1 Oui, ma propre entreprise
2 Oui, l'entreprise de quelqu'un d'autre
3 Non
9 Ne sais pas/pas certain

2. Le gouvernement songe à faciliter l'investissement des gens dans des entreprises canadiennes. En supposant que le montant d'argent impliqué et les risques vous paraissent raisonnables, quelle est la probabilité que vous investissiez dans une **toute nouvelle entreprise en démarrage** qui n'est pas cotée en bourse? À l'aide d'une échelle de 1 à 10, où 1

signifie « n'investir DÉFINTIVEMENT PAS » et 10 signifie « investir DÉFINITIVEMENT », veuillez évaluer la probabilité que vous investissiez.

_____ Classement : désirer investir

3. À l'aide de la même échelle de 1 à 10, indiquez la probabilité que vous investissiez dans une **jeune entreprise** qui n'est pas cotée en bourse.

_____ Classement : désirer investir <If rating is 1-3, skip to B5>

4. Il y a plusieurs éléments d'une entreprise qui peuvent vous inciter plus ou moins à investir dans celle-ci. Pour chacune des descriptions énumérées ci-dessous, veuillez évaluer à quel point elles pourraient affecter votre volonté d'investir à l'aide d'une échelle de 1 à 5, où 1 signifie « beaucoup MOINS susceptible d'investir », 5 signifie « beaucoup PLUS susceptible d'investir » et 3 signifie « aucun impact sur votre volonté d'investir ». <Randomize order – Add a "Sans objet" column>
   o. Il s'agit d'une entreprise locale qui pourrait vous être utile
   p. Une fois que votre argent est investi, vous ne pouvez pas le retirer avant plusieurs années
   q. Il s'agit d'une entreprise bien établie qui a un nouveau plan de croissance
   r. Il s'agit d'une entreprise en démarrage qui a une idée qui vous plaît
   s. Vous ne savez rien des propriétaires de l'entreprise
   t. Vous connaissez bien le secteur d'activité de l'entreprise
   u. Vous pouvez investir par l'entremise de votre conseiller financier et obtenir ses conseils
   v. Vous ne pouvez pas retirer votre argent, mais votre investissement vous procurera une source de financement stable si l'entreprise réussit
   w. Il se peut que l'entreprise ne rapporte pas beaucoup d'argent, mais il s'agit d'une noble cause
   x. Il n'y aura pas beaucoup d'information sur l'entreprise parce qu'elle est jeune
   y. Il se peut que vous deviez attendre quelques années pour savoir si votre investissement est rentable.
   z. Il est facile d'acheter des parts de l'entreprise sur l'Internet
   aa. Il n'y a aucun moyen de savoir combien d'argent vous gagnerez et vous risquez de tout le perdre
   bb. Tout ce que vous savez sur l'entreprise se trouve sur l'Internet

L'une des nouvelles tendances d'investissement sur l'Internet s'appelle le « financement collectif ». Il y a quelques exemples de financement collectif au RU et il est sur sa lancée aux É.-U. L'idée de base du financement collectif est qu'un groupe de petits investisseurs investissent des sommes d'argent relativement petites dans des ***nouvelles ou jeunes entreprises*** *qui leur plaisent. Il ne s'agit pas d'un marché réglementé comme le marché boursier, mais il ressemble plus à e-Bay où vous pouvez voir une description du « produit » en ligne et décider de l'acheter. La grande différence, c'est que vous achetez un placement plutôt qu'un objet que vous pouvez tenir dans vos mains. Il n'est pas garanti que vous gagniez de l'argent avec celui que vous avez investi et il y a un risque bien réel que vous le perdiez en entier. Vous êtes libre de décider si vous voulez appuyer l'idée parce que vous pensez que l'entreprise réussira.*

5. En supposant que le montant d'argent impliqué vous paraît raisonnable et que l'idée de l'entreprise vous plaît, quelle est la probabilité que vous investissiez dans une nouvelle ou jeune

entreprise par l'entremise d'un site de financement collectif sur l'Internet? Veuillez évaluer la probabilité que vous investissiez sur une échelle de 1 à 10, où 1 signifie « n'investir DÉFINITIVEMENT PAS » et 10 signifie « investir DÉFINITIVEMENT ».

_____ Classement : désirer investir

<If rating is 1-3, skip to section E (Part 3), ELSE skip to section D (Part 2)

INVESTISSEURS DU SECTEUR DES AFFAIRES – POSSIBILITÉS DE PLACEMENTS EXONÉRÉS SUR LE MARCHÉ (partie 2, 12 mars 2013)

D. INVESTIR PAR LE BIAIS DU FINANCEMENT COLLECTIF

1a. Investir dans une entreprise dans un marché non réglementé comme celui-ci comporte plusieurs risques potentiels. Quand nous parlons de marché non réglementé, nous voulons dire un marché de placements plus risqués. Cela signifie que vous êtes plus susceptible de perdre votre argent, mais vous avez la possibilité d'en gagner plus. Aussi, il est parfois difficile de retirer votre argent. L'organisme de réglementation ne surveille pas les marchés non réglementés. À l'aide de la liste des risques énumérés ci-dessous, veuillez identifier ceux qui vous préoccupent en ce qui a trait à l'investissement dans des marchés non réglementés par le biais du financement collectif. <randomize order>

1b. Quels sont les DEUX risques qui vous préoccupent le plus?

1	1	Mes fonds sont immobilisés – Il se peut que je ne puisse pas les retirer
2	2	Je ne peux pas vendre cet investissement à quelqu'un d'autre
3	3	Possibilité de fraude
4	4	Les gens qui font la promotion de l'entreprise peuvent ne pas me donner l'aperçu global
5	5	Risque de perdre mon argent
6	6	J'en sais très peu sur l'entreprise
7	7	Il n'y a pas moyen de savoir combien d'argent je gagnerai, si j'en gagnerai
8	8	Aucune information n'est communiquée sur l'état de l'investissement
9	9	Je ne fais pas confiance aux affaires conclues sur l'Internet

2. L'échelle ci-dessous montre le montant que vous seriez prêt à investir en utilisant le financement collectif. En supposant que vous aimez les idées de l'entreprise pour favoriser sa croissance et pensez qu'elle offre un bon potentiel, quelle est la somme maximale que vous seriez prêt à investir dans chacune des circonstances suivantes? <Use three different slider bars with people assigned randomly: 0 $ - 2 000 $; 0 $ - 4 000 $; and 0 $ - 6 000 $. Allow any value to be selected but put visual markers in as appropriate. Randomize order of a-i>

j. Vous connaissez les propriétaires de l'entreprise
k. Des amis ont investi dans l'entreprise et la recommandent
l. Le plan d'affaires est très détaillé
m. Votre argent est investi de façon permanente – Vous ne pouvez pas le retirer
n. L'entreprise s'attaque à une cause en laquelle vous croyez
o. L'entreprise a déjà d'excellents antécédents
p. Le secteur d'activité de l'entreprise est en pleine croissance
q. Chaque année, vous recevez un rapport financier vérifié par un cabinet comptable indépendant
r. L'entreprise ne démarrera pas avant d'avoir accumulé suffisamment de capitaux de placement

3a. En considérant la somme d’argent potentiellement impliquée, demanderiez-vous des conseils professionnels avant de prendre la décision d’investir?

1 Oui
2 Non <Skip to D4>
3 Pas certain <Skip to D4>

3b. À laquelle des personnes suivantes seriez-vous le plus susceptible de demander des conseils?
Choisissez une réponse.

1 Un conseiller qui est autorisé à vendre des actions
2 Un conseiller/planificateur financier qui vend des fonds communs de placement et des CPG (mais pas des actions)
3 Comptable
4 Avocat
5 Autre (veuillez décrire)

4. Veuillez évaluer l’importance de chacun des types d’information suivants pour vous aider à décider d’investir dans une entreprise. Utilisez une échelle de 1 à 5, où 1 signifie que l’information « n’est pas du tout nécessaire », 3 signifie « qu’il est bien de l’avoir » et 5 signifie qu’elle est « essentielle ».
<randomize order>

h. Information financière sur l’entreprise
i. Plan d’affaires détaillé, y compris les produits/services clés
j. Information sur les propriétaires et les promoteurs de l’entreprise, y compris des vérifications des casiers judiciaires et des infractions aux lois sur les valeurs mobilières
k. Information fournie annuellement sur l’état de l’entreprise
l. Le montant que les propriétaires et les dirigeants recevront pour leur travail accompli
m. Ce que l’entreprise fera de l’argent obtenu des investisseurs
n. Risques liés à l’investissement dans l’entreprise

5a. Lequel des énoncés suivants décrit le mieux votre capacité à comprendre l’état financier d’une entreprise? [cochez une réponse]

1 Je ne sais pas ce qu’est un état financier
2. Je ne les comprends pas
3 Je comprends les bases
4 Je les comprends assez bien pour juger à quel point ils sont crédibles

5b. <Ask ONLY if D4a is rated 4 or 5> Lesquels des types suivants d’information financière considérez-vous être de « l’information financière fiable »? Cochez toutes les réponses qui correspondent.

1 Un état financier préparé par le comptable de l’entreprise
2 Un état financier vérifié par un cabinet comptable indépendant
3 Une déclaration de revenus de l’entreprise présentée à l’Agence du revenu du Canada (ARC)
4 Aucune de ces réponses

5c. <Ask only if D4c is rated 4 or 5> Lesquels des types d’information suivants sur les propriétaires ou promoteurs de l’entreprise désirez-vous voir avant de décider d’investir? Cochez toutes les réponses qui correspondent.

1 Antécédents et expérience de l’entreprise
2 Faillites ou insolvabilités précédentes

3 Vérification des antécédents, y compris le casier judiciaire et les infractions aux lois sur les valeurs mobilières
4 Aucune de ces réponses

6. Lesquels des moyens suivants seriez-vous prêt à utiliser pour investir dans une nouvelle ou jeune entreprise? <Oui, Non, Pas certain – Randomize order of methods>
   a. Sur l'Internet sans demander de conseils en utilisant le site Web de l'entreprise qui cherche des fonds d'investissement
   b. Sur l'Internet sans demander de conseils en utilisant le site Web qui offre l'investissement dans plusieurs entreprises différentes
   c. Sur l'Internet, mais en demandant les conseils d'un conseiller financier
   d. Par l'entremise de mon conseiller financier habituel sans utiliser l'Internet

7. **<ONLY present methods that were marked 'Non' or 'Pas certain' in D6>** Une « notice d'offre » fournit des renseignements de base sur une entreprise. Elle donne aussi plusieurs droits de prendre des mesures si l'entreprise se représente faussement, mais il est probablement nécessaire d'engager un avocat dans ce cas-ci. En supposant qu'une notice d'offre était disponible, seriez-vous prêt à investir en utilisant chacun des moyens suivants?
   a. Sur l'Internet sans demander de conseils en utilisant le site Web de l'entreprise qui cherche des fonds d'investissement
   b. Sur l'Internet sans demander de conseils en utilisant le site Web qui offre l'investissement dans plusieurs entreprises différentes
   c. Sur l'Internet, mais en demandant les conseils d'un conseiller financier
   d. Par l'entremise de mon conseiller financier habituel sans utiliser l'Internet

8. À quel point pensez-vous qu'il est risqué d'investir dans des nouvelles ou jeunes entreprises? Utilisez une échelle de 1 à 5, où 1 signifie « faible risque », 3 signifie « risque moyen » et 5 signifie « risque élevé »?
   ____ Classement du risque

9. Et finalement, si vous pouviez obtenir l'information que vous avez identifiée comme étant importante relativement au choix du moment et aux risques liés à l'investissement dans une nouvelle ou jeune entreprise, quel montant seriez-vous prêt à investir? Diriez-vous...
   0 Rien du tout
   1 1 $ - 500 $
   2 500 $ - 999 $
   3 1 000 $ - 1 999 $
   4 2 000 $ - 3 499 $
   5 3 500 $ - 4 999 $
   6 5 000 $ - 9 999 $
   7 10 000 $ ou plus
   9 Ne sais pas/pas certain

<Add closing and thank you>

NON-INVESTISSEURS – POSSIBILITÉS DE PLACEMENTS

EXONÉRÉS SUR LE MARCHÉ (partie 3, 12 mars 2013)

E. PAS INTÉRESSÉ À INVESTIR DANS LES PETITES OU MOYENNES ENTREPRISES

1. Quelles sont les trois raisons principales pour lesquelles vous n'êtes pas intéressé à investir dans les nouvelles ou jeunes entreprises? <Note: Use E2 for coding. We will provide additional codes for other categories>
   a. ____
   b. ____
   c. ____

2a. Lesquelles des raisons suivantes expliquent pourquoi vous n'êtes pas prêt à investir dans des nouvelles ou jeunes entreprises? Choisissez toutes les réponses qui correspondent. <randomize order>

2b. LAQUELLE de ces raisons explique LE MIEUX pourquoi vous n'êtes pas prêt à investir?

1	1	Mes fonds sont immobilisés – Il se peut que je ne puisse pas les retirer
2	2	Je ne peux pas vendre cet investissement à quelqu'un d'autre
3	3	Possibilité de fraude
4	4	Les gens qui font la promotion de l'entreprise peuvent ne pas me donner l'aperçu global
5	5	Risque de perdre mon argent
6	6	J'en sais très peu sur l'entreprise
7	7	Il n'y a pas moyen de savoir combien d'argent je gagnerai, si j'en gagnerai
8	8	Aucune information n'est communiquée sur l'état de l'investissement
9	9	Je ne fais pas confiance aux affaires par l'entremise de l'Internet

3. Veuillez évaluer votre intérêt à investir dans les fonds communs de placement ou fonds de placement non réglementés à l'aide d'une échelle de 1 à 10, où 1 signifie « pas du tout intéressé » et 10 signifie « très intéressé ». Par fonds non réglementé, nous voulons dire tout fonds qui présente des risques plus élevés. Cela signifie que vous êtes plus susceptible de perdre votre argent, mais vous avez la possibilité d'en gagner plus. Aussi, il est parfois difficile de retirer votre argent. L'organisme de réglementation ne surveille pas ces fonds non réglementés.
   _____ Classement (1-10)

4. **<Ask only if E3 is rated 7-10, Else Skip to E5>** Vous paraîtrait-il raisonnable d'investir dans des fonds non réglementés des façons suivantes? Cochez toutes les réponses qui correspondent.
   1 Sur l'Internet sans demander de conseils en utilisant le site Web du fonds
   2 Sur l'Internet sans demander de conseils en utilisant le site Web qui offre l'investissement dans plusieurs fonds différents
   3 Sur l'Internet, mais en demandant les conseils d'un conseiller financier
   4 Par l'entremise de mon conseiller financier habituel sans utiliser l'Internet
   8 Aucune de ces réponses

   <Skip to Closing>

5. <Ask only if E3 is rated 1-4> Lesquelles des raisons énumérées ci-dessous expliquent pourquoi vous n'êtes pas intéressé à

investir dans des fonds non réglementés? Choisissez toutes les réponses qui correspondent. <randomize order>

1 Je peux avoir de la difficulté à retirer mon argent
2 Je ne connais pas assez bien les fonds non réglementés pour me sentir à l'aise d'investir
3 Possibilité de fraude
4 Les gens qui font la promotion du fonds peuvent ne pas me donner l'aperçu global
5 Risque de perdre mon argent
7 Il n'y a pas moyen de savoir combien d'argent je gagnerai, si j'en gagnerai
8 Autres raisons (veuillez les décrire) ________________________________

<Add closing and thank you>

>

APPENDIX B.

CROWDFUNDING – LITERATURE REVIEW – 01-28-2013

The literature review was conducted during the month of January 2013 on the topic of ‘crowdfunding’. Crowdfunding is quite a new area of academic research and study only dating back to a couple of years. Most of the research that has been conducted so far, concentrates predominately on the topic of crowdsourcing. The literature included in this review is focused on ‘equity-based’ crowdfunding.

Two clear and concise definitions of crowdfunding are:

the “practice of many (i.e. crowds of) people investing small amounts of money over the Internet in early-stage businesses in exchange for equity interests that are not registered with the Securities and Exchange Commission (an exchange commission)”.[i]

“The use of the internet to raise money through small contributions from a large number of investors”[ii]

Among the literature review it is generally accepted that crowdfunding will provide small business and entrepreneurs with an alternative method to raise capital outside of traditional bank loans and credit, and relying on friends and family. Crowdfunding introduces an entirely new method of raising capital that offers investing opportunities to people outside of the accredited investor exemption and provides investment opportunities that have formerly not been available to them. It is also accepted that crowdfunding will attract a number of unsophisticated and novice investors signalling the need for full and fair disclosure standards especially those pertaining to risk and investor protection. At the same time, regulations cannot be overly burdensome and costly that entrepreneurs and small businesses are barred from participating in crowdfunding. The literature is organized under four main themes:

1. Informal Investors;
2. Crowdfunding Overview;
3. Regulatory; and
4. Additional sources of interest from the media and academia.

To highlight a few key points from the literature review, there are two markets for crowdfunding: seed money outside of friends/family and the gap between angel investors and venture capitalists. Some sectors may be more suitable to crowdfunding than others, in particular consumer-facing products versus those with complex intellectual property and specialized technology.

For the crowdfunding investor, there are intrinsic and extrinsic motivators involved. Intrinsic motivators relates to pleasure of doing a certain task. (i.e. recognition, personal satisfaction, excitement in being involved in a start-up). Extrinsic motivators are external rewards. In the case of equity crowdfunding this is profit-driven and can also include building networks and relationships. Motivators to participate in crowdfunding, as an entrepreneur/small business owner, include the financial statement (raising capital/financial goal); public attention that arises around the project; and obtaining feedback about the product/service offered. Again, we see both intrinsic and extrinsic motivators at play.

Success of traditionally-funded ventures is often linked to geography. Both angel investors and VC invests in a business that is on average 50km close to home or office. What role will the geography of investors play in crowdfunding? According to the literature, location proximity seems to be the case among crowdsourcing projects.

From a regulatory point of view, a main challenge will be balancing the interests of the entrepreneur/SME and the crowdfunding investor. Setting disclosure requirements that are full, fair and cost efficient while protecting investors from the inherent risks involved in crowdfunding investing will be key. Intermediaries can play a role with compliance. Self-policing capabilities of crowd may also play an important role in oversight via forums, discussions boards, reviews, and project rating schemes that will help weed out fraudulent players.

Title and Source Link	Author	Abstract/Executive Summary	Key Points
INFORMAL INVESTORS			
Investment Pattern of Informed Investors in the Alberta Private Equity Market http://www.ic.gc.ca/eic/site/061.nsf/vwapj/PracticesandPatterns_e.pdf/$FILE/PracticesandPatterns_e.pdf	Robinson, Michael J. and Thomas J. Cottrell Journal of Small Business Management 2007 45(1), pp.47-67	*"This study identifies three main types of informal investors in private equity markets: relationship investors, opportunity-based investors, and angel investors. We find evidence that the first two investor types are a major total source of capital and they prefer to invest smaller amounts close to home and in the context of existing relationships. With respect to angel investors, we find evidence of stratification in their desired investment amount which is consistent with a model where their investments evolve though a life cycle of investing. We also find evidence that changes to capital market regulations that allow for lower investment amounts by this type of investor increase the amount of capital available for early-stage firms."*	• Companies that raise capital through private equity tend to be in early-stage of business. • Risks to investors include: technological risk (capability of firm to bring product to market); market risk (customer demand, adoption and competition); agency risk (information asymmetry between management and its investors). • Formal investors (institutional) are believed to care more about market risk than agency risk. To mitigate market risk, investors specialize in certain industries. Informal investors are less concerned with weaker management /marketing expertise of firm as company can hire these as firm matures and business need develops. Preference is to invest with entrepreneurs with strong technology skills. **Approach: "buy and grow"** • Informal investors screen more on agency than market risk and rely more on their network to gather information about investing opportunities. They put more diligence on assessing managerial skills vs. technological sophistication. **Approach: "buy and watch"** • Another type of informal investor is the **"buy and hope"**. This type of investor has less investment capital than the typical angel investor and does not actively seek out investment opportunities but they do represent an important pool of capital available. • Relatively little research has been done on the investment behaviour of early-stage investors **.**

Title and Source Link	Author	Abstract/Executive Summary	Key Points
			This is the type of investor crowdfunding will target. • Informal investors prefer to invest close to home • Informal investors prefer to invest where there is an existing relationship. • Informal investors prefer to invest in industries they understand. • Informal investors prefer to invest in firms with more tangible assets. • Early-stage angel investors contribute smaller amounts to diversify agency risk . • Government regulations that lower minimum investment for informal investors will increase the number of individuals in the marketplace and total capital invested. • Informal investors are a larger source of capital at early-stage firms than institutional (formal) investors. • An overlooked category of informal investor is the novice angel. They too invest in early stage but are not as bias towards firms in home province.
Practices and Patterns of Informal Investors http://www.ic.gc.ca/eic/site/061.nsf/vwapj/PracticesandPatterns_e.pdf/$FILE/PracticesandPatterns_e.pdf	Riding, Dr. Allan Principal, Equinox Professor of Finance School of Business Carleton University Ottawa, ON	Study looks at characteristics, practices, patterns and perspective of Canadian informal investors (private equity investors). Provides updated profile of typical individual investor (age, education, occupation, financial traits); private equity investment patterns (size, sector, stage, frequency); investors' experience of private equity investment opportunities in Canada. Special focus on SME's. Total of 61 participants across Canada.	• Majority of informal investors have a post/and or undergraduate degree. Most common professional designations among participants are C.A.s and professional engineers. • It is likely that informal investors are "repeat" private equity investors. Over 70% invest in at least one informal investment every two or three years and one-third invest several times annually. On average, investors report having slightly less than $1MM available for each private equity investment. • Software deals are most popular, but average size of each deal tends to be small. Deals in finance

Title and Source Link	Author	Abstract/Executive Summary	Key Points

			and real estate sector account for a disproportionate amount invested.
			• Investors invest in multiple sectors.
			• Investments made predominately at seed and start-up stages.
			• Investments tend to be local. 68% of deals located within 50km to investor's home or office.
			• Potential investment opportunities come mainly through referrals from business associates (accountants, bankers, lawyers, other investors). Investors are often approached with opportunities.
			• Investors are looking for opportunities with the right people; with market potential and where they can add significant value.
			• Information/due diligence investors perform include review of financial statements; projections; meet with principals; conduct informal reference checks on principals' track record. Others hire team of legal, accountants to scrutinize deals.
			• Investors have expectation of high rate of returns and exit time expectations. The majority will look to exit investment within 3 – 5 years. Potential exit types are IPOs; acquisitions; buy-backs; secondary sale; and write-offs.
			• SMEs are ill-prepared to attract private investment.
			  • They have underdeveloped business plans.
			  • Poorly developed ideas about markets and revenue streams.
			  • Inability to manage commercialization process.
			  • They tend to have unwillingness to relinquish control and expect that large investments

Title and Source Link	Author	Abstract/Executive Summary	Key Points
			from outside will come with little interference from investors. • Entrepreneurs tend to overvalue the idea and undervalue financial and non-financial means required to grow and develop a business.
CROWDFUNDING OVERVIEW			
The Venture Crowd: Crowdfunding Equity Investment Into Business http://www.nesta.org.uk/library/documents/TheVentureCrowd.pdf	Collin, Liam and Yannis Pierrakis Nesta Operating Company Nesta 2012	Crowdfunding is big business. The idea of financing projects or businesses with small contributions from large numbers of people is catching on in a big way and now accounts for significant amounts. In 2011 alone, $1.5 billion was raised through crowdfunding for projects and businesses in need of funds. Not only does the model provide finance buy also access to a large number of people who can test and market an idea. Crowdfunding takes a number of different forms, the most successful of which has been the reward-based model where participants receive non-financial rewards in exchange for donating to a project. The model effectively harnesses not only the contributors' desire for the reward but also the intrinsic or social motivation to back a project. Other forms of the model are, however, also growing rapidly. The most recent of these is equity crowdfunding, where individuals receive small stakes in a privately owned young business in return for investment. While equity crowdfunding shares many features of the reward model, one significant difference is the combination of both financial	• Two markets for crowdfunding are seed money outside of friends/family and the gap between angel investors and venture cap. • First step of crowdfunding process is getting onto platform. Platform operators review plan and some level of vetting is done. Some vetting dimensions are likelihood of fraud, reputation of entrepreneur(s), and suitability to crowdfund. Some platforms will conduct due diligence once target funding has been reached but before release of capital. Pitches are then uploaded for prospective investors to browse. Usually video or text explains business model, owner background, how much capital is sought, purpose of capital for and how much equity is being offered. • Increased interaction between entrepreneur and potential investors may be via forums on platform, emails, meetings to update fundraising progress. • The 'all-or-nothing' model – company sets funding date (funding window) to meet target of raising capital. If deadline is not met, receives nothing and money is returned to investors. Capital raised cannot exceed target amount. • Fees that are charged are most dependent on success of funding. A fixed percent is charged if

Title and Source Link	Author	Abstract/Executive Summary	Key Points
		and non-financial motives for investing. The model also differs form other forms of equity financing. Crowdfunded businesses do not have to adhere to the strict accounting standards required of public companies and unlike other risk capital providers, crowdfunding investors may have no experience in making such investments. Report Contents: 1. The rise of crowdfunding 2. What is equity crowdfunding? 3. The market opportunity for equity crowdfunding 4. The crowdfunding model faces several challenges 5. The future for the model 6. Endnotes	target is reached. Some platforms also charge an investor fee. • Transfer of money to entrepreneur is through escrow account. Some platforms (i.e. Seedres) operate a nominee and management system representing interests of investors. • There is variation across sites in terms of investor voting rights. • Some sectors may be more suitable to crowdfunding than others. (i.e. consumer –facing business vs. complex IP or very high-tech). • Difficult to set valuations as assets may be in form of intellectual property and valuations based on future of market size, competition, revenue etc. Idea is to benchmark valuations against similar businesses on the platform. • German platform (Innovestment) operates on market-driven approach. Investors bid for shares what they are willing to pay. Those that pay the most get in on the deal. • Fraud detection methods include platform pre-vets business before launching; staggered release of funds linked to milestones; crowd vetting via discussion forums to comment on quality and validity of launched proposals. • Signalling and herding is a problem with group-based decision system. Visibility of investor type and motivation to invest could offset this. ***Potential areas for future research:*** • How effective is the crowd at evaluating potential of young business? • What types of business does the crowdfund model work best for? • What is balance between financial and non-financial motivations of equity crowdfunders and

Title and Source Link	Author	Abstract/Executive Summary	Key Points
			how does this affect the operation of the model? • What ranges of funding can equity crowdfunding raise for business? • What levels of return can equity crowdfunding deliver? • What are the best ways of harnessing the crowd of investors to assist with business development? • How successful are business at raising follow-on capital after crowdfunding? •
CROWDFUNDING OF SMALL ENTREPRENEURIAL VENTURES http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1699183	Schwienbache, Armin and Benjamin Larralde *Book chapter, Handbook of Entrepreneurial Finance (Oxford University Press)* September 28, 2010	In this chapter, we discuss crowdfunding as an alternative way of financing projects, with a focus on small, entrepreneurial ventures. The structure of the remaining chapter is as follows. The next section provides a description of crowdfunding and discusses existing research on the topic. The follow-up section puts crowdfunding into perspective of entrepreneurial finance and thereby describes factors affecting entrepreneurial preferences for crowdfunding as source of finance. Thereafter, we elaborate different business models used to raise money from the crowd, in particular with respect to the structure of the crowdfunding process. Building on this discussion, we present and discuss extensively a case study, namely *Media No Mad* (a French start-up). Finally we conclude with recommendations for entrepreneurs seeking to make use of crowdfunding and with suggestions for researchers about yet unexplored avenues of research.	• Crowdfunding is financing of a project or a venture by a group of individuals instead professional parties (banks, venture capitalists or business angels). The typical mode of communication in crowdfunding is via internet. • Intrinsic and extrinsic motivators for investing in crowdfunding projects. Intrinsic motivation relates to pleasure of doing a certain task. (i.e. recognition, personal satisfaction, excitement in being involved in a start-up) Extrinsic motivator is external reward such as money or goods or building network/relationships. • Other motivators for raising money via crowdfunding is the public attention and validation for product before bringing it to market. • "Wisdom of crowd" means that crowds may be more efficient than individuals to offer solutions. These are aggregated by crowd and offer better solutions ('collective intelligence'). Knowledge becomes more important as communities share it. • Investors will need access to same level of information to base investing decisions. • Voting power can be given to crowdfunders for

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			specific decisions about product design/corporate strategies. Not likely to be manageable for any kind of managerial decision. • Not-for-profit organizations tend to be more successful (focus more on quality than profit alone) in achieving fundraising targets than for-profit companies. • There are concerns relating to intellectual property rights. Entrepreneur will have to disclose ideas to public/crowd in advance, creating IP risks – will this deter some from tapping the crowd, especially in specialized, highly technical companies?
Crowdfunding: The New Frontier for Financing Entrepreneurship? http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2157429	Giudici, Giancarlo, Riccardo Nava, Cristina Rossi Lamastra and Chiara Verecondo Department of Management, Production and Industrial Engineering Politecnico di Milano Via Lambruschini 4 – 20156 Milano ITALY	**Purpose**: This paper aims to take stock of the extant knowledge on an emerging practice in the entrepreneurial finance landscape: *crowdfunding*, which seems to play an increasing important role for the seed financing of entrepreneurial projects. We provide a systematization of what it is known on this theme, which can be useful to scholars, practitioners, and policymakers interested in the phenomenon from different angles. **Design/methodology/approach**: Adopting a phenomenon-based approach, which is deemed to be appropriate when investigating new and rather unexplored phenomena, we first review the emergent literature on the theme to single out the aspects that so far have attracted the bulk of scholarly interest. Then, we compare the crowdfunding with other forms of entrepreneurial finance. Finally, we offer a first survey on Italian crowdfunding platforms. **Originality/value:** The paper will add value to	• Crowdfunding is "an open call, essentially through the internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes." • "Getting large group of people to finance a project by using a website or other online tool to solicit funds." • Crowdfunding is moving from embryonic stage to growth stage. • Ex post facto crowdfunding is when financial support is given in exchange for a product. • Ex ante crowdfunding is when financial support is given at front end to assist in achieving a mutually desired result. • Success of crowdfunding so far is due to the shortage of capital invested as a result of the global financial crisis and credit crunch in lending (deb) to small business. Evolution of Web 2.0 technologies also a factor. • Main reasons entrepreneur engage in

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		entrepreneurial finance field by systematizing extant knowledge on crowdfunding, which appears to be fragmented and still in a pre-theoretical stage. **Practical implications:** The outcomes of the paper might be useful for perspective entrepreneurs, who are considering crowdfunding to finance their ventures, to policymakers that are called to regulate	crowdfunding (Belleflamme et al, 2011) are the financing statement; public attention that arises around the project; feedback about the product/service offered. • Additional motivators (Gerger et al, 2011) include establishing relationships; receiving legitimacy; replicating successful experiences, and increasing awareness about crowdfunders' work through social media. • Crowdfunding platforms (CFPs) are multi-sided platforms that are "enabling organizations" by connecting entrepreneurs and investors. There is direct interaction with investors. Platforms provide information analysis, rating or review by specialists. • CFPs important an role in start-up ventures but don't replace VC. VCs offer additional value to entrepreneur by offering management support, marketing efforts, networking, and post-finance monitoring. • At the present moment, crowdfunding has emotional and social value.
The Dynamics of Crowdfunding: Determinants of Success and Failure http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2088298	Mollick, Ethan The Wharton School of the University of Pennsylvania July 25, 2012	Crowdfunding allows founders of for-profit, artistic, and cultural ventures to fund their efforts by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries. Crowdfunding has been drawing substantial attention from policy makers, managers, and entrepreneurs, but relatively little notice from academics, even though it touches on many topics of importance to scholars of entrepreneurship, including the determinants of venture success and the geography of entrepreneurship. Drawing on a	• Projects range in goals and magnitude, from small artistic projects to entrepreneurs seeking seed capitals as alternative to venture capital investment. • Unclear if crowdfunding efforts reinforce or contradict existing theories about raising capital and achieving success. Also unclear whether projects deliver products promised over the long-term. • Social networks of founders seem to play a large role in success of new ventures and access to capital. High quality pitches also predict success. • Success of traditionally-funded ventures is often

Title and Source Link	Author	Abstract/Executive Summary	Key Points
		dataset of nearly 47,000 projects with combined funding over $198M, this paper offers an initial description of the underlying dynamics of success and failure among crowdfunded ventures. It suggests that personal networks and underlying project quality help predict the success of crowdfunding efforts, and that geography plays a role in both the type of projects proposed and successful fundraising. Finally, I find that the vast majority of founders make serious efforts to fulfill their obligations to funders, but that over 75% deliver products later than expected, with the degree of delay predicted by the level and amount of funding a project receives.	linked to geography. • Project mix of crowdfunding reflects cultural products of city. i.e. Nashville (music); San Francisco (game and design products) • Higher proportion of creative individual in the founder's city, higher chance of success. • Majority of projects were delayed, close to 25% were delivered on time. • Larger projects have more delays than shorter ones. • Projects generally succeed by small margins or fail by big ones. • Social capital and project quality increase chances of project success.
Community Financing Options http://arbri.athabascau.ca/hinton-gc/documents/HintonGrandeCacheSummarySustainabilityReport3-15-12.pdf	Dr. Mike Gismondi, Athabasca University	"With the increasing difficulty of accessing traditional forms of financing and investment, communities have begun to look to innovative ideas and initiatives to help in raising local capital. To a greater extent, communities are looking inward to create a climate of investment and cooperation within the population. As more community members participate, they share both the risk and rewards in creating stronger local economies. There is also a greater emphasis on local empowerment because the control of the funds, schedule and outcomes stays within the community and is not ceded to outside control. A circuit of local capital is different than that of the global investment market. It is based on raising pools of capital from a self-designated community to invest in a local business or	• Local investor behaviour share common values and community vision. • Local financing and investment mechanisms: • Credit Unions – They arecctive in community and tend to have good understanding of community needs. Business loan are the basic form of local lending but reflect least sense of community ownership. • Crowdsourcing – Entrepreneur posts business online with request for start-up funding and those interested donate. No ownership. • Exemptions for Accredited and Eligible Investors - individuals of a certain income level and net worth to purchase exempt market shares in a local business without that business having to provide an offering document. • Community Investment Funds (CIFs) - Investors purchase shares in an investment fund which is then invested into a local business.

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		infrastructure. Residents can invest by purchasing local securities in the form of shares (equity; essentially owning a part of the firm) or bonds (debt; loaning the firm a fixed amount over an agreed upon duration of time and interest rate)	• Community Bonds - Community Bonds are a debt instrument that enables communities, as well as not-for-profits and charities, to raise capital. typically used to finance the purchase of a large capital asset such as a building.
REGULATORY			
The JOBS Act of 2012: Balancing Fundamental Securities Law Principles With the Demands of the Crowd http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2040953	Martin, Thomas A. Willamette University College of Law, 2012.	I examine the JOBS Act of 2012, especially its crowdfunding provisions. In Section II., I discuss the main areas of the JOBS Act, specifically crowdfunding, emerging growth companies, changes to the small issues exemption, and the reporting company threshold. I note a strong shift towards deregulation, in contrast with Sarbanes-Oxley (2002) and the Dodd Frank Act (2010). In Section III., I analyze the principles behind the U.S. securities laws, especially the Securities Act of 1933 and the Securities Exchange Act of 1934. The specific policies examined are as follows: investor protection, market stability, and maintaining the integrity of U.S. capital markets. With regards to specific provisions of the JOBS Act, I ask whether the benefits of the JOBS Act, most notably the potential for economic growth, exceed its risks, including an increased risk of fraud and increased market uncertainty. In Section IV., I explain equity-based crowdfunding as a new and unique model for raising capital. I examine elements of the crowdfunding structure, namely a relatively small amount of money raised from a large number of individuals, many of whom are non-accredited. I examine the	• Crowdfunding - "the use of the internet to raise money through small contributions from a large number of investors." • Under the JOBS Act, the issuer must provide to the Commission, intermediary and potential investors the following: • 1. Basic identifying information of issuer; • 2. Names of directors, offices and each person holding more than 20% of share of the issuer; • 3.Description of business and anticipated business plan; • 4.Description of financial condition of issuer; • 5. Description of stated purpose and intended use of capital raised • 6. Targeting offering amount, deadline and regular updates regarding issuer meeting these; • 7. Price to public of securities; • 8. Description of ownership and capital structure of issuer. • Type of financial information disclosed depends on target amount of capital to be raised. • Crowdfunding intermediaries have duty to educate investors and reviews investor education information in accordance with standards established by Commission.

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		wisdom of the crowd theory, question the continued need for accreditation requirements, and note the crowd's proclivity towards funding social good projects, with potential or significant positive externalities on the community. I conclude that although the JOBS Act contains a swath of measures limiting government oversight of this new market, these risks are outweighed by the substantial economic benefits that accompany the destruction of market entry barriers to the entrepreneur.	Intermediaries must makes sure investor understands risk of losing entire investment and that they could bear such a loss. Also must ensure that investor understands level of risk investing in start-ups, emerging businesses and small issuers; and understand of risk illiquidity. • However, compliance with these requirements is ambiguous. • Crowdfunding is similar to small issues exemptions but different in the greater number of non-AI investors. • Unique aspects to crowdfunding model: 1. Large investment class with no distinction between AI and non-AI investors; 2. Relatively low investments amounts that are pooled together; 3. Natural bias towards popular projects and a large portion focussed on social good. • Crowd represents both potential investors and consumers. • Crowd usually invest in something they want for themselves. Vested interest in success of company. • Crowd acts as quasi-market research tool. • There is contrast between those that believe that the 'crowd' makes bad decision and should not be trusted to make wise financial decisions (i.e. herding behaviour) and those that support 'wisdom of crowd' theory that suggests collective intelligence make wiser choices than individual.

Title and Source Link	Author	Abstract/Executive Summary	Key Points
The JOBS Act of 2012: The Struggle Between Capital Formation and Investor Protections http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2149744	Whitbeck, Britton *SMU Dedman School of Law*	This Article details at the provisions of the JOBS Act and analyzes their impact on capital formation and investor protection. Part I discusses the Reopening American Capital Markets to Emerging Growth Companies Act, examining the emerging growth company status and the impact on issuers and investors. Part II discusses Access to Capital for Job Creators Act, which lifts the ban on general solicitation for offering made up solely of accredited investors or qualified institutional buyers. Part III discusses the Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act, which legalizes equity crowdfunding. Part III will examine the crowdfunding provision and the requirements for issuers, intermediaries, and investors. Part IV discusses the Small Company Capital Formation Act, which increases the cap on Regulation A offerings from $5 million to $50 million. In conclusion, Part V discusses both Private Company Flexibility and Growth Act and Capital Expansion Act, which increase the shareholder limit for private companies and banks.	• Many crowdfunding investors may lack sophistication to understand risks. Including risk of fraud, failure by small business and the liquidity of securities purchased. • Exemptions provide means of financing to majority of entrepreneurs that lack ability to raise capital through banks, VC firms or IPOs. • Most start-ups lack sophistication or resources to meet burden and costs of securities regulation. VCs are more interested in businesses with high growth potential in certain sectors (i.e. Technology, biomedical) • Crowdfunding exemptions include a maximum on amount of capital raised; restrictions on total investment amount based on annual income of investors or net worth; limit on aggregate amount of securities issuer can offer or sell to investors; restrictions on sale and transfer of crowdfunding shares by investors. • Issuers must disclose information about the company, its financial condition, the offering, ownership and capital. Issuer must disclose names of director, officers and any person holding 20% of issuer's shares. Must disclose business and anticipated business plan. Financial disclosure varies depending on amount of target capital raised. • Tax returns provide little financial disclosure information to investor. • Issuer must disclose target offering amount, deadline for reaching the target and regular updates on progress in meeting offering amount. • Issuer must disclose price or method for determining price and this poses challenges around valuation.

Title and Source Link	Author	Abstract/Executive Summary	Key Points
			• Issuer must disclose how crowdfunding securities may be "materially limited, diluted or qualified by rights of any other class of security" including minority ownership, corporate actions, additional issues, sale of the issuer or its assets and related transactions". • With transactions online there is an ease and convenience of investing plus appeal of greater returns and excitement of investing in start-ups all pose risks to crowdfunding investor. • Need to develop standard language about issuers' disclosure regarding risks, and provide a checklist or list of questions designed to guide the issuer how to disclose risks. • Advertising offerings is limited to directing investors to issuer's intermediary. • Those promoting issue must disclose compensation. • Rules on promotion, advertising, annual reporting requirements are not clear. • Intermediaries must provide risk disclosure and investor education information to investors. • Funding portals must not offer advice or recommendations, solicit purchase, sale or offer to buy the securities on its website. Funding portals must not compensate persons for solicitation or sale of securities on its website. They cannot hold, manage, possess or handle investor funds or securities. • Investor must "positively affirm" that they understand the risk of losing entire investment and can sustain such a loss. Investor must answer questions that demonstrates understanding the level of risk related to start-up and small issuers, risk of illiquidity.

Title and Source Link	Author	Abstract/Executive Summary	Key Points
			• Develop standards for review and selection of issuers that may include operating history, technical expertise, industry experience, some type of evaluation of offering and business plan. • There is a possibility of "blurring line between full and fair disclosure and assessing merits of the investment. "
CROWDFUNDING OR FRAUDFUNDING? SOCIAL NETWORKS AND THE SECURITIES LAWS—WHY THE SPECIALLY TAILORED EXEMPTION MUST BE CONDITIONED ON MEANINGFUL DISCLOSURE http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1954040	HAZEN, THOMAS LEE *NORTH CAROLINA LAW REVIEW* [Vol. 90], pages 1735-1770.	Social networks have been used as a medium for financing films and other performing arts, as well as for charitable solicitations. Crowdfunding can also be used to finance small business enterprises, which, in contrast to other crowdfunding efforts, is a highly regulated activity by virtue of the securities laws. Securities laws are designed to provide investor protection. This Article provides an overview of the applicable securities laws and evaluates the various proposals and the recently enacted JOBS Act which purportedly provides a workable exemption for crowdfunding that would not unduly compromise investor protection. The Article examines the proposals and ensuing legislation and concludes that the only appropriate exemption for crowdfunding is one conditioned on meaningful disclosures about the company and the terms of the offering.	• Required disclosures include purpose of offering, targeted amount to be raised, deadline for reaching target, offering price, information about the company's business including business plan, capital structure and financial condition. • Audited financial statements are required for offerings over 500k. • Intermediary (funding portal or broker) will be required to 'take steps to ensure that investor has reviewed disclosure, answers questions and understands risks of loss, including risk of losing all investment. • Intermediary also required to make sure company's officers, directors and major shareholders are in compliance with regulator. • Limiting offerings to small amounts per investor will not deter scammers. Small investors may be the least able to bear the risks of their low investments. • Social media technologies increase rather than decrease potential for fraud. • Crowdfunding investors will not likely "know" the company except for what is visible and available about the company on its website. Unlike angels and VC's, who have a more personal relationship with company and officers. • Likely to attract unsophisticated investors.

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PROTECTING THE CROWD AND RAISING CAPITAL THROUGH THE JOBS ACT http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2046051	Fink, Andrew C. University of Connecticut - School of Law April 25, 2012	The Crowd has incredible commercial force, evidenced by the fact that the internet is now one the largest global economies The JOBS Act effectively harnesses the capital-raising power of the Crowd and potentially revolutionizes the way we think about capital markets. Concerns about how to balance investor protection and free-flowing capital-raising channels were paramount in reaching the JOBS Act. This Article highlights the passage of the JOBS Act and its effects on the Crowdfunding industry. It warns of SEC rulemaking and makes proposals for how to best execute a reliable Crowdfunding platform or funding portal. The states can play a crucial role in helping to sustain confidence in the Crowdfunding market.	• Crowdfunding – "Raising of capital through a large number of small individual investments to a single entrepreneur or small business." • It is a convergence of microfinance and crowdsourcing and is often described as a blend of social media and venture capital. • Crowdfunding is like inverse of microfinancing (which makes available numerous loans to thousands of individual through one institution). • Crowd consists of individuals connected to other individuals through the internet. Crowd expected to grow at high pace. By 2012 internet is projected to be the world's fifth largest economy. • Prior to JOBS Act equity-crowdfunding model not permitted. Start-ups limited to angel investors and VC firms. • Entrepreneurs and start-ups limited to bank loans, family and friends money. Also isolated by their location. VC firms typically closer geographically to their investments (average 70 miles between lead venture cap firm and target firm). Crowdfunding connects to investors globally and potential to stimulate job growth internationally,. • As banks tighten lending standards (credit crunch) financing small business takes a hit and crowdfunding is seen as viable alternative to dependence on bank lending. • Crowdfunding will be appealing to lower net worth investors as typically these investments are only available to the wealthy. • As well, interest in crowdfunding is comparable to investor attraction to the IPO market ; an

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			exciting idea they want to be part of and see grow. May be a lack of professional investors attracted to crowdfunding and with this, an absence of sophisticated investors who also act as mentors that often help entrepreneurs and small businesses grow the business. • Investor-based crowdfunding includes expectation of profit by investor. Investors care less about entrepreneur's well-being and likely want to little to do with entrepreneurial process. This is in contrast to donation based crowdfunding where investors do not expect ROI and more analogous to charitable contribution mostly motivated by intrinsic aspects of social capital/cultural good. • Currently capital markets framework and securities regulation is inconsistent cross-border. • Challenge is to stimulate early-stage capital but not impose too many restrictions that leads to barrier to entry. • Self-policing capabilities of crowd will play important role in oversight. User reviews (eBay, Amazon) to police against fraud and misleading information. Rating system is another feature that may be effective in weeding out fraud. Forums can also be helpful isolating risky sellers, promoting quality participants and sound investment opportunities. • Crowdfunding Accreditation for Platform Standards (CAPS) – "reviews awards accreditation to funding portals based on interviews and reviews of their transaction processes." • Consistent and uniform standards (established by regulator) can help streamline process and

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			build market confidence. • Failing crowdfunding portals will be forced out and trusted platforms will become market leaders for crowdfunding transactions.
The Social Network and the Crowdfund Act: Zuckerberg, Savern, and Venture Capitalists Dilution of the Crowd http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2141015	Wroldsen, John S. 15 VAND. J. ENT. & TECH. L., Jan. 2013, Forthcoming	By virtue of Title III of the JOBS Act, signed into law on April 5, 2012, crowdfunding could become a powerful, even revolutionary, force to finance start-up companies. It democratizes entrepreneurs' access to seed capital and converts the masses of Internet users into potential retail venture capitalists. Many have cautioned, though, that crowdfunding poses serious investment risks of start-up companies failing, committing fraud, and being mismanaged. Accordingly, the JOBS Act includes numerous disclosure obligations designed to mitigate such downside risks. But what has been overlooked, and what this Article analyzes from a venture capitalist perspective, is that even if a crowdfunded start-up company is successful, crowdfunding investors can lose the value of their investment if they lack venture capital legal protections. When successful start-up companies raise additional funds from professional venture capitalists, the value of ground-floor investments can be severely diluted, as colorfully dramatized in The Social Network. In addition, when crowdfunded companies are acquired in private transactions, crowdfunders are at risk of being left out. Therefore, under a "qualitative mandates"	• Crowdfunding – "practice of many (i.e. crowds of) people investing small amounts of money over the Internet in early-stage businesses in exchange for equity interests that are not registered with the Securities and Exchange Commission". • Paper focuses on upside, horizontal risks crowdfunders may face from other investors, such as VC when crowdfunded business is successful. • JOBS Act – caps capital raising via crowdfunding at $1 million over 12 month period. Amount investor can invest is capped according to annual income or net worth. Investor cap applies to aggregate crowdfunding investments in any 12 month period. • Crowdfunding investments must occur through website registered with the commission. Must disclose information relating to risks investing in start-ups, ensure investor understands the risks and obtaining background check of key company personnel. Crowdfunded company must provide its financial statement and report on results of company's operations. Degree of financial disclosure depends on target amount of capital raised. • Question on ability of unsophisticated investor to effectively judge quality of securities offered. Information overload. • Issue of Merit Review – issuer submits information to regulator for review and approval in advance of security offerings. Judges 'substantive quality of

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		regulatory philosophy that moves beyond securities law's status-quo disclosure requirements, this Article proposes substantive venture capitalist protections for crowdfunding investors, such as down-round anti-dilution, tag-along, and preemptive rights, to help safeguard the value of early-stage investments in successful start-up companies. Especially because many crowdfunding investors are likely to be inexperienced and unsophisticated in start-up-company investing, crowdfunding laws and regulations should go beyond disclosure requirements that warn investors of danger (to the extent investors even read or understand the disclosures) to help crowdfunders obtain market-based economic protections characteristic of venture capitalist investment contracts.	security'. Merit-reviews – costly, time-consuming, may create 'market inefficiencies by supplanting judgement of market with that of regulator.'
			
			• Horizontal risks – additional financing rounds and new investors can impact existing shareholders (crowdfunders).
			• Qualitative Mandates: (like VC protections in start-ups) include:
			  • Dilution of crowdfunders ownership percentages when company issues new shares.
			  • Exclusion of crowdfunders when other stockholders resell shares to new investors.
			  • Risk of price dilution (down-round) – VC protect themselves with preferred-shared investment contracts.
			  • Risk of share-based dilution.
			  • Tag-along rights (co-sale rights) help avoid being excluded from a profitable exit event.
			  • Preemptive rights "allow the shareholders to participate in any issuance of share pro-rata to their percentage holding". Shareholders avoid dilution of their ownership position when company issues shares to new investors.
			• VC deal terms and protections need to be present by default in crowdfunding –investment contract templates. The unsophisticated investor would not know how to negotiate these and they would allow crowdfunders a point of comparison for other crowdfunding investments.
			• Disclosure tables that are clear and easy to read are suggested. These would highlight investor protection the issuer is offering and be based on

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			terms VCs negotiate when investing in start-ups. Table would provide list of terms and description and if each protection is available. Suggested list includes common stock; preferred stock; warrants; shares-based dilution; price-based dilution; tag-along rights; drag-along rights; preemptive rights; pay-to-play; cumulative dividends; registration rights; redemption rights; liquidation preference. • Terms in disclosure table likely be discussed among crowdfunding investors improving and expanding the "wisdom of the crowd". • Absence of VC protections leave crowdfunding investors vulnerable. • Crowdfunding investment can be 'emotional' (excited by innovative ideas with potential of large profit)
Additional Sources from Media and Press			
The Crowdfunding Crowd Is Anxious	Corteste, Amy The New York Times Jan 5, 2013	http://www.nytimes.com/2013/01/06/business/crowdfunding-for-small-business-is-still-an-unclear-path.html?pagewanted=all&_r=0	
Should Equity-Based Crowd Funding Be Legal?	Lavinsky, Dave The Wall Street Journal, March 8, 2012.	http://online.wsj.com/article/SB100014240529702033706045772655127660099 3 8.html	
Five Key Points to know about equity crowdfunding	Prive, Tanya Forbes, January 15, 2013.	http://www.forbes.com/sites/tanyaprive/2013/01/15/5-key-points-to-know-about-equity-crowdfunding/2/	
Equity crowdfunding source of innovation, capital for start-ups	Casey, Quentin. Financial Post, October 22, 2012.	http://business.financialpost.com/2012/10/22/equity-crowdfunding-source-of-innovation-capital-for-startups/	

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THREE THINGS BROKEN IN INVESTMENT CROWDFUNDING THAT SEC REGULATIONS WON'T FIX	**CARLETON, WILLIAM JANUARY 7, 2013. CROWDSOURCING.ORG**	http://www.crowdsourcing.org/editorial/three-things-broken-in-investment-crowdfunding-that-sec-regulations-wont-fix/23032/500	
WHY CROWDFUNDING WILL EXPLODE IN 2013	Thorpe, Devin Forbes, October 15, 2012.	http://www.forbes.com/sites/devinthorpe/2012/10/15/get-ready-here-it-comes-crowdfunding-will-explode-in-2013/	
N.Y.C. small businesses are turning to crowdfunding sites like CircleUp to raise money	Furman, Phyllis NYDailyNews.com January 21, 2013.s	http://www.nydailynews.com/new-york/n-y-small-businesses-turning-crowdsourcing-sites-circleup-raise-money-article-1.1244463#ixzz2IopB4KYl	
https://circleup.com/press/		Excellent source for recent media stories and press releases on crowdfunding	
Additional Academic Papers			
CROWDFUNDING AND THE FEDERAL SECURITIES LAWS http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1916184	Bradford, Steven C.	Crowdfunding—the use of the Internet to raise money through small contributions from a large number of investors—could cause a revolution in small-business financing. Through crowdfunding, smaller entrepreneurs, who traditionally have had great difficulty obtaining capital, have access to anyone in the world with a computer, Internet access, and spare cash to invest. Crowdfunding sites such as Kiva, Kickstarter, and IndieGoGo have proliferated, and the amount of money raised through crowdfunding has grown to billions of dollars in just a few years. Crowdfunding poses two issues	

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		under federal securities law. First, crowdfunding sometimes involves the sale of securities, triggering the registration requirements of the Securities Act of 1933. Registration is prohibitively expensive for the small offerings that crowdfunding facilitates, and none of the current exemptions from registration fit the crowdfunding model. Second, the web sites that facilitate crowdfunding may be treated as brokers or investment advisers under the ambiguous standards applied by the SEC. This article considers the costs and benefits of crowdfunding and proposes an exemption that would free crowdfunding from the registration requirements, but not the antifraud provisions, of federal securities law. Securities offerings for an amount less than \$250,000–500,000 would be exempted if (1) each investor invests no more than the greater of \$500 or 2% of the investor's annual income; and (2) the offering is made on an Internet crowdfunding site that meets the exemption's requirements. To qualify for the exemption, crowdfunding sites would have to: (1) be open to the general public; (2) provide public communication portals for investors and potential investors; (3) require investors to fulfill a simple education requirement before investing; (4) prohibit certain conflicts of interest; (5)	

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		offer no investment advice or recommendations; and (6) notify the SEC that they are hosting crowdfunding offerings. Sites that meet these requirements would not be treated as brokers or investment advisers.	
CROWDFUNDING: FLEECING THE AMERICAN MASSES http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2030001	Griffin, Zachary J J.D. Case Western Reserve University School of Law. March 14, 2012	As our economy continues to sputter along like a beat-up station wagon, politicians in Washington are searching for new ways to boost its prospects. Many, including President Barack Obama, are looking to spur small business growth as a solution to our economic woes. However, such growth is stymied by the lack of capital available to small businesses. As Representative McHenry stated, "lending to job creators and entrepreneurs remains dismal, [and] we must find new and modern means for capital formation to ignite our sputtering economy." Such "ignition" will come from crowdfunding, or at least politicians seem to think so. Crowdfunding is a means of capital formation that connects entrepreneurs with investors over the Internet. Entrepreneurs can post their business plans on crowdfunding websites, and anybody connected to the Internet can contribute, or invest, in these companies. However, there is catch; investors are limited in the types of returns they can receive from their capital contributions. Currently, investors cannot receive any form of security, because "crowdfunding does not mesh with federal securities regulation[s]." The Securities Act of	

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		1933 makes it illegal to offer or sell any security unless the issuer has complied with the registration requirements under section 5 of the Act or has met a registration exemption. "Entrepreneurs seeking debt or equity financing through crowdfunding will often be selling [unregistered] securities," as compliance with the registration process is too expensive for most entrepreneurs and the Act's exemptions do not fit with the crowdfunding model. As such, there is a tremendous push in Washington to create a new exemption for securities issued through crowdfunding. Unfortunately, the movement to exempt crowdfunded securities overlooks the devastating consequences of such an exemption. This article discusses why securities offerings using crowdfunding should not be exempted from the registration requirements of the federal securities laws. First, the article introduces the concept of crowdfunding and the five different categories of crowdfunding. Then it discusses the registration requirements under the Securities Act of 1933, why registration is not feasible for most crowdfunded ventures, and the conflicts between crowdfunding and the current registration exemptions. Finally, the article discusses why crowdfunding should not be exempted from the registration requirements, specifically focusing on how such an exemption would severely weaken investor protections and open the door for fraud to permeate the market.	

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CROWDFUNDING MICROSTARTUPS: IT'S TIME FOR THE SECURITIES AND EXCHANGE COMMISSION TO APPROVE A SMALL OFFERING EXEMPTION http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1916985	Pope, Nikki D. U. OF PENNSYLVANIA JOURNAL OF BUSINESS LAW, Vol. 13:4, pages 101 – 129.	As social networking websites and crowd-based problem-solving initiatives gain popularity, entrepreneurs have begun to consider them as possible tools in a fundraising method, known as "crowdfunding". Current federal and state securities regulations, however, limit the ways in which such fundraising methods can be employed by entrepreneurs and early-stage companies. This article focuses on federal securities rules and regulations and recommends changes the Securities and Exchange Commission (the "Commission") can implement in federal securities rules and regulations to foster such funding initiatives and facilitate capital formation, while achieving its mission to protect investors from fraudulent investment practices.	
Crowdfunding: Tapping the Right Crowd http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1578175	Belleflamme, Paul; Thomas Lambert and Armin Schwienbacher February 13, 2011	The paper first aims at identifying a number of stylized facts related to crowdfunding that are worth studying from an economic perspective. On the basis of a unique, hand-collected dataset, we isolate important features of crowdfunding. The second objective is to propose a model of crowdfunding that encompasses several of these key features. We derive a model that associates crowdfunding with pre-ordering and price discrimination, and we study the conditions under which crowdfunding is preferred to traditional forms of external funding. The model highlights the importance of community-based experience for crowdfunding	

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		to be a viable source. Also, it shows that crowdfunding is optimal only for lower levels of finance, since otherwise it leads to excessive price distortions between crowdfunders and other consumers.	
The Geography of Crowdfunding http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1692661	Agrawal, Ajay , Christian Catalini, Avi Goldfarb University of Toronto, January 6, 2011.	Perhaps the most striking feature of \crowdfunding" is the broad geographic dispersion of investors. This contrasts with existing theories that predict entrepreneurs and investors will be collocated due to distance-sensitive costs. We examine a crowdfunding setting that connects artist-entrepreneurs with investors over the internet for financing early stage musical projects. The average distance between artists and investors is about 3,000 miles, suggesting a reduced role for spatial proximity. Still, distance does play a role. Within a single round of financing, local investors invest relatively early, and they appear less responsive to decisions by other investors. We show this geography effect is driven by investors who likely have a personal connection with the artist-entrepreneur (\family and friends"). Although the online platform seems to eliminate most distance-related economic frictions such as monitoring progress, providing input, and gathering information, it does not eliminate social-related frictions.	

[i] Wroldsen, John S, The Social Network and the Crowdfund Act: Zuckerberg, Savern, and Venture Capitalists Dilution of the Crowd. 15 VAND. J. ENT. & TECH. L., Jan. 2013, Forthcoming.

[ii] Martin, Thomas A, The JOBS Act of 2012: Balancing Fundamental Securities Law Principles With the Demands of the Crowd. Willamette University College of Law, 2012.