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American Association of Individual Investors

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Who We Are

Created in 1934

Independent Agency of the
Executive Branch

4,000+ Employees



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The Mission

The SEC's Mission:

- Protect investors
- Maintain fair, orderly and efficient markets
- Facilitate capital formation



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What We Do

- Administer the federal securities laws
- Oversee brokerage firms and other investment providers
- Review filings by most public companies



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Organization

Five Commissioners

Five Divisions:

- Division of Corporation Finance
- Division of Enforcement
- Division of Investment Management
- Division of Trading and Markets
- Division of Economic and Risk Analysis



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SEC Offices

Includes:

- General Counsel
- Office of the Chief Accountant
- Office of Compliance Inspections and Examinations
- Office of International Affairs
- Office of Investor Education and Advocacy



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SEC Offices

- Office of Information Technology
- Office of Legislative and Intergovernmental Affairs
- Office of Public Affairs
- Office of the Whistleblower
- Office of Credit Ratings
- Office of Investor Advocate



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Securities-based Crowdfunding





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What is it?

- In October 2015, the SEC adopted final rules providing for a new offering exemption – **securities-based crowdfunding**.
- Raising money through relatively small contributions from a large number of people.
- Companies can raise up to \$1 million in 12-month period.



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Balance



- Provides companies the ability to raise capital by going to the public for individually small investments.
- Risk to investors are mitigated by the fact that what you can invest is limited.



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Intermediaries

- Offerings are conducted online through a broker or registered funding portal
- These intermediaries provide educational materials to investors, including information about investment risks, confirm investment limits and provide a platform for offering
- Communications channels on platforms (e.g., message boards) to discuss offering



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Investment Limits

- If ***either*** annual income or your net worth is **less than \$100,000**, then during any 12-month period, you can invest up to the **greater of either \$2,000 or 5% of the lesser of your annual income or net worth.**
- If ***both*** your annual income ***and*** your net worth are **equal to or more than \$100,000**, then during any 12-month period, you can invest up to **10% of annual income or net worth, whichever is lesser, but not to exceed \$100,000.**



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Investment Limit Examples

Annual Income	Net Worth	Calculation	Limit
\$30,000	\$105,000	> of \$2,000 or 5% of \$30,000 (\$1,500)	\$2,000
\$150,000	\$80,000	> of \$2,000 or 5% of \$80,000 (\$4,000)	\$4,000
\$150,000	\$100,000	10% of \$100,000 (\$10,000)	\$10,000
\$200,000	\$900,000	10% of \$200,000 (\$20,000)	\$20,000
\$1.2 million	\$2 million	10% of \$1.2 million (\$120,000), subject to cap	\$100,000



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Calculating Net Worth

- **Do not include primary residence** and mortgage or other home loan (up to fair market value) in determination
- Include **portion** of home loan that's **underwater** as liability
- Include **any increase** in a home loan within **60 days**



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Disclosure

Initial disclosures include:

- Description of business and plan
- Offering details
- Capital structure
- Use of proceeds
- Financial statements

Annual disclosures and financial statements thereafter



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Financial Statements

The initial financial statements disclosed depend on how much the company plans to raise:

- **\$100,000 or less:** income tax information and financial statements ***certified*** by principal executive officer
- **More than \$100,000 but not more than \$500,000:** financial statements ***reviewed*** by independent public accountant
- **More than \$500,000:**
 - If first crowdfunding, ***reviewed*** financial statements
 - If not first, ***audited*** financial statements

Ongoing financial statements only have to be certified by principal executive officer.



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Process Highlights

- Must open an account with, and invest through, an intermediary
- Investors must **acknowledge risks**
- Investors have until **48 hours** prior to close of offering to cancel
- Issuer can close offering once target amount reached
- If **material change** in terms or disclosure, investors must **recommit** or **automatic cancel**



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Afterwards

- Secondary trading may or may not develop
- Annual reports on the company's website
- Companies can terminate ongoing reporting obligations
- Resale restrictions



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Resale Restrictions

Investors ***are restricted from reselling shares for the first year***, unless the shares are transferred:

- to the company that issued the securities
- to an *accredited investor*
- to a *family member*
- in connection with death/divorce or similar circumstance
- to a trust controlled by the investor or a trust created for the benefit of a *family member*
- in an offering registered with the SEC



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Risks

Following are important risks to keep in mind:

- Illiquidity and resale restrictions
- Speculative risk
- Cancellation restrictions
- Limited disclosure
- Possibility of fraud



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Regulation A





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Generally

- Part of the JOBS Act of 2012 directed the SEC to provide an exemption for offerings up to \$50 million.
- In March 2015, the SEC adopted final rules amending Regulation A.
- These rules went into effect in June 2015.



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New Limits



- Prior exemption had a **\$5 million** limit and issuers rarely availed themselves of it.
- Amended exemption provides for two tiers with varying requirements.
 - Tier 1 - **\$20 million** limit.
 - Tier 2 - **\$50 million** limit.



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Key Investor Protections

Regulation A incorporates the following key investor protections:

- Qualification requirements.
- Disclosure requirements.
- Offering limitations
- Investment limitations.
- Subject to state and federal jurisdiction.
- Not restricted securities.



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Tier 1 Highlights

- Up to \$20 million in any 12-month period including a \$6 million limit on secondary sales by affiliates (and 30% overall limit in first year for any secondary sales).
- Subject to both SEC and state review and qualification.
- Only subject to disclosure with respect to the offering statement and a Form 1-Z filing detailing the results of the offering.
- No investment limitations.



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Tier 2 Highlights

- Up to \$50 million in any 12-month period including a \$15 million limit on secondary sales by affiliates (and 30% overall limit in first year for any secondary sales).
- Subject only to SEC review and qualification, but state regulators can require filings with them.
- Must provide audited financial statements.
- Ongoing disclosure requirements.
- Investment limitations.



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Tier 2 Investment Limits

- No limits for an accredited investor.
- Non-accredited natural persons are limited to 10% of the greater of:
 - Annual income or
 - Net worth.
- However, if a Tier 2 offering is concurrently planning to list on an exchange and become subject to Exchange Act reporting, there is no investment limitations.



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Disclosure Requirements

Form	Description	Tier 1	Tier 2
1-A	The offering statement which includes the offering circular and other disclosure about the offering.	■	■
1-Z	The exit report that details the termination or completion of an offering. Companies relying on Tier 2 can instead disclose this on Form 1-K.	■	■
1-K	The annual report to be filed within 120 days after the end of the fiscal year that includes audited financial statements for the year, a discussion of the company's financial results for the year and information about the company's business and management, related-party transactions and share ownership.	<input type="checkbox"/>	■
1-SA	The semiannual report to be filed within 90 days after the end of the semiannual period that includes unaudited interim financial statements and a discussion of the company's financial results for the period.	<input type="checkbox"/>	■
1-U	The current report to be filed within four business days of certain events including a fundamental change, bankruptcy, change in accountant, non-reliance on prior financial statements or audit report, change in control and departure of officers.	<input type="checkbox"/>	■



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ReTIRE Initiative



In June 2015, OCIE launched its multi-year **Retirement-Targeted Industry Reviews and Examinations Initiative**



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Examinations



- OCIE's National Exam Program.
- Emphasis on areas affecting retirement investing.
- Risk-based examinations.



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Reasonable Basis

Reasonable basis for recommendations

Selecting the type of account

- Performing due diligence on investment options
- Making initial investment recommendations
- Providing ongoing account management.



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Conflicts of Interest



- Inherent conflicts of interest
- Identify material conflicts
- Compliance programs to address risks
- Disclose material conflicts

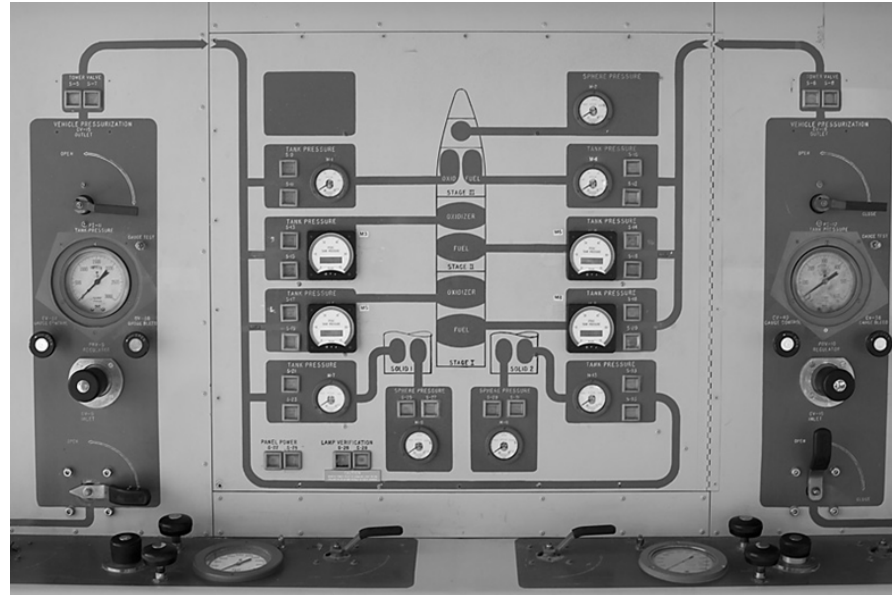


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Supervision and Controls



Staff will review registrants':

- Controls
- Oversight
- Supervisory policies and procedures



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Marketing/Disclosure



Staff will review for:

- True and accurate disclosures
- Complete and accurate fee disclosure
- Valid credentials and endorsements



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Investor Bulletins and Alerts

- *Investor Bulletin: Crowdfunding for Investors – February 16, 2016*
- *Investor Bulletin: Regulation A – July 8, 2015*
- *Investor Alert for Seniors: Five Red Flags of Investment Fraud – June 15, 2015*
- *Investor Bulletin and Consumer Advisory: Planning for Diminished Capacity and Illness – June 1, 2015*



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It's a great first step toward protecting your money. Learn about an investment professional's background, registration status, and more.

**FEATURED
INFORMATION**



Public Service Campaign

Watch the "Before You Invest, Investor.gov" television spot and see other materials from the campaign.

**INVESTOR ALERTS
AND BULLETINS**



Investor Alert: Investment Scams Involving Fake Forms 4

Investor Bulletin: Microcap Stock Basics (Part 3 of 3: Risk)

Investor Bulletin: Microcap Stock Basics (Part 2 of 3: Research)

[More Alerts and Bulletins](#) ▶

GET HELP



Submit Complaints and Questions

Report a possible securities fraud, or ask a question or report a problem concerning investments, an investment account or a financial professional



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