

Equity Crowdfunding Snapshot



What is it?

Equity crowdfunding allows small businesses to raise capital by offering equity to any investor without registering with the SEC. Previously, equity crowdfunding had investor criteria that precluded most individuals. On October 30, 2015, the Securities and Exchange Commission (SEC) adopted final rules and forms, known as Regulation Crowdfunding. The rules allow securities-based crowdfunding transactions to be conducted through an intermediary, registered either as a broker or a funding portal.

Why is it important to my firm?

The Regulation Crowdfunding rules may impact your firm's practice. Numerous eligibility and disclosure requirements exist for investors, intermediaries and issuers. Issuers are subject to financial disclosure requirements that vary by offering amount and range from certain tax return information along with financial statements certified by the principal executive officer to audited financial statements. The table below summarizes key points. [Access](#) complete information.

Potential Pitfalls – Financial statements issued by your firm (subject to preparation, compilation, review or audit services) may be used in conjunction with an offering. While issuers must inform their accountants of their intent to use financial statements for this purpose, you may not be aware of this prior to issuance. Your firm should ask about this possible use, noting that any client's intended use may change.

When is this effective?

The rules and forms become effective May 16, 2016. It is possible that financial statements your firm is preparing now could be used to meet issuer requirements under the new rules.

What are the requirements for issuer financial statements?

All financial statements are required to include balance sheets, statements of comprehensive income, statements of cash flows and statements of changes in owners' equity prepared in accordance with U.S. generally accepted accounting principles (GAAP). Financial statements prepared in accordance with a comprehensive basis of accounting other than U.S. GAAP, special purpose frameworks and Private Company Council alternatives will not be acceptable.

Reviewed and audited financial statements require an independent public accountant or auditor. To qualify, the public accountant or auditor must be in compliance with either the AICPA's independence standards or the SEC's independence rules in Rule 2-01 of Regulation S-X.

Reviewed financial statements are required to be reviewed in accordance with the Statements on Standards for Accounting and Review Services (SSARS). An issuer will not be in compliance with the requirements to provide reviewed financial statements if the review report includes modifications.

Audited financial statements are required to be audited in accordance with the auditing standards issued by either the AICPA or the Public Company Accounting Oversight Board (PCAOB). A signed audit report must accompany the financial statements. An issuer would not be in compliance with the requirement to

provide audited financial statements if the audit report contains a qualified opinion, an adverse opinion or a disclaimer of opinion.

Where can I learn more?

[Access](#) complete information.

Key Financial Disclosure Requirements			
Issuer's aggregate offering amounts within preceding 12-months:			Post-issuance, on-going ¹
Up to \$100,000	\$100,000 to \$500,000	\$500,000 to \$1,000,000	
Information from the issuer's federal income tax returns; such as the amount of total income, taxable income, and total tax, certified by the principal executive officer			
Financial statements ² certified by the principal executive officer to be true and complete in all material respects. However, if financial statements either reviewed ³ or audited ⁴ by an independent ⁵ public accountant ⁶ are available, these must be provided instead.	Financial statements ² reviewed ³ by an independent ⁵ public accountant ⁶ . However, if financial statements audited ⁴ by an independent ⁵ public accountant ⁶ are available, these must be provided instead.	For issuers under Regulation Crowdfunding for the first time, financial statements ² reviewed ³ by an independent ⁵ public accountant ⁶ . However, if financial statements audited ⁴ by an independent ⁵ public accountant ⁶ are available, these must be provided instead. For issuers that have previously issued under Regulation Crowdfunding, financial statements ² audited ⁴ by an independent ⁵ public accountant ⁶ .	Annual report that includes financial statements ² certified by the principal executive officer to be true and complete in all material respects. However, if financial statements either reviewed ³ or audited ⁴ by an independent ⁵ public accountant ⁶ are available, these must be provided instead.

¹ Required until certain conditions are met, for example, the issuer has filed at least one annual report and has fewer than 300 holders of record or the issuer has filed at least three annual reports and has total assets that do not exceed \$10 million.

² Financial statements in this table refer to a complete set of financial statements; which includes balance sheets, statements of comprehensive income, statements of cash flows, statements of changes in stockholders' equity, and notes to the financial statements; prepared in accordance with U.S. GAAP. Financial statements are to cover the shorter of the two most recently completed fiscal years or the period since the issuer's inception. Issuers are ineligible to rely on any alternative accounting or reporting standards for non-public business entities.

The issuer must notify the public accountant of the issuer's intended use of the report in the offering.

³ Reviewed in this table means reviewed in accordance with the SSARS issued by the AICPA.

⁴ Audited in this table means audited in accordance with either the auditing standards of the AICPA (referred to as

U.S. Generally Accepted Auditing Standards or GAAS) or the standards of the PCAOB. However, if audited in accordance with PCAOB standards, the audit must also be in accordance with U.S. GAAS.

⁵ Independence in this table requires public accountants to either (1) comply with the Commission's independence rules, which are set forth in Rule 2-01 of Regulation S-X or (2) comply with the independence standards of the AICPA.

⁶ Public accountant in this table must either be duly registered and in good standing as a certified public accountant or is in good standing and entitled to practice as a public accountant under the laws of the place of his residence or principal office