Don't Let Them Fool Ya: Examining the SEC's Rules on Crowdfunding and Their Effect on Small Business Growth

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Over the past decade Crowdfunding has become increasingly popular within the U.S. Crowdfunding originally was used as a way for performing artists to raise funds for their projects. Most recently, it has been used to fund projects outside of the entertainment industry. Businesses and local governments have been using this method to raise capital. Crowdfunding websites such as Indiegogo, Kickstarter, and Crowdfunder have made it easier for individuals, particularly entrepreneurs, to access capital.

The JOBS Act amended the Securities Act of 1933, and mandated that the Securities and Exchange Commission (?SEC?) promulgate rules that govern the eligibility and use of Crowdfunding. The SEC in 2011 and 2012 released proposed rules that would govern the Crowdfunding exemption, which eases regulation for small businesses. Critics have said that the JOBS Act and the SEC rules are both too liberal and too restrictive.

This note will discuss the SEC rules that are set to go into effect in May of 2016, and their potential effects on small business growth and investor protection. In particular, this note will highlight the potential conflict that will arise between the goal of the JOBS Act and the implementation of the SEC rules governing crowdfunding. This article will suggest that the SEC rules will only hinder the growth of small businesses instead of helping them raise capital.

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