Crowdfunding in Hungary: Analysis & Opportunities
A collaboration with The National Innovation Office of Hungary

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I. EXECUTIVE SUMMARY

Hungary has a vibrant history, rich culture, and a vast tradition of creating life-changing advancements. Hungarians have created remarkable innovations ranging from the discovery of Vitamin C, the invention of the carburetor, and the development of the first vertically-elevated helicopter to more recent technologies such as Prezi, LogMeIn, and USTREAM. Hungary now stands ready to reclaim its place at the vanguard of innovation. One of the ways it can further advance this culture of ingenuity is by embracing the groundbreaking phenomenon of crowdfunding.

Through this innovative financing mechanism, Hungary can harness the power of citizen investment, boost domestic markets, and allow its startups to reach potential customers from all around the world. Since its inception, crowdfunding has enabled for-profit businesses, non-profits organizations, and other groups to raise significant amounts of money. In 2013 alone, over $5 billion was estimated to have been raised online through the strength of crowds. The power of creativity combined with the multiplier effect of giving in small amounts is starting to revolutionize the way organizations seek financing and reach previously inaccessible markets.

This report aims to provide the necessary background information, and practical recommendations, so that the National Innovation Office of Hungary (NIH) is better equipped to effectively promote the use of crowdfunding in the country. First, the report describes what crowdfunding is, how it is being used, and what subcategories it is divided into. Secondly, the report details which policies have been implemented in several key countries. That section is followed by an analysis of the current crowdfunding ecosystem in Hungary. Lastly, the report makes a series of recommendations that the NIH, other government agencies, entrepreneurs, and outside organizations could use to maximize the use of this innovative financing mechanism in Hungary.

Crowdfunding Types

There are several kinds of crowdfunding, including: equity, donation/rewards, and lending-based models. The most prevalent thus far has been the donation type. Well-known platforms such as Kickstarter and Indiegogo allow individuals or startups to receive donations for a time-limited campaign to raise cash for a particular project. Donations are often rewarded with a prize or a pre-sale of the product, often at a discount. These models are described in detail throughout the report.

The most recent model gaining traction is equity crowdfunding. This allows regular individuals to purchase shares in a start-up seeking financing. Equity crowdfunding has been touted as a way to “democratize” investment, and open opportunities that were previously unavailable to business owners that did not have the means nor the network to access sophisticated venture capitalists or angel investors. A major drawback of this system is the lack of a clear exit strategy for investors, since there are currently no secondary stock exchanges for equity crowdfunded.

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shares. There are other significant risks involved, hence the way governments regulate this new industry will help determine its long-term success.

State Models

Several countries in Europe have set up strong regulatory frameworks that can serve as models to emulate. Though any new system should be adapted to Hungarian realities, several of the incentive programs available in other countries could serve as the basis to forge a more robust landscape for crowdfunding in Hungary. Though not every organization is well suited for crowdfunding, given the proper incentives and technical know-how, Hungary has the potential to create an ecosystem that would allow its start-ups to benefit much more than they have thus far from the rewards this tool has to offer.

The United States (U.S.) enacted a law in 2012 to allow equity crowdfunding, with certain restrictions, while also deregulating reporting requirements that could affect the transparency of these transactions. American financial regulators have yet to finalize the rules to implement the new law.2 Meanwhile, many European Union (EU) member states have been successfully utilizing equity crowdfunding for years. The United Kingdom (U.K.) and Finland, in particular, have the most robust combination of regulations, consumer protection, and attractive incentives for crowdfunding. Of the Visegrád Group (V4) countries, only the Czech Republic allows equity crowdfunding. This report will describe several other states’ systems in detail.

Ecosystem in Hungary

Hungary does have many virtues that can allow it to craft a crowdfunding ecosystem that can spur further innovation and economic growth, such as: EU membership, highly sophisticated entrepreneurs, and government officials, among other factors. Local social entrepreneurs and business incubators could also play a pivotal role.

Underutilization of crowdfunding in Hungary, which is currently unregulated, stems from many socioeconomic factors examined in this report. Among the principal challenges preventing it from flourishing is the population’s deep-seated suspicion of institutions. Research shows that Hungarians’ lack of trust in business, government, and Internet security are major barriers in this field. A related factor is the low level of giving in the country. Further, the limited few who do engage in crowdfunding do so through foreign sites like Kickstarter and Indiegogo, eschewing domestic platforms. Equity crowdfunding is currently not allowed in Hungary.

Recommendations

1) Allow Equity Crowdfunding in Hungary

Amending current laws to allow equity crowdfunding would provide enormous opportunities to both start-up entrepreneurs as well as regular citizens looking to invest small amounts of money.

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Thoughtful regulation that ensures consumer protection and privacy, that also provides attractive incentives for users would be necessary to maximize the potential economic rewards of this tool.

2) **Create Independent Advisory Working Group**

Given the qualms certain sectors of Hungarian society have toward its political and financial institutions, as well as the admitted tendency of government to overregulate the economy, any new regulations and other incentives on crowdfunding would be received more favorably if it were the product of civil society initiative. Therefore, the NIH should create an independent outside working group comprised of start-up executives, social entrepreneurs, consumer representatives, digital privacy experts, public relations (PR) professionals, and others, to:

a. **Recommend regulations or legislation.** Since this group will be representative of the users of crowdfunding, as well as other key sectors of society, it will be better positioned to recommend the most appropriate draft legislation and/or regulations for this sector. The details and final approval of any recommendations would obviously follow the standard government procedures, should it decide to move forward with some or all of the proposed policy adjustments.

b. **Propose incentives & tax modifications.** Aside from recommending the specific rules pertaining to equity crowdfunding, members of the advisory group should determine which tax benefits and other incentives would be most useful to help users participate in the crowdfunding transactions of their choice.

c. **Design educational campaign.** The group should also craft and deliver a public education campaign that can convince a broader swath of Hungarians of the benefits crowdfunding offers them and their communities.

3) **Training & Technical Assistance**

Hungarian organizations that wish to take advantage of crowdfunding will not only need incentives and a sound regulatory framework, they will also need training on best practices. This will help ensure that start-ups or non-profits become more familiar with the “dos and don’ts” of the field, and help to determine whether crowdfunding is right for them. A suitable entity for this type of training and technical assistance could be the start-up incubator/accelerator NIH recently partnered to create.

4) **Establish Secondary Stock Exchange for Equity Crowdfunding**

The promise of equity crowdfunding is limited by a problematic factor: the lack of a secondary stock market to trade crowdfunded shares. Hungary could provide the solution and become a major player in this field by setting up such an exchange. This first-of-its-kind stock market would attract additional foreign capital, media attention, and broaden the burgeoning entrepreneurial spirit and ingenuity of the Hungarian people.
II. CLIENT DESCRIPTION

The National Innovation Office (NIH) is a subordinate governmental organization of Hungary’s Ministry for National Economy. Headquartered in Budapest, the NIH focuses on the fields of research, development, and innovation (RDI) through the creation of networks, services, and capacity building. One of the organization’s principal objectives is to promote the country’s economic development through fostering domestic start-up companies. With businesses mainly focused on developing technology and other innovative products, the NIH provides assistance and expertise to domestic RDI firms attempting to expand into international markets. Through financing, networking, incubation services, facilitation of technical assistance and other incentives, the NIH is dedicated to ensuring that the next generations of Hungarian enterprises maximize the opportunities both at home and abroad. The NIH has identified the promotion of business development and innovation financing as their primary strategy to promote economic development.

This report was developed at the request of, and in cooperation with, the client, NIH Vice President László Korányi. Mr. Korányi expressed particular interest in seeking collaboration on the topic of crowdfunding as an opportunity to harness this global phenomenon for the purpose of providing a new innovative mechanism to finance start-up businesses in Hungary. Prior attempts to use domestic crowdfunding platforms in Hungary have been largely unsuccessful, not least of all because previous initiatives were launched as direct copies of U.S. style campaigns. These previously existing platforms were neither recognized nor fully utilized by the Hungarian population. Mr. Korányi is therefore interested in “Hungarianizing” many of the successful and widely employed foreign innovative micro-financing tools available, especially in the area of crowdfunding.

A. OBJECTIVE

NIH requested a report identifying potential obstacles, risks, and opportunities associated with popularizing crowdfunding in Hungary. With a detailed comparison of successful crowdfunding models in other European states, Mr. Korányi seeks to acquire a more clear understanding of how crowdfunding could be better utilized in Hungary to strengthen enterprise growth. The NIH is specifically interested in researching, promoting, and potentially incentivizing the use of crowdfunding within Hungary. As innovative business and economic opportunities increase in Hungary, Mr. Korányi aims to provide an additional financing tool that benefits both young enterprise models and national customers alike.

B. OUR PROCESS: WHAT WE DID TO ACHIEVE THE OBJECTIVE

Over a four-month period, information for this project was collected through research, interviews, and extensive analysis of: overall trends in the field of crowdfunding, Hungarian socioeconomic realities, as well as the crowdfunding models instituted by various European states – including bordering countries. First, a basis and foundational level of expertise on crowdfunding was achieved through a thorough investigation of differing models, best practices, and practical applications of this financing mechanism. Research on existing state models, such as those in the United Kingdom and Finland, among others, included analysis of government
government policy, research articles, and existing crowdfunding platform data. Additionally, field research conducted in Hungary through numerous interviews with local Hungarian start-up entrepreneurs, and others, provided a foundation for understanding the political, social, and economic environment surrounding crowdfunding in the country. Several meetings were also held via Skype with Hungarian business owners prior to the Budapest visit.

III. CROWDFUNDING: GENERAL OVERVIEW

Crowdfunding is an innovative financial mechanism through which individuals, firms, nongovernmental organizations, non-profits and other organizations can seek financing for specific projects through online giving or investment. Usually performed by raising small amounts from many people, crowdfunding has been touted as a way to “democratize” fundraising and investment. Innovators utilize the Internet and avoid standard financial intermediaries when raising money through crowdfunding. However, this static, categorical definition of crowdfunding ignores its evolutionary character, and ever-changing fundraising methods. States, individuals, organizations, and crowdfunding platforms alike, must adhere to changing regulations, understand cultural trends, and market products appropriately.

Crowdfunding platforms are websites that provide space for an organization to create a profile and introduce its project to potential donors or investors. Generally, organizations use a crowdfunding website to launch a time-constrained campaign, where the group seeking funding has a limited amount of time to raise a specific monetary goal. However, organizations must adequately prepare before launching a crowdfunding campaign because the time restrictions may limit the organizations’ ability to reach their goal. If the project is not sufficiently marketed or does not garner public interest, many of these websites do not allow the organization to keep the money raised if the goal is not met. If the organization’s goal is not reached, the money raised is returned to the donors/investors (minus a fee), providing organizations with a sense of urgency to quickly promote campaigns. There are many other types of crowdfunding methods that have developed over the past decade, and this trend is expected to grow as the field continues to evolve.

A. DIFFERENT MODELS

Crowdfunding is generally divided into three models: the equity model, the lending model, and the donation/rewards model. Individual crowdfunding platforms may also include variations on the three models depending on the site, campaign, and/or organization. Platforms may specialize in non-profit organizations, for-profit campaigns, creative projects, social-good projects, or community projects, for example.

Platforms may implement additional restrictions within the three general models, including “tipping point,” “keep what you raise,” and “all-or-nothing” models. The “tipping point” model lets an organization keep the funds it raises only after a certain amount. For example, the

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StartSomeGood platform allows campaigns to run up to sixty days, but organizations can only keep the pledges if “the amount needed to ‘start doing good’” is met.\(^5\) At StartSomeGood, the organization determines the minimum amount of funds that will assist the project, for example the amount necessary to “do good.” If the project or organization does not reach this threshold amount, the project does not keep any of the money. Similar to the “tipping point” model, the “all-or-nothing” model allows the organization to keep the funds raised during the campaign only if the amount of money raised met or exceeded the organization’s goal. At StartSomeGood, organizations will get all or nothing until the pledges meet the tipping-point goal. The “keep what you raise” structure is the most lenient model, and allows organizations to keep any funds raised during the campaign. The “tipping point,” “all-or-nothing,” and “keep what you raise” models may be applied to any of the three umbrella models. The umbrella models, equity, lending, and rewards, are described in greater depth below.

### i. Equity Model

Through this model, individuals can purchase shares in a company that chooses to raise capital through equity crowdfunding. The model allows small businesses to raise capital quickly while offering a sense of security to investors. The investment is completed after the target funds are raised.\(^6\) Countries that allow this type of investment may also provide a combination of tax incentives, consumer protections, and transparency guarantees that increase confidence in these transactions. However, there is currently no exit strategy for shareholders to trade their stock in these start-ups.

An illustrative example for this model is provided by Launcht. This platform provides opportunities for start-up businesses interested in equity crowdfunding.\(^7\) The site uses a three-pronged approach to ensure that both “investors” and “issuers” have the easiest equity-crowdfunding experience. Launcht monitors the administration, investor, and issuer activity. The administration is accessible to investors and issuers, issuers are accredited through Launcht, and Internet security is of utmost importance.

### ii. Lending Model

Individuals will lend money to a company or project in return for repayment of the loan, with interest on their investment under the lending model. This model is also referred to as peer-to-peer lending.

### iii. Donations or Reward Model

The rewards model is the most developed crowdfunding model, with a variety of operating platforms. Under this method, individuals provide financial support to an organization or a specific project for benevolent reasons or a non-monetary reward. Non-monetary rewards may range from a “thank you” to a sample of the organization’s product.\(^8\) While the majority of

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\(^5\) http://startsomegood.com/Help/HowItWorks; http://startsomegood.com/Help/FAQ
\(^6\) Joachim Hemer, A Snapshot on Crowdfunding, Fraunhofer, 2011.
\(^7\) http://www.launcht.com/equity-crowdfunding/
\(^8\) Joachim Hemer, A Snapshot on Crowdfunding, Fraunhofer, 2011.
Crowdfunding ventures still support cultural or social projects, funding for start-ups is becoming more prevalent. Examples of reward-model crowdfunding sites include: Kickstarter, Indiegogo, and StartSomeGood.

Many start-ups also offer their reward in the form of a pre-sale of their product, often at a discount, prior to general distribution. This provides an additional incentive for givers to donate, while creating a loyal initial customer base.

**iv. Advice For Starting A Crowdfunding Campaign**

Organizations that wish to start a crowdfunding campaign should begin by setting a realistic monetary goal that is proportionate to the actual costs it will incur to pay for the specific project they are promoting. Launcht, recommends that after the goal is set, a plan be made to determine how and when to share the campaign with friends, family and fools (FFFs) to maximize the possibilities of a successful campaign. Launcht recommends the following steps for the entrepreneur:

1. Assess how much you think you can get from a core group of donors in the first few hours of the campaign.
2. Assess how much you can get from your whole network by making a list of all the people you will reach out to and assigning each a specific ask amount.
3. Total that up. Divide by two. That’s your 30-40% goal.
4. Multiply that by three to get a realistic goal that you can raise. If you raise more, great, but better to keep your official goal very reachable.

This platform also recommends publicizing the crowdfunding campaign page only after the business owner has reached at least 5% of his or her goal. They also suggest laying the groundwork through social media before even creating the campaign page to generate interest among your core group of FFFs. Only after enough interest is generated, and the partial funding goal has been reached, should organizations attempt to “go viral” with their campaign pages.

Research also shows that running a crowdfunding campaign is a full-time commitment. Also, supporters, who may become potential customers, should be asked for and receive prompt responses to feedback on your project. They are the core group of individuals that will spread the word for you and they need to feel they are getting the attention and gratitude they deserve. Properly attending to them, therefore, will pay dividends in the long-run.

**B. Relevance and Successes: Using the United States as an Example**

i. U.S. Models – New Equity Crowdfunding Regulations

In 2012, President Barack Obama signed the Jumpstart Our Business Startups Act (JOBS Act) into law, which included the CROWDFUND Act. The JOBS Act will allow certain U.S. start-ups to raise capital through equity crowdfunding. The U.S. Securities and Exchange Commission

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9 Crowdfunding 101: Guide to Creating a Successful Crowdfunding Campaign, Launcht
10 Ibid.
(SEC or Commission), the primary U.S. securities regulator, is in the process of implementing regulations for equity crowdfunding, as allowed under the JOBS Act, to benefit start-up businesses.  

Proper implementation of this new law will determine the success of equity crowdfunding in the U.S. Some analysts have expressed concern with the law’s deregulation of reporting requirements, which could undermine transparency for potential investors. Others remain open to seeing how the upcoming regulations will conflict or complement federal securities laws that are already in place to protect consumers and investors.  

As of now, restrictions on general solicitation, general advertising, purchaser qualification requirements, and third-party registration requirements inhibit the implementation of equity crowdfunding in the United States. The CROWDFUND Act, a new section to the Securities Act added by the JOBS Act, would exempt certain crowdfunding transactions from the existing restrictions. The Commission is still reviewing the Act to balance consumer protection and avoiding over-burdensome regulations.

The United States government offers tax deductions to individuals and businesses that donate to charitable organizations that are registered as 501(c)(3) non-profits with the Internal Revenue Service (IRS). For example, Indiegogo allows organizations to offer tax-deductible donations, while many of the other platforms, like Kickstarter, do not even allow non-profits to raise money on their site. However, it is unclear whether investors in start-ups utilizing crowdfunding will benefit from tax incentives.

IV. STATE MODELS: EXAMPLES OF CROWDFUNDING IN PRACTICE

While the U.S. recently saw a rapid expansion of and success with crowdfunding, countries such as Finland, Sweden, the United Kingdom (U.K.), and other European states started using equity crowdfunding a few years earlier. In order to provide better context for its the potential in Hungary, this report provides a comparative analysis on crowdfunding systems in the U.K., Sweden, Finland, and the U.S. Additionally, the report examines the financial and economic climates in each member state of the Visegrád Group (V4), along with crowdfunding activity currently taking place in each of the member countries.

A. VISegráD GROUP

i. POLAND

With the existing capital gap in Poland causing particularly critical problems for the development and establishment of new business ventures, crowdfunding presents a unique

opportunity to provide a solution to these challenges. However, crowdfunding has not developed as a popularized financing tool in Poland because of the limitations presented by existing law. The Public Collection Act of 1933 explicitly prohibits the public sourcing of money to serve one’s own interest and requires any public money collection to have prior government approval. These statutory limitations alone are enough to render it nearly impossible to successfully launch a crowdfunding campaign in the country, because a business raising funds for an in-house project is classified as meeting a “personal” need. Non-equity campaigns in Poland have primarily been launched through the popular platform MegaTotal.pl, which is entirely focused on music-oriented products. The current prohibitive laws in Poland should be reevaluated to foster entrepreneurship and business start-up opportunities.

ii. SLOVAKIA

To date, there are no functioning crowdfunding platforms established within the Slovak Republic. Despite the rapid development and popularity of the phenomenon globally, there has been little movement to establish an independent platform in the country. If there were a platform established, existing Slovak law does not have a clause or a legal framework that specifically monitors or regulates crowdfunding. Under the Collective Investment Act and the Securities and Investment Services Act, which would seemingly be applied to the equity model, the regulations and costs of compliance and registration would be quite complex. This act would block the collection of money without first receiving direct government approval, therefore the lending and donation models would be more attractive to both platforms and potential business users. Some observers speculate that both the lending and donations models would be faced with only limited regulations as defined under existing exemptions for private sector investments.  

iii. CZECH REPUBLIC

The crowdfunding market in the Czech Republic, while still in its initial stages, has experienced both popularity and growth over the past few years. Equity, lending, and reward-based models have been used in the country for predominately cultural and social projects, as opposed to business and start-up initiatives. The Czech Republic is the only Visegrad state that currently allows equity crowdfunding, though it is heavily regulated through existing law. Group investment in a company with the return of shares or profits requires the establishment of an investment fund which must raise at least €1.25 million. Neither reward nor lending models are regulated on the individual level, and the responsibility lies primarily with the crowdfunding platforms to acquire trading licenses before launching. Existing Czech platforms have primarily relied on the reward model, as in the United States, because this version of crowdfunding is exempt from the state’s regulations on capital markets and collective investment. For the most part, the equity model has been less popular in Czech crowdfunding due to its expensive regulatory requirements.

B. United Kingdom

The United Kingdom has long implemented innovative fundraising techniques, whether to promote public projects or individual organizations.

Fourteen crowdfunding businesses worked with Members of Parliament to create the United Kingdom Crowdfunding Association (UKCFA). The UKCFA promotes crowdfunding, specifically equity crowdfunding, as a valuable and viable way to raise funds, acts as the “voice” of organizations participating in crowdfunding, and promotes responsible crowdfunding with a “Code of Practice.” The UKCFA promotes the use of and trust in crowdfunding by certifying qualified platforms. Qualified platforms are operational sites that follow the Code of Practice and affiliated platforms are not yet operational or registered in the U.K. The UKCFA also includes institutional, individual, and research supporters that all have an interest in crowdfunding.

The Code of Practice applies to businesses and individuals. Generally, the Code requires that individuals and businesses make informed decisions based on reports filed by the organizations. It also requires yearly performance reviews, an opportunity for the investor or the organization to rescind an investment, guarantees of information security, that organizations’ adherence to the market and sales laws; and clarity in organizations’ terms of investment terms of investment, promises, fees, among other rules. The Code is a positive addition to the world of crowdfunding because it allows donors, investors, and organizations to carefully consider these types of transactions; and creates accountability standards for participating parties. However, organizations do not need to be certified by the UKCFA to participate in a crowdfunding campaign. Therefore, not all crowdfunding organizations are accountable to consumers.

i. Financial Information: The Governing Body

The Financial Conduct Authority (FCA) regulates crowdfunding in the U.K. Outside of the Financial Services Compensation Scheme, the FCA attempts to balance business interests with consumer protection. The FCA promotes and supports the UKCFA. The FCA often puts the onus on the businesses to assess the appropriateness of an investment. The business may then be held liable for irresponsible lending or sales if the investor was a “non-advised” client.

ii. Potential Tax Incentives for Investors

While the U.K. does not offer specific incentives to individuals or businesses investing in crowdfunding campaigns, the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), although slightly different, incentivize investment in small businesses. SEIS and EIS offer tax certificates for those who invest in qualified companies.

These incentives also protect investors from failing projects through tax relief on income taxes and on capital gains taxes. Individuals may receive a refund of up to 50% of their initial investment, up to £50,000, from their income tax returns. Additionally, individuals do not have to pay a capital gains tax on the refund. Individuals must leave the invested money with the SEIS
company for three years in order for the investment to qualify as a “reinvestment” and for the individual to receive further incentives.

Small businesses must qualify as SEIS or EIS businesses. To qualify as a start-up, the business must be in operation for two years or less, may only participate in certain trades, must not be publicly traded, must have twenty-five or fewer employees, and the gross assets must be less than £200,000. Lastly, the investor must not hold more than thirty percent of the shares of the company.

C. SWEDEN

i. BACKGROUND — GETTING STARTED

Crowdfunding came to Sweden with the launch of the platform “FundedbyMe.” After an unsuccessful bid by the founders to raise funds on Kickstarter, they decided that the best way for Swedish start-ups to raise capital was by reaching out directly to their Swedish peers. As the global phenomenon of crowdfunding was beginning to gain popularity, FundedbyMe sought to bring a personalized and Swedish focused platform to the country. The founders raised capital through peer-to-peer crowdfunding and officially launched the site in 2011. In the beginning, the site primarily targeted the financial sector with a focus on start-up equity and equipment purchases. Since 2011, featured products have expanded to include a range of areas, from journalism to music production, and by 2013 over one million U.S. dollars had been raised for listed projects. Today, FundedbyMe is the number one crowdfunding site in the Scandinavian region and has raised a total of over five million Euros for its campaigns.18

ii. GOVERNMENT INVOLVEMENT

Traditionally, the government of Sweden has played a relatively large investment role, and as a founding partner in the country’s first venture capital firm, soft loans from government agencies are a common source of start-up capital. As the success of crowdfunding projects in Sweden grew, the government became more interested in its potential and, within the last year, commissioned the Agency for Economic and Regional Growth to complete a study on the commercial usefulness, risks, and legal barriers inherent in the phenomenon.19 Distinct tax structures, financial regulations, and European policy discussions have continued to raise interest in crowdfunding. However, at this time Sweden has yet to establish specific guidelines or restrictions for the crowdfunding market. Analysts expect that with time, the Swedish government is likely to take a more active role in this fundraising mechanism. In 2013, the Swedish Agency for Economic and Regional Growth commissioned a crowdfunding study focused on usefulness, legal barriers, and risks involved in this mechanism.

iii. CHALLENGES AND CONSTRAINTS ON CROWDFUNDING – IT SECTOR

Historically, even before the rapid growth in crowdfunding, Sweden has been regarded as having an environment that provides an uncomplicated and profitable stage for start-up companies. Through traditional avenues such as bank loans, venture capital, angel investors, and government financing, business start-ups have many options and possibilities for raising the necessary funds to pursue a business project – especially within the Information and Technology (IT) sector. However, the increasing popularity of crowdfunding has seemingly failed to permeate this market segment. There are three primary reasons for this lethargic movement:

1. **Limited institutional change** – the presence of crowdfunding platforms has not yet altered the logic or opinion on business financing. Crowdfunding as a principle remains a “last resort” for raising capital, and is often only pursued after all other financing options have been exhausted.

2. **Low demand for investment** – after the initial saturation of the market and investor interest in crowdfunding, IT projects are increasingly falling short of their funding goals, and earning less capital than expected through available platforms.

3. **Perceived as a supplement not a substitute** – when a crowdfunding campaign is launched for an IT company, it is often in addition to more traditional means of raising capital. With a lack of interest or trust in the tool, crowdfunding campaign management is often limited, and not enough resources are dedicated to creating a successful effort.

In September 2012, Swedish crowdfunding expanded from reward-based to equity-based financing. As a result of the increasing market for this new model, the change is expected to increase trust and reliance in crowdfunding overall. Expected data for 2013 will be released later in 2014.

D. FINLAND

Unlike in most other EU member states, Finnish financial regulations make donation-based crowdfunding practically impossible to use. However, Finland’s legislation on equity-based crowdfunding is similar to that in most of Europe. Stringent regulations do not allow money to be donated through the Internet because the National Police Board requires that organizations obtain a money collection permit if the organization is accepting donations without any consideration. Donation-based crowdfunding requires that there be no consideration for the donation and that the fundraiser must benefit the public good.20

The Finnish system does allow for equity-based crowdfunding and reward-based crowdfunding. Finland requires information disclosures under the Finnish Securities Act and Consumer Protection laws. These laws apply to foreign-based crowdfunding platforms. Organizations interested in equity-based or reward-based crowdfunding must be authorized as credit institutions if offering monetary or physical rewards to the public.

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20 EU Review of Crowdfunding Regulations, p. 67.
Examples of successful Finnish crowdfunding platforms include Invesdor and Mesenaatti. Invesdor is an equity crowdfunding portal for start-ups and growth companies. It follows the “all-or-nothing” model, where funds are only collected from the investors if the company’s minimum goal is reached. Invesdor does away with shareholder agreements and term sheets with one basic “terms of use” form that must be accepted before investing. Mesenaatti is a reward-based crowdfunding service that only allows people/organizations with Finnish Social Security numbers to donate.

i. Financial Information: Governing Regulations

Finland does not have specific regulations regarding crowdfunding. The Finnish Act on Credit Institutions and Act on Investment Services govern institutions offering investment services. The national government applies these regulations, together with EU regulations, to crowdfunding platforms. The Finnish Financial Supervisory Authority is the body that overseas organizations acting within the financial sphere, including investment organizations and crowdfunding platforms. While the Supervisory Authority concedes that crowdfunding platforms are not in compliance with the EU Markets in Financial Instruments Directive (MiFID) and the Finnish Acts, the Supervisory Authority notes that the directives’ application depends on the scope and scale of the organization’s activity. Crowdfunding platforms may be outside the scope, and may operate without a financial institution license, because the contracts and investments are made between the investor and the organization. Further, licenses are not required for peer-to-peer lending because the agreements fall outside the scope of regulated activity; which is influenced by the third-party platform.

ii. Tax Incentives for Investors

Like the U.K., Finland offers tax incentives to private individuals investing in start-up businesses. With a first-time minimum €10,000 investment, and a maximum investment of 50% of a qualified company’s shares, a private investor may deduct up to 50% of the investment from his or her annual capital income taxes. An individual may not receive more than €150,000 in tax breaks a year for multiple investments and €2.5 million for one investment; may not receive incentives for the same investment within a three-year-period; and may not control/own more than 50% of the organization. Qualified companies should be younger than six-years old, employ fifty or fewer people, should not be publicly listed, should not have taken measures to reduce capital, and should resemble a limited liability company (LLC).

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21 See Appendix for Terms of Use and Legal Notes.
23 Finland: New Tax Incentive for Business Angels, EBAN: The European Trade Association for Business Angels, Seed Funds, and other Early Stage Market Players, April 2, 2013.
E. THE EUROPEAN UNION

The European Union’s primary interest in crowdfunding centers on the dominance of small and medium sized enterprises (SMEs). SMEs comprise approximately 99% of European-based businesses and a large majority of its job creation. Considering all the various types of crowdfunding and the more than 200 platforms available throughout the continent, €300 million was raised in Europe in 2011. Data has shown steady growth every year since. As a result of constituent interest, and the various crowdfunding strategies and regulations appearing throughout the member states, the EU launched a consultation on crowdfunding, which it published in March 2014.

i. EU CROWDFUNDING REPORT-2014

Based on a survey of 893 EU citizens – including those interested in funding campaigns, launching projects, running platforms, and interest groups – the European Union published an overview of crowdfunding in the continent as a basis for possible policy initiatives in the future.26 On an EU-wide level, there is strong potential for added value in terms of encouraging and monitoring the crowdfunding industry. For the securities-based models and lending models, over 60% of respondents believed there should be some type of EU intervention, while less than 50% believed there was a similar role for the organization in non-financial forms of crowdfunding. While respondents saw a place for the EU in coordination of experience and best practice sharing (around 50% were positive), there was little support for uniform EU regulations for both financial and non-financial returns-based crowdfunding (slightly above 30%). This data demonstrates a general interest in regulation remaining on the state level, coupled with an expanded yet limited role for the European Union.27

ii. CHALLENGES AND CONSTRAINTS ON POLICY AT THE EU LEVEL

In addition to the stakeholders’ lack of interest in a European crowdfunding model, there are several existing complications that would prove difficult in the establishment of such an expansive implementation. First, the economic diversity of Europe, and the various existing financial systems that exist within it, present an opportunity for European legislation to actually hurt the growth of crowdfunding instead of bolstering it. If the European Union were to force a standard set of rules onto the various financial systems of its member states, the use of certain crowdfunding models would be disincentivized under certain economic structures. Second, the standardization of crowdfunding regulations could result in a major restructuring of some states’ financial systems. As various states have already established industry policy and regulation for raising capital, the requirement to introduce crowdfunding policy at this level risks the danger of damaging investment opportunities for existing sectors. Finally, a range of governing entities exists across Europe resulting in a plethora of regulatory regimes. Many current crowdfunding platforms in Europe can only serve domestic start-ups or businesses in countries that have duplicate company structures and regulations. If crowdfunding regulations were set at a

26 Responses to the public consultation on crowdfunding in the EU - Commission
European level, there could be significantly more risk assumed by the platforms for dealing with business structures and the threat of cross-border fraud.\textsuperscript{28}

\section*{V. The Hungarian Market and Related Crowdfunding Opportunities}

\subsection*{A. Society}

Research shows that although crowdfunding has been utilized successfully by a handful of Hungarian entrepreneurs, most of the Hungarian public remains skeptical or unknowledgeable about this financing mechanism. Many Hungarians believe that crowdfunding is better suited for organizations that cannot make money from more traditional sources, organizations that are merely supplementing a new project, or those that lack sufficient consumer support. Empirical and anecdotal evidence shows that Hungary has low donation and charity rates, and that many do not have enough disposable income to donate or invest in a start-up company. According to The World Giving Index, Hungary ranked 78 out of 153 nations surveyed in a 2013 study that measured monetary donations, volunteering and other factors.\textsuperscript{29} These rates will not increase unless the public is convinced that crowdfunding is a legitimate fundraising technique and/or the public may donate or invest varying amounts of money in a secure fashion. In addition to low donation rates in general, skepticism of Internet scams and Hungarian institutions further complicates the possibility of success for crowdfunding in this country. This fear seems to be justified by a real prevalence of online fraud. According to the Eurobarometer on Cyber Security, Hungary ranked second in 2013 among citizens of EU states that have reportedly experienced Internet fraud.\textsuperscript{30}

\subsection*{B. Government}

In order to fully benefit from the wide array of opportunities crowdfunding has to offer, the Hungarian government needs to play a larger role. This may include providing a combination of new incentives and regulations to increase its competitiveness. The willingness and capability of the Hungarian government to implement any potential new regulatory framework also merits consideration. Government officials consulted for the report were skeptical about the ability of their institutions to advance any changes in a rapid fashion. Several of them warned that it might be worth exploring non-regulatory initiatives or to recommend shorter-term measures that could avoid lengthy bureaucratic deliberations. In addition, officials were very candid about suspicions that both the public and private sectors have toward each other. These suspicions can complicate investment decisions in Hungary, as well as public policy development.

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Most entrepreneurs and government representatives interviewed were adamant about the desire for Hungarian companies to focus on the EU/U.S. markets, instead of their national market. One government official went so far as to say that “there is no domestic market” in Hungary. Although recent statistics might corroborate this view – domestic demand was -0.5% of GDP in 2013, and is projected to grow to only 1.5% in 2014\(^{31}\) – it seems the government should play a more active role in strengthening the purchasing power of its citizens. Other government officials, such as Mr. Korányi and his team, have a more nuanced opinion. In their view, tech startups should focus on outside markets, while smaller ventures or those focused on social projects should concentrate on the Hungarian market. This approach seems to strike a more appropriate balance given the proven track record of successful crowdfunding campaigns in providing a catalyzing push for small enterprises to take their ventures to the next level. Ultimately, these will be decisions taken by the entrepreneurs themselves in response to any new incentives or other changes in this field.

In addition to the general regulatory rigidity that is readily admitted by government officials, the financial sector is also heavily regulated. Hungarian financial regulators are particularly wary of predatory lending, thus creating heavy regulations. This could have a direct impact on peer-to-peer lending through crowdfunding. Regulators also accept that the prevalence of tax evasion produces overregulation of the economy. Tax cheats and predatory lenders should no doubt be reined in, while leaving flexible financing tools such as crowdfunding free from stifling regulation. The ideal course would be to provide smart consumer protection regulations that deliver a needed confidence boost for the Hungarian public to trust crowdfunding platforms.

### a. ECONOMY

**Hungarian Economic Snapshot\(^{32}\)**

- Population – 9.98 million (2011 Census)
- GDP growth – 2013: 0.2%, 2014: 2%
- Inflation – 2013 (avg.): 1.7%
- Unemployment rate (avg.) – 2013: 10.5%, 2014: 10.2%
- Public debt (as a % of GDP) – at or above 80% for 2013-14, compared to at or below 70% for Eastern Europe as a whole.
- Total GDP (approximately $125 billion) ranks 7 out of 27 Eastern European countries (including Russia)

The translation for the word “entrepreneur” has a very negative connotation in Hungary. This social disdain for business owners dates back to the economic liberalization days when business people got the reputation of being “tricksters and cheats.” These views are still prevalent. According to a May 2010 European Commission report, only 26% of Hungarians have a favorable opinion of entrepreneurs, compared to the EU average of 49%.\(^{33}\) That is an unenviable

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challenge when trying to promote economic development through startups, and other initiatives. This dynamic is further complicated by a widespread society-wide stigma of failure. Many Hungarian business owners interviewed confirmed that in Hungarian culture, failure is not seen as part of the normal economic life cycle, as it is in the U.S. As a result, the business climate is more risk-averse and entrepreneurs are less inclined to start bold ventures.

On the other hand, the nation has a proud innovative history. Hungarians not only discovered Vitamin-C, invented binoculars and the AC Locomotive, among other historic inventions; they also more recently boast of developing tech start-up stars such as Prezi, LogMeIn, and Ustream. Being cognizant of not resting on the laurels of past glory, Hungarian public and private sector actors are promoting additional innovation by taking advantage of European Union start-up funding, such as the JEREMIE Program, as well as adopting the latest trends from and beyond Silicon Valley.

Access to capital is one of the most important shortcomings that crowdfunding usually addresses. Although there is a lack of Hungarian capital in certain economic sectors, there is an overabundance of non-equity government funding for start-ups. Aside from JEREMIE funds and other EU funding programs, the Hungarian National Bank is also active in funding SMEs. This is a particular characteristic of countries like Hungary, vis-à-vis the U.K. or Finland, because EU countries receive funds as determined by a progressive scale based on GDP size. Seed capital, on the other hand, is the component most lacking, according to government officials and relevant business executives. There is also a deal-flow insufficiency that creates a gap between funding availability, needed capital, and innovative ventures.

On the consumer side of this equation, citizens with small amounts of disposable income to donate or invest in a cause, venture, or organizations are the main crowdfunding target market. According to various individuals consulted, the Hungarian middle class generally spends disposable income on investment funds, savings, property, and other necessities. Therefore, there is not much money left over for something they might consider risky or needless.  

Businesses on the other hand, obtain most of their financing in Hungary through banks, not venture capital funds or angel investors. After the 2008 financial crisis, Hungary was indebted in foreign currency, and banks limited credit as a result. That is slowly starting to change, according to the government, as savings rates are slowly increasing.

The government’s appetite for innovation and growth, coupled with the desire of Hungarian entrepreneurs to capitalize on the most sophisticated business trends, provide the ideal backdrop to introduce the positive force of crowdfunding into the country’s mainstream economic life.

b. Existing State of Crowdfunding

Hungarian start-ups have used crowdfunding to varying degrees of success. Tech start-ups have mostly utilized foreign sites such as Kickstarter and Indiegogo. One of the most famous examples of a successful Hungarian crowdfunding campaign is Ring Clock. Their Indiegogo campaign raised close to $400,000. Quality marketing, targeted social media, and savvy business

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34 Interviews with Hungarian government officials during March 2014 field research in Budapest.
acumen allowed them to raise most of their money outside Hungary, using the pre-sale rewards model. This style is the most advisable for tech startups, according to Hungarian companies consulted who had engaged in crowdfunding campaigns. Indiegogo requires users to have a U.S. bank account, which can limit its usefulness among potential domestic entrepreneurs; although some have readily partnered with U.S. counterparts or even relatives.

Other Hungarian entrepreneurs are capitalizing on the modern equity crowdfunding regulatory framework of states like the U.K. to expand their businesses. For example, Hungarian entrepreneur Gábor Kutas and his partners are on the verge of launching a portal of equity crowdfunding sites focused on the real estate market with cross-country investment. Although some of their operations will be based in Budapest, they chose the U.K. as their base primarily due to its generous tax incentives, as well as modern crowdfunding and financial regulations.

Hungarian crowdfunding platforms have not been as popular. Among the few successful domestic crowdfunding sites, CreativeSelector.hu stands out. Creative Selector, run by Olivér Szarvas, is a crowdfunding site for projects that are both socially beneficial and for-profit. Mr. Szarvas is a serial entrepreneur who owns a bar/restaurant in Budapest, has run a successful co-working space for artists, and he aspires to expand his crowdfunding site into a hybrid with crowdsourcing by connecting startups with experts to perform small one time tech projects for a small fee. He feels Hungarian media outlets focus on foreign sites too much, and that Hungarian platforms are often relegated to the bottom of the page – if they are mentioned at all. Success has not eluded his venture, however. For example, he is proud of a successful crowdfunding campaign on his site, which raised 600,000 HUF for a home childcare/kindergarten project. His enthusiasm also came with a call to action for the government to provide more incentives for crowdfunding platforms and transactions. The Spanish site Goteo.org is a role model for Szarvas in this respect. It is a crowdfunding platform that is partially funded by the government with a focus on civic projects. Szarvas also echoed sentiments expressed by others interviewed during the field research who expressed that crowdfunding will only grow in Hungary once the public is confident that secure emails and passwords are protected against fraud.

Most other domestic portals have not been effective in Hungary. Multiple efforts to engage with the founders of these failed enterprises to gain insight through their lessons learned were unsuccessful. That in itself is emblematic of the wider societal challenges this sector faces in the country.

c. OPPORTUNITIES AND CHALLENGES

Crowdfunding is unregulated in Hungary. Currently, there is no law allowing equity crowdfunding. Financial regulators consulted said that crowdfunding – of any type – is currently not on their regulatory agenda. However, they did share general information about certain

35 NOTE: Hungary’s private financial system does have its advantages. Aside from widespread use of PayPal, online commercial websites of all types, and other modern technologies, another mundane example is shown in state of the art credit card transactions. While a member of our team discussed crowdfunding and general Hungarian current events over lunch with Mr. Kutas, the waiter brought a wireless credit card machine (which was prevalent all over Budapest), and, after paying, he received an instant text message with the details of the transaction. He said that every bank in Hungary makes this feature available in order to prevent identity fraud and other abuses. This is something the U.S. and other countries could definitely use to protect its consumers.
aspects of their internal processes that shed light into how they could respond if crowdfunding were to be on their radar in the future.

**Tax Treatment of Charitable Donations**\(^{36}\)

According to the Ministry for National Economy, donations to charitable organizations are not deductible from personal income taxes in Hungary. Each individual does have the right to offer 1% of his or her personal income tax to a charitable organization when they do their taxes. Corporations, on the other hand, have much more flexibility in this realm.

A company can deduct donations from the taxbase of the corporate income tax (profit before tax) under the following conditions:

1. The donation has to be to an organization which is acknowledged as an organization of public benefit.
2. Corporations can deduct 20% of their donations from the tax base (another 20% in case of a long term contract) or they can deduct 50% if the donations go to the National Cultural Fund or the fund established to provide remedies for the flooding disaster of 2010.
3. The deductions cannot exceed the profit before tax. Thus, 100% of the tax base can be deducted.

Hungarian government officials consulted explained the disparity between individual and corporate deduction allowances by saying that the national budget is much more dependant on revenues from individual than corporate taxes (15% vs. 3%, respectively).\(^{37}\)

**Consumer Financial Protection**

Although there is no exclusive government entity focused on financial protection in Hungary, like the recently created Consumer Financial Protection Bureau (CFPB) in the U.S., there are two main consumer protection agencies in Hungary: the Hungarian Authority for Consumer Protection and the National Bank of Hungary, or Magyar Nemzeti Bank (MNB), that is the central bank of Hungary. In 2013, the Hungarian Financial Supervisory Authority was merged into the MNB.

**Policymaking Process**

In order to alter or create new laws or regulations, the relevant government agencies must take several preliminary steps. The first step is to research international examples of the issue at hand, as well as to consult interested parties through workshops and other means. Afterwards, a legal analysis is undertaken to assess whether laws need to be enacted or modified. The second step would be to undertake a legal analysis to assess which government entity is best suited to take action (i.e. an agency, Parliament or the Central Bank). This would be followed by a drafting period that could include consultation with other stakeholders. The last steps include approval

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\(^{36}\) Information provided by the Ministry for National Economy’s Competitiveness Department

\(^{37}\) Ibid.
and implementation of the new laws or rules. Some government officials estimate this process can take up to one to two years.\textsuperscript{38}

Although officials made clear that crowdfunding was not on their policy agenda, they did mention that most changes could occur without creating new laws. Amendments have to be made to existing laws such as the Act on Corporate Income Tax law or the Act on Personal Income Tax, which govern equities in Hungary. Loan guarantees would be treated separately. On the matter of the budgetary effects of potential tax incentives, government representatives consulted said that the impact would not be severe, depending on how they are structured.

\textit{Opportunities}

- **Quality government officials & entrepreneurs.** NIH and other government agencies, as well as several “start-uppers” are well versed in the latest trends in their sectors. Abundant knowledge and eagerness to further modernize the Hungarian economy is a valuable asset.
- **EU member status.** Having access to EU funding, benefitting from the common market and citizenship, and geographic proximity to trend setters in the crowdfunding field, such as Finland and the U.K., can facilitate the growth of this tool in Hungary.
- **Tax incentives.** Tax incentives could prove to be a useful tool to foment further use of crowdfunding – both for consumers and for businesses. Carefully structured, these incentives could go a long way in boosting crowdfunding in Hungary.
- **Social enterprises (SEs).** Crowdfunding, under the appropriate framework, can bring sustainability to socially focused organizations (for-profits and non-profits alike). Crowdfunding can also provide publicity and attract investors, volunteers, customers, and other benefits. Incentivizing SEs can also reduce government social welfare spending that can be used to reduce debt and invest on other critical public expenditure needs. Equity crowdfunding could multiply this effect, and create ripples in other sectors.
- **“Pre-sale” Crowdfunding.** This is the crowdfunding model that has been used most successfully by start-ups in Hungary thus far.
- **Public-Private Partnerships.** Government and business can bridge distrust through a mutually beneficial collaboration by maximizing the use of crowdfunding. The spillover effects could also help ventures in the future that have not yet even been considered. NIH is a model of government serving as a facilitator and connector with and among business entities. Willing enterprises, such as I-Catapult, Creative Selector and even Prezi, could accelerate this trend, and take it to the next level, by engaging in some of the projects proposed in the recommendations section of this report.

\textit{Challenges}

- **Suspicion.** Consumers, government bureaucrats, and business owners are suspicious of each other and this prevents more cross-sector collaboration that could solve socioeconomic problems and create opportunities for all Hungarians.

\textsuperscript{38} Ibid.
• **Customer data and privacy fears.** Customer data protection assurances will be needed to augment crowdfunding use given current societal reluctance to engage in donations to begin with, much less online giving.

• **Lack of entrepreneurial/risk-taking culture.** This limits not only untapped economic potential but also wastes existing funding opportunities that lack worthy recipients. It also affects the potential for crowdfunding because some government officials question its utility as an alternate means of financing, citing the lack of deal flow for many EU funding programs, among other concerns.

• **Obsession with foreign markets.** The laser focus on external markets – by policymakers and businesses – neglects opportunities to grow domestic enterprises that can boost employment, wages and thus increase Hungarians’ disposable income.

• **Lack of clear crowdfunding regulatory framework.** Although being unregulated is better than having over-burdensome regulations, use of crowdfunding will only increase if the government and private sector collaborate more closely and work on mutually agreeable rules of the road to incentivize its use, provide confidence to consumers, and maintain the necessary flexibility to adapt to evolving trends.

• **Ban on equity crowdfunding.** Prohibiting equity crowdfunding is limiting the potential for expanding economic opportunities to Hungarian citizens who currently fall outside the traditional investment realm. Strong consumer regulations will also be needed to offset the risks for these investors.

• **Slow government turnaround for new laws & regulations.** Government officials’ open admission that internal policy processes are slow will be a challenge when addressing the regulatory adjustments that are needed to fully harness the potential of crowdfunding.

• **Low donation/charitable giving rates.** Although crowdfunding needs to be seen as an investment, not a giveaway, not having a robust culture of charitable giving or social solidarity currently hinders the full utilization of crowdfunding in Hungary under existing norms.

**VI. CONCLUDING RECOMMENDATIONS:**

The Hungarian Government undoubtedly has an important role to play in order to improve the landscape for crowdfunding and, as the lead innovation focused agency, NIH can take the first steps because its role is more akin to a catalyst or facilitator. Although it does provide limited financing for tech start-ups, any changes to Hungarian law or regulations to promote the use of crowdfunding by more businesses and individuals will have to come from other governmental entities, such as the Central Bank or Parliament. NIH can, however, utilize the information contained herein, as well as the knowledge of successful Hungarian entrepreneurs and other civil society actors to recommend policy adjustments that can go a long way in harnessing this innovative financing tool more effectively.

The opportunities for crowdfunding in Hungary are both evident and lucrative. However the expansion of the phenomenon is likely to require great initial investment of time and effort. In order for Hungary to further develop crowdfunding in a successful manner, the original premise of the scheme must be localized and understood by the country’s population. The best option for NIH is to ensure the “Hungarianizing” of crowdfunding and achieve community buy-in from not only small business entrepreneurs that would use the method to raise capital, but also the citizens
who would invest. To reach its full promise, the Government of Hungary should follow several key suggestions to initiate the growth of crowdfunding in the state.

**A. ALLOW EQUITY CROWDFUNDING**

Amending current laws to allow equity crowdfunding would provide enormous opportunities to both start-up entrepreneurs as well as regular citizens looking to invest small amounts of money. Thoughtful regulation that ensures consumer protection and privacy, that also provides attractive incentives for users would be necessary to maximize the potential economic rewards of this tool.

**B. WORKING GROUP**

**i. REGULATIONS AND LEGISLATION**

At this time, there are no existing regulations that monitor or provide control over crowdfunding in Hungary. To ensure its integrity and long-term success, Hungary should consider enacting specific regulations and/or legislation concerning this field. Although NIH does not have regulatory authority, it can spearhead the thoughtful crafting of strategic proposals and make recommendations to the appropriate regulators and legislators. It is imperative to note, however, that legislation should be an attempt to strengthen crowdfunding and provide it the necessary environment to grow and have a successful impact in Hungary. Regulations should not limit the use or influence of crowdfunding in Hungary. Rather, a robust regulatory framework should encourage its legitimacy and trust among the citizenry. Suggested regulations include allowing the establishment of and setting the parameters for equity funding, outlining the contents for “Terms of Use” clauses on platforms, boosting financial / online consumer protection, and other recommendations.

**ii. INCENTIVES (TAX, ETC.)**

Data suggests that there currently is not a strong culture of charitable giving in Hungary. One of the reasons for this trend is that most people are concerned that there will be another economic downturn and want to maintain savings in order to be prepared. Monetizing the crowdfunding process could further incentivize individuals to donate or invest in a start-up company attempting to raise capital through this means. Hungary currently offers analogous incentives to businesses investing in organizations or projects, but does not address incentives for crowdfunding because it is not currently on the regulators’ policy agenda.39 Although Hungary does not currently offer tax incentives to individuals donating to start-up businesses or crowdfunding campaigns, the state could use the models implemented in the United Kingdom, Finland, and/or the United States, and adapt them to Hungarian circumstances.

Specifically, amending the current tax regime to allow for breaks on an individual’s capital gains tax returns, similar to the structure used in the United Kingdom, could prove to be an effective incentive for individuals to invest in a start-up company. This would likely require allowing equity crowdfunding, and a system to regulate these investments. However, even if equity crowdfunding is not permitted for the moment, the government could still provide similar tax

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39 Deloitte Tax Incentive Pamphlet; Interview with Gabor Horvath: Financial Questions and Answers.
incentives to individuals donating to start-up companies, similar to the United States’ tax-deductible donations to charitable organizations.

Hungary currently allows individuals to donate 1% of the amount owed in their tax returns to charitable or “social good” organizations. Corporations have more leeway, having the ability to reduce their pre-tax base by 20-50%, depending on the donation or contract.\(^\text{40}\) Given that Hungary now has a flat tax regime, allowing additional deductions or credits for charitable donations – as well as to socially beneficial crowdfunding campaigns – could provoke a needed change in the public’s attitudes toward giving. Provided the proper incentives, Hungarians could see giving as an investment in themselves and their communities.

iii. **Educational Campaigns**

The educational campaigns could encompass a number of subjects that currently shape Hungarians’ views on crowdfunding. The working group could establish campaigns, or reach out to crowdfunding organizations to deliver education campaigns. Regardless, the working group should reach out to individuals and crowdfunding organizations to collaborate on these public awareness efforts. The campaigns should include information regarding Internet privacy, data safety, and how participating in crowdfunding can benefit them and their neighborhoods.

The working group should also educate individuals on the Hungarian agencies tasked with protecting consumers and supervising the financial industry: The [Computer Security Incident Response Center of Hungary](http://www.nfh.hu/en/english_pages/useful_info/online_purchase), which operates within the Special Service for National Security, the Authority for Consumer Protection, and the National Bank of Hungary, which merged with the Hungarian Financial Supervisory Authority (PSZÁF). The Authority for Consumer Protection’s requirements for businesses and advice for individuals should be better conveyed to the Hungarian people.\(^\text{41}\) Better informing the people of their rights, should an improper internet transaction occur, may better encourage people to donate or invest in a crowdfunding campaign. The Authority for Consumer Protection suggests secure payment options; the working group should implement a campaign that informs individuals and crowdfunding platforms, alike, of these secure payment options.

Educating the operators and users of crowdfunding platforms will better ensure that secure payment methods are used for monetary transactions. Lastly, educating the operators of crowdfunding platforms on different marketing techniques may open the domestic market for Hungarian platforms and Hungarian start-ups. For example, crowdfunding platforms may include certain algorithms on the websites to improve search results from a search engine. Improving access to the platforms and making them more “main stream” could improve public perception.

\(^\text{40}\) Information provided by the Ministry for National Economy.

C. TRAINING & TECHNICAL ASSISTANCE – HOW-TO FOR PLATFORMS

Hungarian organizations that wish to take advantage of crowdfunding will not only need incentives and a sound regulatory framework; they will also need training on best practices. This will help ensure that start-ups or non-profits become more familiar with the “dos and don’ts” of the field, and help to determine whether crowdfunding is right for them. A suitable entity for this type of training and technical assistance could be the start-up incubator/accelerator NIH recently partnered to create.

D. SECONDARY STOCK EXCHANGE; EQUITY CROWDFUNDING

The promise of equity crowdfunding is limited by a problematic factor: the non-existence of a secondary stock market to trade crowdfunded shares. Hungary could provide the solution and become a major player in this field by setting up such an exchange. This first-of-its-kind stock market would attract additional foreign capital, media attention and broaden the burgeoning entrepreneurial spirit and ingenuity of the Hungarian people.

According to government officials, equity crowdfunding would be treated as a public stock offering (POs), which could require amending several chapters of Act No. CXX of 2001 on the Capital Market, which regulates POs. The relevant ministries might also need to issue implementing regulations and consider recommending altering other statutes as needed.
VII. APPENDICES

1. Terms of Use
   a) Invesdor (Legal Note)
   b) Invesdor (Terms of Use)
   c) Mesenaatti
   d) Kickstarter
2. Crowdfunding 101, Guide to creating a successful crowdfunding campaign, Launcht
3. Federal Register – SEC
4. Igniting Ideas, Investment & Impact, StartSomeGood
5. Bibliography
Legal Note

Invesdor Oy (Business ID: 2468896-2) is a Finnish limited liability company with its registered business address at Aleksanterinkatu 16-18, 00170 Helsinki.

Invesdor Oy offers to business angels and start-up companies a service that assists, on the one hand, business angels in finding interesting start-up companies that are seeking financing and, on the other hand, start-up companies in finding business angels who are looking for promising companies.

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At the www.invesdor.com service, the start-up companies seek for investors for financing rounds targeting in raising less than € 1,500,000 and, therefore, the obligation to publish a prospectus on the share issue will not apply. In financing rounds targeting in at minimum € 1,500,000, the start-up companies will select at maximum 150 prospective investors per country to whom the information on the contemplated share issue is disclosed and, thus, the obligation to publish a prospectus will not apply.

The shares in the start-up companies that are seeking for financing at www.invesdor.com cannot be objects
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When an investor wants to invest in a start-up company, the investor will indicate this in the www.invesdor.com service and, thereafter, will pay the indicated subscription price of the shares together with an administration fee by using Suomen Maksuturva Oy’s payment methods or to Invesdor Oy's client funds bank account. The payment of the subscription price will form the investor’s irrevocable offer to subscribe for shares in the start-up company. After the expiry of the share subscription period, Invesdor Oy will forward the funds raised in the share issue (exclusive of the administration fees) to the start-up company without deductions. If the minimum equity sought at the financing round is not reached or, for some other reason, the share issue is cancelled, Invesdor Oy will return to the investor the subscription price of the shares, but not the fixed administration fee amounting to € 1 + VAT.

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Summary:

**Target Company:**

- You ensure that you have obtained a right from the legal entity you are representing to market and execute the financing round using the Service.
- You are required to honestly give true and complete information concerning the Target, its status and previous funding.
- You acknowledge that the purpose of the Service is solely to assist you in finding suitable Investors. Legal commitments on the financing round are formed directly between the Target and Investor outside the Service.
- You will execute the financing with due care and in accordance with the information that you have published at the Service. It is your sole responsibility to ensure that the financing round is implemented in accordance with applicable laws, rules and regulations.
- You will inform Invesdor on the execution of the financing round.

**Investor:**

- You will keep in confidence all confidential information received from the Target, and shall use such confidential information only for the purposes of evaluating the opportunity to participate at the financing round.
- In some countries certain legal requirements may apply to Investors. It is your responsibility to ensure that such requirements are met.
- You acknowledge that the purpose of the Service is solely to assist you in finding suitable Targets. Legal commitments on the financing round are formed directly between you and Target outside the
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- You make the investment decision based on your own judgment and are solely responsible for the decision.

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1.2 Unless otherwise agreed in writing with Invesdor, your agreement with Invesdor will always include, at minimum, the terms and conditions set out in this document. These are referred to below as the “General Terms”.

1.3 Your agreement with Invesdor will also include the terms of any Legal Notices applicable to the Services, in addition to the General Terms. All of these are referred to below as the “Additional Terms”. Where Additional Terms apply to a Service, these will be accessible for you to read either within, or through your use of, that Service.

1.4 These General Terms, together with the Additional Terms, form a legally binding agreement between you and Invesdor in relation to your use of the Services. It is important that you take the time to read them carefully. Collectively, this legal agreement is referred to below as the “Terms”.

1.5 If there is any contradiction between what the Additional Terms say and what the General Terms say, then the Additional Terms shall take precedence in relation to that Service.

1.6 The purpose of the Services is to maintain a service, where the target companies (“Targets”) can find investors (“Investors”) and, on the other hand, Investors can find Targets. Both Targets and Investors are referred to as “you” in the Terms. You can register at the Service as a Target and/or an Investor.

2. Accepting the Terms

2.1 In order to use the Services, you must first agree to the Terms. You may not use the Services if you do not accept the Terms.

2.2 You can accept the Terms by:

(A) clicking to accept or agree to the Terms, where this option is made available to you by Invesdor in the user interface for any Service; or

(B) by actually using the Services. In this case, you understand and agree that Invesdor will treat your use of the Services as acceptance of the Terms from that point onwards.

2.3 You may not use the Services and may not accept the Terms if (a) you are not of legal age to form a binding contract with Invesdor, or (b) you are a person barred from receiving the Services under the laws of Finland or any other countries including the country in which you are resident or from which you use the Services.
2.4 Before you continue, you should print off or save a local copy of the General Terms for your records.

3. Provision of the Services by Invesdor

3.1 Invesdor may have subsidiaries and affiliated legal entities around the world (“Subsidiaries and Affiliates”). Sometimes, these companies will be providing the Services to you on behalf of Invesdor itself. You acknowledge and agree that Subsidiaries and Affiliates will be entitled to provide the Services to you.

3.2 Invesdor is constantly innovating and aiming to create the best possible experience for its users. You acknowledge and agree that the form and nature of the Services which Invesdor provides may change from time to time without prior notice to you.

3.3 As part of this continuing innovation, you acknowledge and agree that Invesdor may stop (permanently or temporarily) providing the Services (or any features within the Services) to you or to users generally at Invesdor’s sole discretion, without prior notice to you. You may stop using the Services at any time. You do not need to specifically inform Invesdor when you stop using the Services.

3.4 You acknowledge and agree that if Invesdor disables access to your account, you may be prevented from accessing the Services, your account details or any files or other content which is contained in your account.

4. Use of the Services by you

4.1 In order to access certain Services, you may be required to provide information about yourself (such as identification or contact details) as part of the registration process for the Service, or as part of your continued use of the Services. You agree that any registration information you give to Invesdor will always be accurate, correct and up to date. Use of aliases or anything other than a real name is prohibited. You may not provide false identity or contact information.

4.2 You agree to use the Services only for purposes that are permitted by the Terms and any applicable law, regulation or generally accepted practices or guidelines in the relevant jurisdictions.

4.3 You agree not to access (or attempt to access) any of the Services by any means other than through the interface that is provided by Invesdor, unless you have been specifically allowed to do so in a separate agreement with Invesdor. You agree that you will not engage in any activity that interferes with or disrupts the Services (or the servers and networks which are connected to the Services).

4.4 Unless you have been specifically permitted to do so in a separate agreement with Invesdor, you agree that you will not reproduce, duplicate, copy, sell, trade or resell the Services for any purpose, but you are free to recommend the service to other potential customers.

4.5 The Targets and Investors shall be solely responsible for reporting and paying any tax and other corresponding payments required.

4.6 You agree that you are solely responsible for (and that Invesdor has no responsibility to you or to any third party for) any breach of your obligations under the Terms and for the consequences (including any loss or damage which Invesdor may suffer) of any such breach.

5. Your passwords and account security
5.1 You agree and understand that you are responsible for maintaining the confidentiality of passwords associated with any account you use to access the Services.

5.2 Accordingly, you agree that you will be solely responsible to Invesdor for all activities that occur under your account.

5.3 If you become aware of any unauthorized use of your password or of your account, you agree to notify Invesdor immediately.

6. Targets

6.1. The specific terms and conditions set out in this Section 6 apply to you, who have indicated to be a “Target” at the Service.

6.2. The Target acknowledges, accepts and warrants the following matters:

(a) The Target has obtained a right from the legal entity he or she is representing to market and execute the financing round using the Service.

(b) The Target has honestly given true, accurate and complete information concerning the Target, its status and previous funding.

(c) The Target acknowledges that the purpose of the Service is solely to assist the Target in finding suitable Investors. Legal commitments on the financing round are formed directly between the Target and Investor outside the Service.

(d) The Target will execute the financing with due care and in accordance with the information the Target has published at the Service. The Target acknowledges that it is its sole responsibility to ensure that the financing round is implemented in accordance with applicable laws, rules and regulations. Without limiting the foregoing, if any legal requirements arise from applicable laws, rules and regulations, which obligations may include the obligation to prepare a prospectus, it is the responsibility of the Target to ensure that such legal requirements are met, and it is the responsibility of the Target to bear all costs arising from meeting such requirements.

(e) The Target will inform Invesdor on the execution of the financing round.

(f) The Target on behalf of himself or herself and on behalf of the legal entity represented by him or her (if any) waives, to the extent permitted by applicable laws, rules and regulations, his rights to present any claims against Invesdor for any reason directly or indirectly related to the Service or the Terms.

7. Investors

7.1. The specific terms and conditions set out in this Section 7 apply to you, who have indicated to be an “Investor” at the Service.

7.2. The Investor acknowledges, accepts and warrants the following matters:

(a) The Investor shall keep in confidence all confidential information received from the Target, and shall use such confidential information only for the purposes of evaluating the opportunity to participate at the financing round.
(b) In some countries certain legal requirements may apply to Investors. It is responsibility of the Investor to ensure that such requirements are met. Such requirements include requirement that the Investor is a “certified investor”, “self-certified investor” or “accredited investor”. Invesdor or the Target may require the user to provide evidence to support the fact that the legal requirements are met but Invesdor is under no obligation to do so or generally verify that the requirements are met.

(c) The Investor acknowledges that the purpose of the Service is solely to assist the Investor in finding suitable Targets. Legal commitments on the financing round are formed directly between the Investor and Target outside the Service. The Investor has read and duly undertaken to be bound by any such agreements and undertakings as the Investor may be required by the Target to approve in connection with making the investment.

(d) The Investor makes the investment decision based on the Investor’s own judgement and is solely responsible for the decision.

(e) The Investor waives any and all rights to make claims against Invesdor for any reason associated with the financing round.

8. Privacy and your personal information

8.1 Invesdor respects your privacy. Invesdor’s Privacy Policy sets out the principles, under which Invesdor may use your content and information. We encourage you to read the Privacy Policy.

8.2 You consent to Invesdor having your personal data transferred to and processed outside the European Economic Area.

9. Content in the Services

9.1 You understand that all information (such as data files, written text, computer software, music, audio files or other sounds, photographs, videos or other images) which you may have access to as part of, or through your use of, the Services are the sole responsibility of the person from which such content originated. All such information is referred to below as the “Content”.

9.2 You should be aware that Content presented to you as part of the Services, including but not limited to works created by the users of the Services, advertisements in the Services and sponsored Content within the Services may be protected by intellectual property rights which are owned by the users of the Services, sponsors or advertisers who provide that Content to Invesdor (or by other persons or companies on their behalf). You may not modify, rent, lease, loan, sell, distribute or create derivative works based on this Content (either in whole or in part) unless you have been specifically told that you may do so by Invesdor or by the owners of that Content, in a separate agreement.

9.3 Invesdor reserves the right (but shall have no obligation) to pre-screen, review, flag, filter, modify, refuse or remove any or all Content from any Service.

9.4 You understand that by using the Services you may be exposed to alarm messages, invitations or alike you may find disruptive or objectionable and that, in this respect, you use the Services at your own risk.

9.5 You agree that you are solely responsible for (and that Invesdor has no responsibility to you or to any third party for) any Content that you create, transmit or display while using the Services and for the consequences of your actions (including any loss or damage which Invesdor may suffer) by doing so.
10. Proprietary rights

10.1 You acknowledge and agree that Invesdor (or Invesdor’s licensors) own all legal right, title and interest in and to the Services, including any intellectual property rights which subsist in the Services (whether those rights are registered or not, and wherever in the world those rights may exist). You further acknowledge that the Services may contain information which is designated confidential by Invesdor and that you shall not disclose such information without Invesdor’s prior written consent.

10.2 Unless you have agreed otherwise in writing with Invesdor, nothing in the Terms gives you a right to use any of Invesdor’s trade names, trademarks, service marks, logos, domain names, and other distinctive brand features.

10.3 Other than the limited license set forth in Section 11, Invesdor acknowledges and agrees that it obtains no right, title or interest from you (or your licensors) under these Terms in or to any Content that you submit, post, transmit or display on, or through, the Services, including any intellectual property rights which subsist in that Content (whether those rights are registered or not, and wherever in the world those rights may exist). Unless you have agreed otherwise in writing with Invesdor, you agree that you are responsible for protecting and enforcing those rights and that Invesdor has no obligation to do so on your behalf.

10.4 You agree that you shall not remove, obscure, or alter any proprietary rights notices (including copyright and trade mark notices) which may be affixed to or contained within the Services.

10.5 Unless you have been expressly authorized to do so in writing by Invesdor, you agree that in using the Services, you will not use any trade mark, service mark, trade name, logo of any company or organization in a way that is likely or intended to cause confusion about the owner or authorized user of such marks, names or logos.

11. Content license from you

11.1 You retain copyright and any other rights you already hold in Content which you submit, post or display on or through, the Services. By submitting, posting or displaying the content you give Invesdor a perpetual, irrevocable, worldwide, royalty-free, and non-exclusive license to reproduce, adapt, modify, translate, publish, publicly perform, publicly display and distribute any Content which you submit, post or display on or through, the Services. This license is for the sole purpose of enabling Invesdor to display, distribute and promote the Services. Invesdor will not publish any private information about you, except the information needed to use the Services.

11.2 You agree that this license includes a right for Invesdor to make such Content available to other companies, organizations or individuals with whom Invesdor has relationships for the provision of syndicated services, and to use such Content in connection with the provision of those services.

11.3 You understand that Invesdor, in performing the required technical steps to provide the Services to our users, may (a) transmit or distribute your Content over various public networks and in various media; and (b) make such changes to your Content as are necessary to conform and adapt that Content to the technical requirements of connecting networks, devices, services or media. You agree that this license shall permit Invesdor to take these actions.

11.4 You confirm and warrant to Invesdor that you have all the rights, power and authority necessary to grant the above licenses.
12. Ending your relationship with Invesdor

12.1 The Terms will continue to apply until terminated by either you or Invesdor as set out below.

12.2 If you want to terminate your legal agreement with Invesdor, you may do so by (a) notifying Invesdor at any time and (b) closing your accounts for all of the Services which you use, where Invesdor has made this option available to you. Your notice should be sent, in writing, to Invesdor’s address which is set out at the beginning of these Terms.

12.3 Invesdor may at any time, terminate its legal agreement with you if:

(a) you have breached any provision of the Terms (or have acted in manner which clearly shows that you do not intend to, or are unable to comply with the provisions of the Terms); or

(b) Invesdor is required to do so by law (for example, where the provision of the Services to you is, or becomes, unlawful); or

(c) the partner with whom Invesdor offered the Services to you has terminated its relationship with Invesdor or ceased to offer the Services to you; or

(d) Invesdor is transitioning to no longer providing the Services to users in the country in which you are resident or from which you use the service; or

(e) the provision of the Services to you by Invesdor is, in Invesdor’s opinion, no longer commercially viable.

12.4 Nothing in this Section shall affect Invesdor’s rights regarding provision of Services under Section 3 of the Terms.

12.5 When these Terms come to an end, all of the legal rights, obligations and liabilities that you and Invesdor have benefited from, been subject to (or which have accrued over time whilst the Terms have been in force) or which are expressed to continue indefinitely, shall be unaffected by this cessation, and the provisions of Section 18.7 shall continue to apply to such rights, obligations and liabilities indefinitely.

13. EXCLUSION OF WARRANTIES

13.1 NOTHING IN THESE TERMS, INCLUDING SECTIONS 13 AND 14, SHALL EXCLUDE OR LIMIT INVESDOR’S WARRANTY OR LIABILITY FOR LOSSES WHICH MAY NOT BE LAWFULLY EXCLUDED OR LIMITED BY APPLICABLE LAW. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES OR CONDITIONS OR THE LIMITATION OR EXCLUSION OF LIABILITY FOR LOSS OR DAMAGE CAUSED BY NEGLIGENCE, BREACH OF CONTRACT OR BREACH OF IMPLIED TERMS, OR INCIDENTAL OR CONSEQUENTIAL DAMAGES. ACCORDINGLY, ONLY THE LIMITATIONS WHICH ARE LAWFUL IN YOUR JURISDICTION WILL APPLY TO YOU AND INVESDOR’S LIABILITY WILL BE LIMITED TO THE MAXIMUM EXTENT PERMITTED BY LAW.

13.2 YOU EXPRESSLY UNDERSTAND AND AGREE THAT YOUR USE OF THE SERVICES IS AT YOUR SOLE RISK AND THAT THE SERVICES ARE PROVIDED "AS IS" AND "AS AVAILABLE."

13.3 IN PARTICULAR, INVESDOR, ITS SUBSIDIARIES AND AFFILIATES, AND ITS
LICENSORS DO NOT REPRESENT OR WARRANT TO YOU THAT:

(A) YOUR USE OF THE SERVICES WILL MEET YOUR REQUIREMENTS,

(B) YOUR USE OF THE SERVICES WILL BE UNINTERRUPTED, TIMELY, SECURE OR FREE FROM ERROR,

(C) ANY INFORMATION OBTAINED BY YOU AS A RESULT OF YOUR USE OF THE SERVICES WILL BE ACCURATE OR RELIABLE, AND

(D) THAT DEFECTS IN THE OPERATION OR FUNCTIONALITY OF ANY SOFTWARE PROVIDED TO YOU AS PART OF THE SERVICES WILL BE CORRECTED.

13.4 ANY MATERIAL DOWNLOADED OR OTHERWISE OBTAINED THROUGH THE USE OF THE SERVICES IS DONE AT YOUR OWN DISCRETION AND RISK AND THAT YOU WILL BE SOLELY RESPONSIBLE FOR ANY DAMAGE TO YOUR COMPUTER SYSTEM OR OTHER DEVICE OR LOSS OF DATA THAT RESULTS FROM THE DOWNLOAD OF ANY SUCH MATERIAL.

13.5 NO ADVICE OR INFORMATION, WHETHER ORAL OR WRITTEN, OBTAINED BY YOU FROM INVESDOR OR THROUGH OR FROM THE SERVICES SHALL CREATE ANY WARRANTY NOT EXPRESSLY STATED IN THE TERMS.

13.6 INVESDOR FURTHER EXPRESSLY DISCLAIMS ALL WARRANTIES AND CONDITIONS OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO THE IMPLIED WARRANTIES AND CONDITIONS OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT.

14. LIMITATION OF LIABILITY

14.1 SUBJECT TO OVERALL PROVISION IN SECTION 13.1 ABOVE, YOU EXPRESSLY UNDERSTAND AND AGREE THAT INVESDOR, ITS SUBSIDIARIES AND AFFILIATES, AND ITS LICENSORS SHALL NOT BE LIABLE TO YOU FOR:

(A) ANY DIRECT, INDIRECT, INCIDENTAL, SPECIAL CONSEQUENTIAL OR EXEMPLARY DAMAGES WHICH MAY BE INCURRED BY YOU, HOWEVER CAUSED AND UNDER ANY THEORY OF LIABILITY. THIS SHALL INCLUDE, BUT NOT BE LIMITED TO, ANY LOSS OF PROFIT (WHETHER INCURRED DIRECTLY OR INDIRECTLY), ANY LOSS OF GOODWILL OR BUSINESS REPUTATION, ANY LOSS OF DATA SUFFERED, COST OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES, OR OTHER INTANGIBLE LOSS;

(B) ANY LOSS OR DAMAGE WHICH MAY BE INCURRED BY YOU, INCLUDING BUT NOT LIMITED TO LOSS OR DAMAGE AS A RESULT OF:

(I) ANY RELIANCE PLACED BY YOU ON THE COMPLETENESS, ACCURACY OR EXISTENCE OF ANY ADVERTISING, OR AS A RESULT OF ANY RELATIONSHIP OR TRANSACTION BETWEEN YOU AND ANY ADVERTISER OR SPONSOR WHOSE ADVERTISING APPEARS ON THE SERVICES;

(II) ANY CHANGES WHICH INVESDOR MAY MAKE TO THE SERVICES, OR FOR ANY PERMANENT OR TEMPORARY CESSATION IN THE PROVISION OF THE SERVICES (OR
ANY FEATURES WITHIN THE SERVICES);

(III) THE DELETION OF, CORRUPTION OF, OR FAILURE TO STORE, ANY CONTENT AND
OTHER COMMUNICATIONS DATA MAINTAINED OR TRANSMITTED BY OR THROUGH
YOUR USE OF THE SERVICES;

(IV) YOUR FAILURE TO PROVIDE INVESDOR WITH ACCURATE ACCOUNT
INFORMATION;

(V) YOUR FAILURE TO KEEP YOUR PASSWORD OR ACCOUNT DETAILS SECURE AND
CONFIDENTIAL;

14.2 THE LIMITATIONS ON INVESDOR’S LIABILITY TO YOU IN SECTION 14.1 ABOVE
SHALL APPLY WHETHER OR NOT INVESDOR HAS BEEN ADVISED OF OR SHOULD HAVE
BEEN AWARE OF THE POSSIBILITY OF ANY SUCH LOSSES ARISING.

15. Advertisements

15.1 Some of the Services are supported by advertising revenue and may display advertisements and
promotions.

15.2 The manner, mode and extent of advertising by Invesdor on the Services are subject to change without
specific notice to you.

15.3 In consideration for Invesdor granting you access to and use of the Services, you agree that Invesdor
may place such advertising on the Services.

16. Other content

16.1 The Services may include hyperlinks to other web sites or content or resources. Invesdor may have no
control over any web sites or resources which are provided by companies or persons other than Invesdor.

16.2 You acknowledge and agree that Invesdor is not responsible for the availability of any such external
sites or resources, and does not endorse any advertising, products or other materials on or available from
such web sites or resources.

16.3 You acknowledge and agree that Invesdor is not liable for any loss or damage which may be incurred
by you as a result of the availability of those external sites or resources, or as a result of any reliance placed
by you on the completeness, accuracy or existence of any advertising, products or other materials on, or
available from, such web sites or resources.

17. Changes to the Terms

17.1 Invesdor may make changes to the General Terms or Additional Terms from time to time. When these
changes are made, Invesdor will make a new copy of the General Terms available at
http://www.invesdor.com/legal/ and any new Additional Terms will be made available to you from within,
or through, the affected Services.

17.2 You understand and agree that if you use the Services after the date on which the General Terms or
Additional Terms have changed, Invesdor will treat your use as acceptance of the updated General Terms
or Additional Terms.
18. General legal terms

18.1 Sometimes when you use the Services, you may (as a result of, or through your use of the Services) use a service or download a piece of software, or purchase goods, which are provided by another person or company. Your use of these other services, software or goods may be subject to separate terms between you and the company or person concerned. If so, the Terms do not affect your legal relationship with these other companies or individuals.

18.2 The Terms constitute the whole legal agreement between you and Invesdor and govern your use of the Services (but excluding any services which Invesdor may provide to you under a separate written agreement), and completely replace any prior agreements between you and Invesdor in relation to the Services.

18.3 You agree that Invesdor may provide you with notices, including those regarding changes to the Terms, by email, regular mail, or postings on the Services.

18.4 You agree that if Invesdor does not exercise or enforce any legal right or remedy which is contained in the Terms (or which Invesdor has the benefit of under any applicable law), this will not be taken to be a formal waiver of Invesdor’s rights and that those rights or remedies will still be available to Invesdor.

18.5 If any court of law, having the jurisdiction to decide on this matter, rules that any provision of these Terms is invalid, then that provision will be removed from the Terms without affecting the rest of the Terms. The remaining provisions of the Terms will continue to be valid and enforceable.

18.6 You acknowledge and agree that each member of the group of companies of which Invesdor is the parent shall be third party beneficiaries to the Terms and that such other companies shall be entitled to directly enforce, and rely upon, any provision of the Terms which confers a benefit on (or rights in favor of) them. Other than this, no other person or company shall be third party beneficiaries to the Terms.

18.7 The Terms, and your relationship with Invesdor under the Terms, shall be governed by the laws of Finland without regard to its conflict of law’s provisions. You and Invesdor agree to submit to the exclusive jurisdiction of the courts located within the city of Helsinki, Finland to resolve any legal matter arising from the Terms. Notwithstanding this, you agree that Invesdor shall still be allowed to apply for injunctive remedies (or an equivalent type of urgent legal relief) in any jurisdiction.
Contact us

Invesdor Oy
Aleksanterinkatu 16-18, 3rd floor
00170 Helsinki, Finland
info@invesdor.com

Tell your friends about us

- Be first to hear about new companies
- See all information about the companies
- Communicate with target companies
- Invest in the best Nordic growth companies
- Buy and sell unlisted shares
- Chance of becoming a Lead Investor with additional benefits
- Be part of the growth ecosystem

Register now
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ETIQUETTE

WELCOME
Welcome to the Mesenaatti.me service!

Mesenaatti.me, founded in 2010, is the first crowdfunding service in Finland.

To apply for funding or to fund via the Mesenaatti.me service, please follow this etiquette. You will also need to agree with the terms of use.

THE PARTIES
This etiquette is binding to all active parties of the service, i.e.

1. Mesenaatti.me service ("Mesenaatti")
2. the Campaigner
3. the Funder
4. the payment service provider for Mesenaatti, Holvi Payment Services Oy ("Holvi")

MESENAATTI.ME SERVICE
Mesenaatti.me is an online service platform, a medium that enables the Campaigner and the Funder to meet.

Mesenaatti provides an opportunity for Campaigners to pitch their projects and raise funding.

Mesenaatti provides Funders an opportunity to browse and find interesting projects they can help realise by funding them.

WHO ARE WE?
Mesenaatti.me service is produced by Yhteisörahoituspalvelu Mesenaatti Oy

Business ID: 2564709-4
HOLVI
The payment service provider for Mesenaatime is Holvi. Holvi is authorised by the Financial Supervisory Authority.

You can find more information on Holvi here.

THE CAMPAIGNER
The Campaigner can be an individual, a team, a registered or unregistered community, a company, or a foundation.

The Campaigner must be at least 18 years old.

If the Campaigner is under 18 years, they must ask for an adult of a legal capacity and of at least 18 years old to represent them in the crowdfunding campaign. The representative is responsible for all content of the campaign and the realisation of the project.

The payment services for Mesenaatime are provided by Holvi Payment Services Oy. Holvi is authorised by the Financial Supervisory Authority.

The financial transactions on the Mesenaatime service happen via the separate Holvi banking services.

The Campaigner who is accepted to search for funding via Mesenaatime, must create a personal Holvi user profile with a Holvi account and an online shop for the funding campaign. The Campaigner must also agree with the Holvi terms of use.

Details and prices of the substitutes offered to the Funders must be listed on the online shop, where they are automatically linked to the home page of the funding campaign on the Mesenaatime service.

The Holvi account and Holvi shop are solely for the use of the funding campaign and their use for any purposes, other than the funding campaign via the Mesenaatime service and searching for post-funding, is strictly prohibited.

The individual creating the Holvi account must be a Finnish citizen.

The Campaigner may not receive funding outside Mesenaatime for the same project that is presented in the Mesenaatime, during the campaign duration. Funding from foundations and other such parties is, however, accepted, as is Campaigners regular business activities.

THE FUNDER
The Funder can be an individual, a work team, a registered or unregistered community, or a foundation.

The Funder must be at least 18 years old and they must have either the online banking facilities of a Finnish bank, or a credit card (Visa or Mastercard).

TWO DIFFERENT WAYS OF APPLYING FOR FUNDING
Funding can be sought for in two different ways via the Mesenaatime service:

Parties, such as non-profit organisations that have a fundraising permit granted by the police Board, can apply for funding with the permit via the Mesenaatime service and by accepting the terms of use set by Mesenaatime.
If the Campaigner has no fundraising permit, they must offer a reward for the funding.

If the applying party has a fundraising permit, they are forbidden from offering a reward, as in this case they are asking for donations.

With Mesenaatti.me funding can be sought for PROJECTS only. A project can be recognised as having a beginning and an end. For example, writing, printing and publishing a book is a project, but to become a writer or selling already published books is not a project.

HOW TO START A FUNDING CAMPAIGN
You can start the funding campaign process by building your project here

The Campaigner decides the length of the campaign. The length can be between 14 and 90 days.

The Campaigner determines the minimum target amount for the campaign. The minimum target must be such that the Campaigner can guarantee to deliver the project and the rewards offered for the funding as they have been pitched.

FUNDING
You can fund in three different ways:

Payment by a Finnish bank online, payment by a credit card (Visa and Mastercard), or by requesting the Campaigner to write an invoice for the Funder with the campaign’s Holvi account as the beneficiary.

The funds from the Funder are transferred to the Holvi account of the campaign, where they will be held until the end of the campaign, and pending the minimum target to be reached. The funds can be withdrawn only after the campaign has ended.

If the minimum target is not reached, the Campaigner must return the funds back to the Funders within 30 days from the end of the campaign.

HOLVI TRANSACTION CHARGES
Holvi charges 3% from the Holvi account of the Campaigner for each online banking transaction and credit card transaction. The charges are deducted from each transaction at the time of making the transaction.

MESENAATTI.ME COMMISSION
Creating and starting a funding campaign is free of charge.

Mesenaatti charges 7% of the proceeds of all successful campaigns. VAT is included in the price.

Mesenaatti.PRO customers will have an annual charge and commission negotiated on a case by case basis.

A SUCCESSFUL FUNDING CAMPAIGN
When the minimum target has been reached and the campaign period has ended, the Campaigner thanks all Funders and pays the Mesenaatti.me commission. The payment is made from the campaign’s Holvi account.

After the payment, the Campaigner can withdraw the amount raised, or use the Holvi account to cover any accrued expenses.

The Campaigner is responsible for taking a good care of their Funders, such as informing them of the project schedule and any potential
difficulties or delays in delivering both the project as well as the rewards.

Remember that the Funders are more valuable than the received funding!

**UNSUCCESSFUL FUNDING CAMPAIGN AND RETURNING THE FUNDS**

If the minimum target of the campaign is not reached, the campaign will lapse and the Campaigner must refund the Funders within 30 days from the end of the campaign. Holvi charges 90 cents from each transaction, which is sunstracted from the refund.

The Funders' bank account numbers can be obtained by asking them to be sent by email. The Campaigner will be able to get the email addresses from Holvi. By doing this the Campaigner agrees to thank all the funders and inform the Funders about the unsuccessful result of the campaign, as set within the Mesenaatti.me guidelines.

If any of the Funders do not wish to receive a refund of the funding, it will be looked at as a voluntary donation. The donations must be noted as such in the recipient's accounting and taxes.

**POST-FUNDING**

A Campaigner who has completed a successful campaign can also apply for POST-FUNDING for their project.

Post-funding happens by the Campaigner naming the rewards that they wish to set for post-funding, and by sending the proposal for approval to: me@mesenaatti.me

If Mesenaatti.me approves the proposal and the rewards, the post-funding campaign can be started within 7 days. The amount raised by post-funding will be shown as a separate amount on the project page.

All post-funding rewards will also be shown on the general Mesenaatti.SHOP online shop for the whole Mesenaatti.me service.

The proceeds of the post-funding can be used as soon as the funding is received.

Mesenaatti.me charges a 7% provision of all received post-funding. An invoice will be sent four (4) times a year on the last day of the 3rd, 6th, 9th and 12th month of the year. The payment should be made within 14 days of the date of the invoice.

**THE THANK YOU-CARD**

Once the campaign has ended, Mesenaatti offers a THANK YOU-CARD for the use of the Campaigner.

The card is available on the campaign page.

The recipient of the funding decides how they want to use the card. They may thank all their Funders with the card. E.g. it can be used to sell space for advertisements and weblinks for the companies who have funded the project.

The space for advertisements or weblinks can also be used as a reward.

The Campaigner decides the pricing of the advertisement space on the card.

The funding must happen via Mesenaatti.me.

**MARKETING**

http://mesenaatti.me/en/etiketti/
The Campaigner is obliged to market his/her campaign. Mesenaattime team can help in this. Campaigner can decide how to market their campaign. Mesenaattime has a right to make use of all material produced and published by the Campaigner in its efforts of marketing the project.

Mesenaattime has a right to reject or discontinue a campaign when the Campaigner fails to fulfil its duty to market.

REWARDS
Reward can be, e.g., a product, a service, or an event. It can also be a privilege to utilize a space or a product, or a membership in a cooperative, share in a company, or membership in an association or a club; or a share of profits in a project.

Rewards that are offered in the Mesenaattime campaign may not be offered elsewhere during the campaign, with the exception of rewards that have been offered elsewhere already prior the campaign. In the description of each reward one needs to state the delivery date and VAT information of the reward.

RESPONSIBILITIES
The funding agreement is always made between the Campaigner and the Funder.

The Campaigner is responsible for the realisation of the project, for which the funding has been raised, as well as the delivery and quality of the offered rewards.

The Funder and the Campaigner are responsible for ensuring that the given and received funding is handled appropriately in the accounting and taxes of both parties.

The Campaigner is solely responsible for the activity on their Mesenaattime account. All passwords must be kept in a secure place. Any possible breaches of security or misuse of the account must immediately be brought to the attention of Holvi.

The Campaigner is solely responsible for any losses or damages that may have incurred from unauthorised use of the account.

The Campaigner may also determine any additional terms for the rewards. The terms must be included in the description of the rewards.

MESENAATTIME RESERVES THE RIGHT TO CHOOSE THE PROJECTS
All funding campaigns proposed to Mesenaattime are checked before they are published. The checks may take up to 5 working days.

Mesenaattime reserves the right to choose the campaigns for funding, or to reject campaigns that may conflict with the nature of the service or the goals of Mesenaattime. If you are not sure whether your campaign is suitable for the Mesenaattime service, please contact the service providers at: mes@mesenaattime before starting to build your project page.

Mesenaattime does not have to give any reason for a decision to reject a campaign, for forbidding a certain reward offered within the campaign, or for removing a description used for pitching the campaign. Mesenaattime reserves all rights to realise a similar project with another Campaigner or campaign party.

Mesenaattime does not approve projects that are against the law or damaging to a third party.
Forbidden items include: guns, drugs, dangerous substances, medicine, weight loss products, and racially abusive content.

All parties are responsible for ensuring that the campaign material does not contain intellectual property or material that may be in breach of the intellectual property of a third party.

GOOD MANNERS
Mesenaattime expects all service users to adhere to good manners and maintain a supportive attitude towards other users.

If you do not like the content of a particular campaign or project that is searching for funding, please do not undermine it – it may be a good and important project to someone else!

You can ask questions from Campaigners, but please be courteous.

Mesenaattime reserves the right to administrate and remove any abusive messages published on the service website and on its Facebook page.

REPORTS AND FEEDBACK
All Campaigners must report the following steps to Mesenaattime:
thanking the Funders, the date of any refunded funding, the date of delivering the rewards, all possible delays and difficulties within the project or in delivering the rewards.

Mesenaattime welcomes and encourages all feedback. Please tell Mesenaattime if you notice any defects within the service, or if the Campaigner has not delivered what they have promised.

If you have any feedback concerning the payment services, please contact Holvi directly at support@holvi.com

REGISTRATION
The Campaigner must always register as a service user before filling the application form for a funding campaign.

The Funders are offered the opportunity to register before funding. Registration is not compulsory, but recommended. By registering as a service user the Funder has an opportunity to receive information on future Mesenaattime campaigns.

RECORDING DATA
Holvi collects service user data as presented within the Holvi service.

Mesenaattime collects service user data as stipulated in the PRIVACY POLICY.

The Campaigner has access to all names and email addresses of the Funders as provided by Holvi. In addition they may ask for any further information for each reward, such as delivery address, or the desired size or colour for the reward.

INFORMATION LICENSE AND EXTRADITION
Holvi provides Mesenaattime with all data of the Campaigners.

Holvi is not authorised to share the data with third parties.

Holvi provides Mesenaattime with all names and emails of the Funders. Mesenaattime may use the data for its own communications purposes, as stipulated in the PRIVACY POLICY.
Personal data recorded on the register are used for the care and maintenance of the customer relations between Mesenaatti.me and its customers. The data recorded on the register may also be used for the Mesenaatti.me business planning, development and marketing.

Mesenaatti.me may send the customer electronic direct sales material based on the agreement made at registration.

The Campaigner may use the data they have access to for the purpose of communicating the funders about news or events related to the project.

The data may not be given to any third parties or used inappropriately.
Terms of Use

Please read these Terms of Use (the "Agreement" or "Terms of Use") carefully before using the services offered by Kickstarter, Inc. or Kickstarter London Limited (together "Kickstarter" or the "Company"). This Agreement sets forth the legally binding terms and conditions for your use of the website at www.kickstarter.com, all other sites owned and operated by Kickstarter that redirect to www.kickstarter.com, and all subdomains (collectively, the “Site”), and the service owned and operated by the Company (together with the Site, the “Service”). By using the Service in any manner, including, but not limited to, visiting or browsing the Site or contributing content, information, or other materials or services to the Site, you agree to be bound by this Agreement.

Summary of Service

Kickstarter is a platform where certain users ("Project Creators") run campaigns to fund creative projects by offering rewards to raise money from other users ("Backers"). Through the Site, email, websites, and other media, the Service makes accessible various content, including, but not limited to, videos, photographs, images, artwork, graphics, audio clips, comments, data, text, software, scripts, projects, other material and information, and associated trademarks and copyrightable works (collectively, “Content”). Project Creators, Backers, and other visitors to and users of the Service (collectively, "Users") may have the ability to contribute, add, create, upload, submit, distribute, facilitate the distribution of, collect, post, or otherwise make accessible ("Submit") Content. “User Submissions” means any Content Submitted by Users.

Acceptance of Terms

The Service is offered subject to acceptance of all of the terms and conditions contained in these Terms of Use, including the Privacy Policy available at https://www.kickstarter.com/privacy, and all other operating rules, policies, and procedures that may be published on the Site by the Company, which are incorporated by reference. These Terms of Use apply to every user of the Service. In addition, some services offered through the Service may be subject to additional terms and conditions adopted by the Company. Your use of those services is subject to those additional terms and conditions, which are incorporated into these Terms of Use by this reference.

The Company reserves the right, at its sole discretion, to modify or replace these Terms of Use by posting the updated terms on the Site. It is your responsibility to check the Terms of Use periodically for changes. Your continued use of the Service following the posting of any changes to the Terms of Use constitutes acceptance of those changes.

The Company reserves the right to change, suspend, or discontinue the Service (including, but not limited to, the availability of any feature, database, or Content) at any time for any reason. The Company may also impose limits on certain features and services or restrict your access to parts or all of the Service without notice or liability.

The Service is available only to individuals who are at least 18 years old (and at least the legal age in your jurisdiction). You represent and warrant that if you are an individual, you are at least 18 years old and of legal age in your jurisdiction to form a binding contract, and that all registration information you submit is accurate and truthful. The Company reserves the right to ask for proof of age from you and your account may be suspended until satisfactory proof of age is provided. The Company may, in its sole discretion, refuse to offer the Service to any person or entity and change its eligibility criteria at any time. This provision is void where prohibited by law and the right to access the Service is revoked in those jurisdictions.

Rules and Conduct

As a condition of use, you promise not to use the Service for any purpose that is prohibited by the Terms of Use or law. The Service is provided only for your own personal, non-commercial use (except as allowed by the terms set forth in the section of these Terms of Use titled, "Projects: Fundraising and Commerce"). You are responsible for all of your activity in connection with the Service. You
shall not, and shall not permit any third party using your account to, take any action, or Submit Content, that:

- infringes any patent, trademark, trade secret, copyright, right of publicity, or other right of any other person or entity, or violates any law or contract;
- you know is false, misleading, or inaccurate;
- is unlawful, threatening, abusive, harassing, defamatory, libelous, deceptive, fraudulent, tortious, obscene, offensive, profane, or invasive of another’s privacy;
- constitutes unsolicited or unauthorized advertising or promotional material or any junk mail, spam, or chain letters;
- contains software viruses or any other computer codes, files, or programs that are designed or intended to disrupt, damage, limit, or interfere with the proper function of any software, hardware, or telecommunications equipment or to damage or obtain unauthorized access to any system, data, password, or other information of the Company or any third party;
- is made in breach of any legal duty owed to a third party, such as a contractual duty or a duty of confidence; or
- impersonates any person or entity, including any employee or representative of the Company.

Additionally, you shall not: (i) take any action that imposes or may impose (as determined by the Company in its sole discretion) an unreasonable or disproportionately large load on the Company's or its third-party providers' infrastructure; (ii) interfere or attempt to interfere with the proper working of the Service or any activities conducted on the Service; (iii) bypass any measures the Company may use to prevent or restrict access to the Service (or other accounts, computer systems, or networks connected to the Service); (iv) run Maillist, Listserv, or any form of auto-responder or "spam" on the Service; or (v) use manual or automated software, devices, or other processes to "crawl" or "spider" any page of the Site.

You shall not directly or indirectly: (i) decipher, decompile, disassemble, reverse engineer, or otherwise attempt to derive any source code or underlying ideas or algorithms of any part of the Service, except to the extent applicable laws specifically prohibit such restriction; (ii) modify, translate, or otherwise create derivative works of any part of the Service; or (iii) copy, rent, lease, distribute, or otherwise transfer any of the rights that you receive hereunder. You shall abide by all applicable local, state, national, and international laws and regulations.

Project Creators agree to not abuse other users' personal information. Abuse is defined as using personal information for any purpose other than those explicitly specified in the Project Creator's Project, or is not related to fulfilling delivery of a product or service explicitly specified in the Project Creator's Project.

Registration

You may view Content on the Site without registering, but as a condition of using certain aspects of the Service, you may be required to register with the Company and select a screen name ("User ID") and password. You shall provide accurate, complete, and updated registration information. Failure to do so shall constitute a breach of the Terms of Use, which may result in immediate termination of your account. You shall not use as a User ID, domain name, or project name any name or term that (i) is the name of another person, with the intent to impersonate that person; (ii) is subject to any rights of another person, without appropriate authorization; or (iii) is offensive, vulgar, or obscene. The Company reserves the right in its sole discretion to refuse registration of or cancel a User ID, domain name, and project name. You are solely responsible for activity that occurs on your account and shall be responsible for maintaining the confidentiality of your password for the Site. You shall never use another User account without the other User's express permission. You will immediately notify the Company in writing of any unauthorized use of your account, or other known account-related security breach.

Projects: Fundraising and Commerce

Kickstarter is a platform where Project Creators run campaigns to fund creative projects by offering rewards to raise money from Backers. By creating a fundraising campaign on Kickstarter, you as the Project Creator are offering the public the opportunity to enter into a contract with you. By backing a fundraising campaign on Kickstarter, you as the Backer accept that offer and the contract between Backer and Project Creator is formed. Kickstarter is not a party to that agreement between the Backer and Project Creator. All dealings are solely between Users.

By backing or creating a fundraising campaign on Kickstarter, you agree to be bound by this entire Agreement, including the following terms:
• Backers agree to provide their payment information at the time they pledge to a campaign. The payment will be collected at or after the campaign deadline and only if the amount of money pledged as of the deadline is at least equal to the fundraising goal. The amount Backers pledge is the amount they will be charged.
• Backers consent to Kickstarter and its payments partners authorizing or reserving a charge on their payment card or other payment method for any amount up to the full pledge at any time between the pledge and collection of the funds.
• Backers agree to have sufficient funds or credit available at the campaign deadline to ensure that the pledge will be collectible.
• Backers may increase, decrease, or cancel their pledge at any time during the fundraising campaign, except that they may not cancel or reduce their pledge if the campaign is in its final 24 hours and the cancellation or reduction would drop the campaign below its goal.
• The Estimated Delivery Date listed on each reward is not a promise to fulfill by that date, but is merely an estimate of when the Project Creator hopes to fulfill by.
• Project Creators agree to make a good faith attempt to fulfill each reward by its Estimated Delivery Date.
• For all campaigns, Kickstarter gives to the Project Creator each Backer’s User ID and pledge amount. For successful campaigns, Kickstarter additionally gives to the Project Creator each Backer’s name and email.
• For some rewards, the Project Creator needs further information from Backers, such as a mailing address or t-shirt size, to enable the Project Creator to deliver the rewards. The Project Creator shall request the information directly from Backers at some point after the fundraising campaign is successful. To receive the reward, Backers agree to provide the requested information to the Project Creator within a reasonable amount of time.
• Kickstarter does not offer refunds. A Project Creator is not required to grant a Backer’s request for a refund unless the Project Creator is unable or unwilling to fulfill the reward.
• Project Creators are required to fulfill all rewards of their successful fundraising campaigns or refund any Backer whose reward they do not or cannot fulfill.
• Project Creators may cancel or refund a Backer’s pledge at any time and for any reason, and if they do so, are not required to fulfill the reward.
• Because of occasional failures of payments from Backers, Kickstarter cannot guarantee the receipt by Project Creators of the amount pledged minus fees.
• Kickstarter and its payments partners will remove their fees before transmitting proceeds of a campaign. Fees may vary depending on region and other factors.
• Kickstarter reserves the right to cancel a pledge at any time and for any reason.
• Kickstarter reserves the right to reject, cancel, interrupt, remove, or suspend a campaign at any time and for any reason. Kickstarter is not liable for any damages as a result of any of those actions. Kickstarter’s policy is not to comment on the reasons for any of those actions.
• Project Creators should not take any action in reliance on having their project posted on the Site or having any of the money pledged until they have the ability to withdraw and spend the money. There may be a delay between the end of a successful fundraising campaign and access to the funds.

Kickstarter is not liable for any damages or loss incurred related to rewards or any other use of the Service. Kickstarter is under no obligation to become involved in disputes between any Users, or between Users and any third party arising in connection with the use of the Service. This includes, but is not limited to, delivery of goods and services, and any other terms, conditions, warranties, or representations associated with campaigns on the Site. Kickstarter does not oversee the performance or punctuality of projects. The Company does not endorse any User Submissions. You release Kickstarter, its officers, employees, agents, and successors in rights from claims, damages, and demands of every kind, known or unknown, suspected or unsuspected, disclosed or undisclosed, arising out of or in any way related to such disputes and the Service.

**Fees and Payments**

Joining Kickstarter is free. However, we do charge fees for certain services. When you use a service that has a fee you have an opportunity to review and accept the fees that you will be charged. Changes to fees are effective after we provide you with notice by posting the changes on the Site. You are responsible for paying all fees and taxes associated with your use of the Service.

Funds pledged by Backers are collected by Amazon Payments. Kickstarter is not responsible for the performance of Amazon Payments.
Third-Party Sites

The Service may permit you to link to other websites or resources on the internet, and other websites or resources may contain links to the Site. When you access third-party websites, you do so at your own risk. Those other websites are not under the Company’s control, and you acknowledge that the Company is not liable for the content, functions, accuracy, legality, appropriateness, or any other aspect of those other websites or resources. The inclusion on another website of any link to the Site does not imply endorsement by or affiliation with the Company. You further acknowledge and agree that the Company shall not be liable for any damage related to the use of any content, goods, or services available through any third-party website or resource.

Content and License

You agree that the Service contains Content provided by the Company and its partners and Users and that the Content may be protected by copyrights, trademarks, service marks, patents, trade secrets, or other rights and laws. You shall abide by and maintain all copyright and other legal notices, information, and restrictions contained in any Content accessed through the Service.

The Company grants to each User of the Service a worldwide, non-exclusive, non-sublicensable and non-transferable license to use and reproduce the Content, solely for personal, non-commercial use. Use, reproduction, modification, distribution, or storage of any Content for other than personal, non-commercial use is prohibited without prior written permission from the Company, or from the copyright holder. You shall not sell, license, rent, or otherwise use or exploit any Content for commercial use or in any way that violates any third-party right.

Intellectual Property

By Submitting User Submissions on the Site or otherwise through the Service, you agree to the following terms:

- The Company will not have any ownership rights over your User Submissions. However, the Company needs the following license to perform and market the Service on your behalf and on behalf of its other Users and itself. You grant to the Company the worldwide, non-exclusive, perpetual, irrevocable, royalty-free, sublicensable, transferable right to (and to allow others acting on its behalf to) (i) use, edit, modify, prepare derivative works of, reproduce, host, display, stream, transmit, playback, transcode, copy, feature, market, sell, distribute, and otherwise fully exploit your User Submissions and your trademarks, service marks, slogans, logos, and similar proprietary rights (collectively, the “Trademarks”) in connection with (a) the Service, (b) the Company’s (and its successors’ and assigns’) businesses, (c) promoting, marketing, and redistributing part or all of the Site (and derivative works thereof) or the Service in any media formats and through any media channels (including, without limitation, third-party websites); (ii) take whatever other action is required to perform and market the Service; (iii) allow its Users to stream, transmit, playback, download, display, feature, distribute, collect, and otherwise use the User Submissions and Trademarks in connection with the Service; and (iv) use and publish, and permit others to use and publish, the User Submissions, Trademarks, names, likenesses, and personal and biographical materials of you and the members of your group, in connection with the provision or marketing of the Service. The foregoing license grant to the Company does not affect your other ownership or license rights in your User Submissions, including the right to grant additional licenses to your User Submissions.

- You are publishing your User Submission, and you may be identified publicly by your name or User ID in association with your User Submission.

- You grant to each User a non-exclusive license to access your User Submissions through the Service, and to use, edit, modify, reproduce, distribute, prepare derivative works of, display and perform such User Submissions solely for personal, non-commercial use.

- You further agree that your User Submissions will not contain third-party copyrighted material, or material that is subject to other third-party proprietary rights, unless you have permission from the rightful owner of the material or you are otherwise legally entitled to post the material and to grant Kickstarter all of the license rights granted herein.

- You will pay all royalties and other amounts owed to any person or entity based on your Submitting User Submissions to the Service or the Company’s publishing or hosting of the User Submissions as contemplated by these Terms of Use.

- The use or other exploitation of User Submissions by the Company and Users as contemplated by this Agreement will not infringe or violate the rights of any third party, including without limitation any privacy rights, publicity rights, copyrights, contract rights, or any other intellectual property or proprietary rights.
The Company shall have the right to delete, edit, modify, reformat, excerpt, or translate any of your User Submissions.

All information publicly posted or privately transmitted through the Site is the sole responsibility of the person from which that content originated.

The Company will not be liable for any errors or omissions in any Content.

The Company cannot guarantee the identity of any other Users with whom you may interact while using the Service.

All Content you access through the Service is at your own risk and you will be solely responsible for any resulting damage or loss to any party.

In accordance with the Digital Millennium Copyright Act, Kickstarter has adopted a policy of, in appropriate circumstances, terminating User accounts that are repeat infringers of the intellectual property rights of others. Kickstarter also may terminate User accounts even based on a single infringement.

**Copyright Notifications**

Kickstarter will remove infringing materials in accordance with the DMCA if properly notified that Content infringes copyright. If you believe that your work has been copied in a way that constitutes copyright infringement, please notify Kickstarter's Copyright Agent by submitting [this form](https://www.kickstarter.com/terms-of-use?ref=footer). You can also submit a notification by emailing us at copyright@kickstarter.com. Your email must contain the following information (please confirm these requirements with your legal counsel, or see the U.S. Copyright Act, 17 U.S.C. §512(c)(3), for more information):

- an electronic or physical signature of the person authorized to act on behalf of the owner of the copyright interest;
- a description of the copyrighted work that you claim has been infringed;
- a description of where the material that you claim is infringing is located on the Site, sufficient for Kickstarter to locate the material;
- your address, telephone number, and email address;
- a statement by you that you have a good faith belief that the disputed use is not authorized by the copyright owner, its agent, or the law; and
- a statement by you that the information in your notice is accurate and, under penalty of perjury, that you are the copyright owner or authorized to act on the copyright owner's behalf.

If you believe that your work has been removed or disabled by mistake or misidentification, please notify Kickstarter's Copyright Agent in writing by emailing us at copyright@kickstarter.com. Your counter-notification must contain the following information (please confirm these requirements with your legal counsel or see the U.S. Copyright Act, 17 U.S.C. §512(g)(3), for more information):

- a physical or electronic signature of the user of the Services;
- identification of the material that has been removed or to which access has been disabled and the location at which the material appeared before it was removed or access to it was disabled;
- a statement made under penalty of perjury that the subscriber has a good faith belief that the material was removed or disabled as a result of mistake or misidentification of the material; and
- the subscriber's name, address, telephone number, and a statement that the subscriber consents to the jurisdiction of the Federal District Court for the judicial district in which the address is located, or if the subscriber's address is outside of the United States, for any judicial district in which the service provider may be found, and that the user will accept service of process from the person who provided notification under subscriber (c)(1)(C) or an agent of such person.

Under the Copyright Act, any person who knowingly materially misrepresents that material is infringing or was removed or disabled by mistake or misidentification may be subject to liability.

If you fail to comply with these notice requirements, your notification or counter-notification may not be valid.

Our designated copyright agent for notice of alleged copyright infringement can be reached at:

Kickstarter, Inc.
Attn: Copyright Agent
58 Kent Street
Termination

The Company may terminate your access to the Service, without cause or notice, which may result in the forfeiture and destruction of all information associated with your account. If you wish to terminate your account, you may do so by following the instructions on the Site. Any fees paid to the Company are non-refundable. All provisions of the Terms of Use that by their nature should survive termination shall survive termination, including, without limitation, ownership provisions, warranty disclaimers, indemnity, and limitations of liability.

Warranty Disclaimer

The Company has no special relationship with or fiduciary duty to you. You acknowledge that the Company has no duty to take any action regarding any of the following: which Users gain access to the Site; what Content Users access through the Site; what effects the Content may have on Users; how Users may interpret or use the Content; or what actions Users may take as a result of having been exposed to the Content. The Company cannot guarantee the authenticity of any data or information that Users provide about themselves or their campaigns and projects. You release the Company from all liability for your having acquired or not acquired Content through the Site. The Site may contain, or direct you to websites containing, information that some people may find offensive or inappropriate. The Company makes no representations concerning any Content on the Site, and the Company is not liable for the accuracy, copyright compliance, legality, or decency of material contained on the Service.

The Company does not guarantee that any Content will be made available through the Service. The Company has no obligation to monitor the Service or Content. The Company reserves the right to, at any time, for any reason, and without notice: (i) cancel, reject, interrupt, remove, or suspend a campaign or project; (ii) remove, edit, or modify any Content, including, but not limited to, any User Submission; and (iii) remove or block any User or User Submission. Kickstarter reserves the right not to comment on the reasons for any of these actions.

The Service is provided “as is” and “as available” and is without warranty of any kind, express or implied, including, but not limited to, the implied warranties of title, non-infringement, merchantability, and fitness for a particular purpose, and any warranties implied by any course of performance or usage of trade, all of which are expressly disclaimed. The Company, and its directors, employees, agents, suppliers, partners, and content providers do not warrant that: (a) the Service will be secure or available at any particular time or location; (b) any defects or errors will be corrected; (c) any content or software available at or through the Service is free of viruses or other harmful components; or (d) the results of using the Service will meet your requirements. Your use of the Service is solely at your own risk. Some states or countries do not allow limitations on how long an implied warranty lasts, so the above limitations may not apply to you.

The Company makes no guaranty of confidentiality or privacy of any communication or information transmitted on the Site or any website linked to the Site. The Company will not be liable for the privacy of email addresses, registration and identification information, disk space, communications, confidential or trade-secret information, or any other Content stored on the Company’s equipment, transmitted over networks accessed by the Site, or otherwise connected with your use of the Service.

Electronic Communications Privacy Act Notice (18 USC §2701-2711): THE COMPANY MAKES NO GUARANTY OF CONFIDENTIALITY OR PRIVACY OF ANY COMMUNICATION OR INFORMATION TRANSMITTED ON THE SITE OR ANY WEBSITE LINKED TO THE SITE. The Company will not be liable for the privacy of email addresses, registration and identification information, disk space, communications, confidential or trade-secret information, or any other Content stored on the Company’s equipment, transmitted over networks accessed by the Site, or otherwise connected with your use of the Service.

Indemnification

You shall defend, indemnify, and hold harmless the Company, its affiliates, and each of its and its affiliates' employees, contractors, directors, suppliers, and representatives from all liabilities, claims, and expenses, including reasonable attorneys' fees and other legal costs, that arise from or relate to your use or misuse of, or access to, the Service and Content, or otherwise from your User Submissions, violation of the Terms of Use, or infringement by you, or any third party using your account, of any
intellectual property or other right of any person or entity. The Company reserves the right to assume the exclusive defense and control of any matter otherwise subject to indemnification by you, in which event you will assist and cooperate with the Company in asserting any available defenses.

Limitation of Liability

In no event shall the Company, nor its directors, employees, agents, partners, suppliers, or content providers, be liable under contract, tort, strict liability, negligence, or any other legal or equitable theory with respect to the service (i) for any lost profits, data loss, cost of procurement of substitute goods or services, or special, indirect, incidental, punitive, or consequential damages of any kind whatsoever, substitute goods or services (however arising), (ii) for any bugs, viruses, trojan horses, or the like (regardless of the source of origination), or (iii) for any direct damages in excess of (in the aggregate) one hundred U.S. dollars ($100.00). some states or countries do not allow the exclusion or limitation of incidental or consequential damages, so the above limitations and exclusions may not apply to you.

International

Accessing the Service is prohibited from territories where the Content is illegal. If you access the Service from other locations, you do so at your own initiative and are responsible for compliance with local laws.

Electronic Delivery, Notice Policy, and Your Consent

By using the Services, you consent to receive from Kickstarter all communications including notices, agreements, legally required disclosures, or other information in connection with the Services (collectively, "Contract Notices") electronically. Kickstarter may provide the electronic Contract Notices by posting them on the Site. If you desire to withdraw your consent to receive Contract Notices electronically, you must discontinue your use of the Services.

Governing Law

These Terms of Service (and any further rules, policies, or guidelines incorporated by reference) shall be governed by and construed in accordance with the laws of the State of New York and the United States, without giving effect to any principles of conflicts of law, and without application of the Uniform Computer Information Transaction Act or the United Nations Convention of Controls for International Sale of Goods. You agree that the Company and its Services are deemed a passive website that does not give rise to personal jurisdiction over Kickstarter or its parents, subsidiaries, affiliates, successors, assigns, employees, agents, directors, officers or shareholders, either specific or general, in any jurisdiction other than the State of New York. You agree that any action at law or in equity arising out of or relating to these terms, or your use or non-use of the Services, shall be filed only in the state or federal courts located in New York County in the State of New York and you hereby consent and submit to the personal jurisdiction of such courts for the purposes of litigating any such action. You hereby irrevocably waive any right you may have to trial by jury in any dispute, action, or proceeding.

Integration and Severability

These Terms of Use and other referenced material are the entire agreement between you and the Company with respect to the Service, and supersede all prior or contemporaneous communications and proposals (whether oral, written or electronic) between you and the Company with respect to the Service and govern the future relationship. If any provision of the Terms of Use is found to be unenforceable or invalid, that provision will be limited or eliminated to the minimum extent necessary so that the Terms of Use will otherwise remain in full force and effect and enforceable. The failure of either party to exercise in any respect any right provided for herein shall not be deemed a waiver of any further rights hereunder.

Miscellaneous

The Company shall not be liable for any failure to perform its obligations hereunder where the failure results from any cause beyond the Company’s reasonable control, including, without limitation, mechanical, electronic, or communications failure or degradation. The Terms of Use are personal to you, and are not assignable, transferable, or sublicensable by you except with the Company’s prior written consent. The Company may assign, transfer, or delegate any of its rights and obligations hereunder without consent.
No agency, partnership, joint venture, or employment relationship is created as a result of the Terms of Use and neither party has any authority of any kind to bind the other in any respect. In any action or proceeding to enforce rights under the Terms of Use, the prevailing party will be entitled to recover costs and attorneys' fees. All notices under the Terms of Use will be in writing and will be deemed to have been duly given when received, if personally delivered or sent by certified or registered mail, return receipt requested; when receipt is electronically confirmed, if transmitted by facsimile or e-mail; or the day after it is sent, if sent for next day delivery by recognized overnight delivery service.

Updated: October 2012
Crowdfunding Best Practices

You’ve made it to Launcht.org, the leading crowdfunding platform for socially responsible leaders and changemakers. Congrats!

Your first step in crowdfunding is to establish a clear mission and goal. Refine your message so that you can answer each of these three questions in one sentence: What do you do? What makes you a changemaker? What are you crowdfunding for?

If you answer these three questions in a way that endears yourself to the crowd, then you’ve built a strong foundation for success. Explaining what your socially responsible project does (or aims to do) provides users the proper context to understand your campaign. Establishing your identity as a changemaker lets us know that you belong on this platform.

Be clear about what you’re crowdfunding for, and make it tangible. You might need wood and nails to set up your lemonade stand. Perhaps you need funding to spread your ideas to new locations, or to put the finishing touches on your restaurant. Either way, be transparent about where your money is going, and make sure it’s something funders can rally around.
Your Funding Goal

Make sure that your funding goal is consistent with the amount you plan to use to accomplish the goal. In other words, don’t set a $50,000 goal to get wood and nails for a street-side lemonade stand. It’s not only dishonest, but the crowd will also see through it.

Here’s how we recommend you set a reasonable funding goal for yourself:

1. Assess how much you think you can get from a core group of donors in the first few hours of the campaign.

2. Assess how much you can get from your whole network by making a list of all the people you will reach out to and assigning each a specific ask amount.

3. Total that up. Divide by two. That’s your 30-40% goal.

4. Multiply that by three to get a realistic goal that you can raise. If you raise more, great, but better to keep your official goal very reachable.

Too complex? Here’s a look at a sample chart:

<table>
<thead>
<tr>
<th>Support Network</th>
<th>Asking Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brother</td>
<td>$100</td>
</tr>
<tr>
<td>Sister</td>
<td>$100</td>
</tr>
<tr>
<td>Best Friend</td>
<td>$200</td>
</tr>
<tr>
<td>Old Boss</td>
<td>$100</td>
</tr>
<tr>
<td>Uncle Marc</td>
<td>$250</td>
</tr>
<tr>
<td>Aunt Tina</td>
<td>$100</td>
</tr>
<tr>
<td>College Roommate</td>
<td>$25</td>
</tr>
<tr>
<td>Mother-in-Law</td>
<td>$200</td>
</tr>
<tr>
<td>Cousin Alex</td>
<td>$40</td>
</tr>
<tr>
<td>Long-term neighbor</td>
<td>$50</td>
</tr>
<tr>
<td>Grandpa</td>
<td>$25</td>
</tr>
</tbody>
</table>

| Funding Goal Subtotal| $1190         |
| Reality Check (Divide by 2) | $595       |
| Power of the Crowd (Multiply by 3) | $1785     |
| **Funding Goal (Round Up)** | **$1800**    |
Crowdfunding has the potential to go viral at any moment, launching a campaign beyond all expectations in a matter of days - or even hours. At the same time, the vast majority of successful campaigns involve tireless labor both before the campaign begins and through the campaign’s entire lifetime. Successful campaigns put in multiple hours every day spreading the word actively managing their campaign.

**Most of the work you need to do to build a successful crowdfunding campaign must be done before you actually publish it.**

If you don’t have one already, set up a Twitter, Facebook, and blog account with pictures and descriptions. Invite friends on Facebook to become a Fan of your page, begin following friends on Twitter with the hope that they’ll follow you back, and send your blog out to all of your networks.

Lay the groundwork for articles, posts, and mentions from relevant bloggers, reporters, and news outlets before you go live.

Approach your core group and get them to fund you before you even begin advertising. Nobody likes to see $0 and zero funders, so make sure to publish your campaign to them directly before you get to Facebook and Twitter.

After you are towards 5% of your goal, send out your big email to your network. Send out tweets. Post to Facebook. Follow up with phone calls. Follow up with personal emails. Post more. Tweet more.

Pull the trigger on external blog posts about your campaign when you are getting close to 30% or 40% of your goal. Try to guest blog on sites that are related to or would support your project. This will drive traffic to your campaign when it is most critical.

**Take Advantage of Social Media Channels**

Social media sites, such as Facebook and Twitter, will help you raise awareness about your campaign and connect you to your supporters.

**Don’t Spam.**

While it’s critical that you have a social media presence, too much of a good thing can really turn people off. You’re building a support base not only as you move through your 45-day campaign, but beyond that as well. Stick to 1-2 Facebook posts per day and 5-10 tweets (including retweets). Keep your posts and tweets fresh - avoid recycling the same message too many times.
Perks

When funders contribute to your campaign, they are rewarded with Perks. This is a great way to thank your supporters and make them feel like part of the campaign. Set Perks with an eye to your funding base. What kind of Perks would you want to receive, and which Perks would make them proud and/or gratified for funding you? Which would keep your project on their minds? Be creative. Repeat in bold: Be creative.

Perks can range from small thank yous to tangible products to special treatment. If you were crowdfunding to build a lemonade stand, you might promise first-level contributors a creative lemonade-themed e-card or a personal phone call thanking them for their support. Medium-level contributors could have the chance at one or two free glasses of lemonade. For major funders, consider offering a Perk they can show off. For $150 or more, one Perk could be a commemorative Lemonade 101 glass and/or a VIP Card for one free lemonade per month. Above $250, you could paint the contributor’s name on the lemonade stand itself. For $1,000, you might even build a lemonade stand in their honor.

Four things are important to note here:

1) Invite to Fund, Entice to Fund High, Encourage to Share - Contributors want something in return for their funding. Offering a creative, enticing Perk influences your campaign more than you might think: it could be the deciding factor in whether or not they fund you at all, whether or not they bump from $25 to $50, and whether or not they’re enthusiastic enough to post your campaign to Facebook or Twitter.

2) Build on Perks - Funders who give $50 shouldn’t miss out on the $25 Perk. Instead, the bundle should only grow larger with higher-level contributions.

3) Price Perks Wisely - When deciding a Perk, especially tangible perks, you need to take into account the costs of producing and distributing it. You don’t want to spend all of the funds you raised on Perks. Perks can be simple, the main goal is to thank your supporters.

4) Always Say “Thank You” - They know they funded your campaign. You know they funded your campaign. Let contributors know you appreciate it. Every new funder matters. Show each one that you understand that, whether it’s for a $2 contribution or a $2,000 one. A great way to thank your funders is publicly on Twitter. This is an extremely effective method because it shows people that you are getting more supporters.
Media

It is critical that you provide images and a video for your campaign. While stronger videos yield better results, don’t worry if you don’t have years of experience with video editing. Having a simple video is better than not having anything at all. Videos only need to explain the identity of your organization, the goal that you’re crowdfunding towards, and why funders should trust you moving forward.

Below are two video examples: the first is a well produced video and the second is a solid, simple one. Notice that both videos keep to their message, say who they are, explain what they need, and talk about how their plans for the future. Make it fun! You want to create a video that people will like and want to share with their friends. Think of a vehicle that you can use to create a fun narrative about what you are doing and why.

Example 1:
http://www.youtube.com/embed/UnZgfiq-I4k

Example 2:
http://www.youtu.be/5zevs7kB7oM

Note that you need to have permission before uploading any copyright music. Go to Vimeo Music Store, ccMixter, SoundCloud, Free Music Archive or a similar site to find resources to use.

How to Embed Your Video:

Upload to YouTube or Vimeo and embed in your campaign. This involves clicking “Share” below your video, then “Embed,” then copying the iframe text and pasting it into the designated box on your campaign application. Use a video 530 pixels wide and the corresponding height for best results on the campaign page.

Example:
<iframe width="530" height="398" src="http://www.youtube.com/embed/UnZgfiq-I4k" frameborder="0" allowfullscreen></iframe>

Image Specs

Be sure to include at least three images related to your team, your organization, your product, and/or your campaign. Make sure these images are your own. Please note that the images you can upload have to be in .Jpeg format and be under 1MB in size.

Key Text

Questions

Answer all questions as you set up your campaign, and recognize that most visitors to the site will not read everything you write. Keep answers focused and brief (no more than 75 words). You are explaining your product or organization and its social mission clearly and completely. You’re not writing a dissertation on it. Please remember to proofread and edit your answers.

Updates

Use the Updates tab that will appear after you publish your campaign. This is a great place to thank and keep contributors aware of your progress. Include some personality. This will help keep your campaign engaging.

Good luck on your campaign! For support, email yen@launcht.com
Securities and Exchange Commission

17 CFR Parts 200, 227, 232 et al.
Crowdfunding; Proposed Rule
SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 200, 227, 232, 239, 240 and 249

[Release Nos. 33–9470; 34–70741; File No. S7–09–13]

RIN 3235–AL37

Crowdfunding

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rules.

SUMMARY: The Securities and Exchange Commission is proposing for comment new Regulation Crowdfunding under the Securities Act of 1933 and the Securities Exchange Act of 1934 to implement the requirements of Title III of the Jumpstart Our Business Startups Act. Regulation Crowdfunding would prescribe rules governing the offer and sale of securities under new Section 4(a)(6) of the Securities Act of 1933. The proposal also would provide a framework for the regulation of registered funding portals and brokers that issuers are required to use as intermediaries in the offer and sale of securities in reliance on Section 4(a)(6). In addition, the proposal would exempt securities sold pursuant to Section 4(a)(6) from the registration requirements of Section 12(g) of the Securities Exchange Act of 1934.

DATES: Comments should be received on or before February 3, 2014.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments
• Use the Commission’s Internet comment form (http://www.sec.gov/rules/proposed.shtml);
• Send an email to rule-comments@sec.gov. Please include File Number S7–09–13 on the subject line; or
• Use the Federal eRulemaking Portal (http://www.regulations.gov). Follow the instructions for submitting comments.

Paper Comments
• Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090.

All submissions should refer to File Number S7–09–13. This file number should be included on the subject line if email is used. To help us process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://sec.gov/rules/proposed.shtml). Comments also are available for Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. All comments received will be posted without change; we do not edit personal identifying information from submissions. You should submit only information that you would like to make publicly available.

FOR FURTHER INFORMATION CONTACT: With regard to requirements for issuers, Sebastian Gomez Abero or Jessica Dickerson, Division of Corporation Finance, at (202) 551–3500, and with regard to requirements for intermediaries, Joseph Furey, Joanne Rutkowski, Leila Bham, Timothy White or Carla Carriveau, Division of Trading and Markets, at (202) 551–5550, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549.

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Exhibit A

I. Introduction and Background

A. Overview of Crowdfunding

Crowdfunding is a new and evolving method to raise money using the Internet. Crowdfunding serves as an alternative source of capital to support a wide range of ideas and ventures. An entity or individual raising funds through crowdfunding typically seeks small individual contributions from a large number of people.¹ A

¹ See, e.g., C. Steven Bradford, Crowdfunding and the Federal Securities Laws, 2012 Colum. Bus. L. Rev. 1, 10 (2012) ("Bradford"). Crowdfunding has some similarities to “crowdsourcing,” which is the concept that “the power of the many can be leveraged to accomplish feats that were once the
Crowdfunding campaign generally has a specified target amount for funds to be raised, or goal, and an identified use of those funds. Individuals interested in the crowdfunding campaign—members of the “crowd”—may share information about the project, cause, idea or business with each other and use the information to decide whether or not to fund the campaign based on the collective “wisdom of the crowd.” 2

Crowdfunding has been used to fund, for example, artistic endeavors, such as films and music recordings, where contributions or donations are rewarded with a token of value related to the project (e.g., a person contributing to a film’s production budget is rewarded with tickets to view the film and is identified in the film’s credits) or where contributions reflect the pre-purchase of a finished product (e.g., a music album). A number of entities operate Web sites that facilitate crowdfunding in its current form,3 with some Web sites specializing in certain industries, such as computer-based gaming, music and the arts, and other Web sites focusing on particular types of entrepreneurs.4

The Jumpstart Our Business Startups Act (the “JOBS Act”), enacted on April 5, 2012, establishes the foundation for a regulatory structure for startups and small businesses to raise capital through securities offerings using the Internet through crowdfunding. 6 The crowdfunding provisions of the JOBS Act were designed to help provide startups and small businesses with capital by making relatively low dollar offerings of securities less costly. 7 They also permit Internet-based platforms to facilitate the offer and sale of securities without having to register with the Commission as brokers.

In the United States, crowdfunding in its current form generally has not involved the offer of a share in any financial returns or profits that the fundraiser may expect to generate from business activities financed through crowdfunding.8 Such a profit or revenue-sharing model—sometimes referred to as the “equity model” of crowdfunding—could trigger the application of the federal securities laws because it likely would involve the offer and sale of a security. 9 Under the Securities Act of 1933 (“Securities Act”), the offer and sale of securities is required to be registered unless an exemption is available. At least one commenter has stated that registered offerings are not feasible for raising smaller amounts of capital, as is done in a typical crowdfunding transaction, because of the costs of conducting a registered offering and the resulting ongoing reporting obligations under the Securities Exchange Act of 1934 (“Exchange Act”) that may arise as a result of the offering.10 Limitations under existing regulations, including restrictions on general solicitation and general advertising and purchaser qualification requirements, have made private placement exemptions generally unavailable for crowdfunding transactions, which are intended to be made to a large number of potential investors and not limited to investors that meet specific qualifications.11

Moreover, a third party that operates a Web site to effect the purchase and sale of securities for the account of others generally would, under existing regulations, be required to register with the Commission as a broker-dealer and comply with the laws and regulations applicable to broker-dealers.12 A person that operates such a Web site only for the purchase of securities of startups and small businesses that may find it impractical in view of the limited nature of that person’s activities and business to register as a broker-dealer and operate under the full set of regulatory obligations that apply to broker-dealers.

B. Title III of the JOBS Act

Title III of the JOBS Act (“Title III”) added new Securities Act Section

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3 Examples of current crowdfunding Web sites include: www.indiegogo.com, www.kickstarter.com, 4


6 To facilitate public input on JOBS Act initiatives, the Commission solicited comment on each title of the JOBS Act through its Web site at http://www.sec.gov/spotlight/jobsactcomments.shtml. The public comments we received on Title III are available on our Web site at http://www.sec.gov/comments/jobs-title-iii/jobs-title-iii.shtml. Exhibit A of the release includes a citation key to the comments letters the Commission received on Title III.

7 See, e.g., 158 Cong. Rec. S1781 (daily ed. Mar. 19, 2012) (statement of Sen. Carl Levin) (“Right now, the rules generally prohibit a company from raising very small amounts from ordinary investors without significant costs.”); 157 Cong. Rec. S8458–02 (daily ed. Dec. 8, 2011) (statement of Sen. Jeff Merkley) (“‘[L]ow-dollar investments from ordinary Americans may help fill the void, providing a new avenue of funding to the small businesses that are the engine of job creation. The CROWDFUND Act would provide small businesses and other small businesses with a new way to raise capital from ordinary investors in a more transparent and regulated marketplace.’’); 157 Cong. Rec. H7295–01 (daily ed. Nov. 30, 2011) (statement of Rep. Patrick McHenry) (“[H]igh net worth individuals can invest in businesses before the average family can. And that small business is limited on the amount of equity stakes they can provide investors and limited in the number of investors they can get. So, clearly, something has to be done to open these capital markets to the average investor.”).


9 See Bradford, note 1 at 33.

10 See Securities Act Section 2(a)(1) and Exchange Act Section 3(a)(10) (setting forth the definition of a “security” under the Securities Act and the Exchange Act, respectively). See, e.g., Reeves v. Ernst & Young, 494 U.S. 56 (1990) (outlining the requirements for a note to be considered a security); SEC v. W. Howey Co., 328 U.S. 293 (1946) (setting forth the definition of an investment contract).

11 See Bradford, note 1 at 42.

12 But see Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings, Release No. 33-9415 (July 10, 2013) [78 FR 44771 (July 24, 2013)] (“General Solicitation Adopting Release”) (adopting rules to implement Title II of the JOBS Act). Title II of the JOBS Act directed the Commission to amend Rule 506 of Regulation D to permit general solicitation or general advertising in offerings made under Rule 506, provided that all purchasers of the securities are accredited investors. Accredited investors include natural persons who meet certain income or net worth thresholds. Although this rule facilitates the type of broad solicitation emblematic of crowdfunding, crowdfunding is premised on permitting sales of securities to any interested person, not just to investors who meet specific qualifications, such as accredited investors.

13 Exchange Act Section 15(a)(1) generally makes it unlawful for a broker or dealer to effect any transactions in, or induce the purchase or sale of, any security unless that broker or dealer is registered with the Commission pursuant to Exchange Act Section 15(b). 15 U.S.C. 78o(a). See discussion in Section II.D.2. Because brokers and dealers both register as broker-dealers (i.e., there is no separate “broker” or “dealer” registration under Exchange Act Section 15(b)), we also use the term “broker-dealer” in this release.
4(a)(6),¹⁴ which provides an exemption from the registration requirements of Securities Act Section 5 for certain crowdfunding transactions. To qualify for the exemption under Section 4(a)(6), crowdfunding transactions by an issuer (including all entities controlled by or under common control with the issuer) must meet specified requirements, including the following:

- The amount raised must not exceed $1 million in a 12-month period (this amount is to be adjusted for inflation at least every five years);
- Individual investments in a 12-month period are limited to:
  - the greater of $2,000 or 5 percent of annual income or net worth, if annual income or net worth of the investor is less than $100,000; and
  - 10 percent of annual income or net worth (not to exceed an amount sold of $100,000), if annual income or net worth of the investor is $100,000 or more (these amounts are to be adjusted for inflation at least every five years); and
- Transactions must be conducted through an intermediary that either is registered as a broker or is registered as a new type of entity called a “funding portal.”¹²

In addition, Title III:
- adds Securities Act Section 4A, which requires, among other things, that issuers and intermediaries that facilitate transactions between issuers and investors in reliance on Section 4(a)(6) provide certain information to investors and potential investors, take certain other actions and provide notices and other information to the Commission;
- adds Exchange Act Section 3(h), which requires the Commission to adopt rules to exempt, either conditionally or unconditionally, “funding portals” from having to register as brokers or dealers pursuant to Exchange Act Section 15(a)(1);
- includes disqualification provisions under which an issuer would not be able to avail itself of the Section 4(a)(6) exemption if the issuer or other related parties, including an intermediary, was subject to a disqualifying event; and
- adds Exchange Act Section 12(g)(6), which requires the Commission to adopt rules to exempt from the registration requirements of Section 12(g), either conditionally or unconditionally, securities acquired pursuant to an offering made in reliance on Section 4(a)(6).

In this release, we are proposing new rules and forms to implement Securities Act Sections 4(a)(6) and 4A and Exchange Act Sections 3(h) and 12(g)(6). The proposed rules are described in detail below. Until we adopt rules relating to crowdfunding transactions and such rules become effective, issuers and intermediaries may not rely on the exemption provided under Section 4(a)(6).

C. Approach to Proposed Rules

We understand that Title III was designed to help alleviate the funding gap and accompanying regulatory concerns faced by startups and small businesses in connection with raising capital in relatively low dollar amounts.¹⁵ The proposed rules are intended to align crowdfunding transactions under Section 4(a)(6) with the central tenets of the original concept of crowdfunding, in which the public—or the crowd—is presented with an opportunity to invest in an idea or business and individuals decide whether or not to invest after sharing information about the idea or business with, and learning from, other members of the crowd.¹⁶ In this role, members of the crowd are not only sharing information about the idea or business, but also are expected to help evaluate the idea or business before deciding whether or not to invest.¹⁷

At the same time, Congress provided important investor protections for crowdfunding transactions under Section 4(a)(6), including individual investment limits, required disclosures by issuers and the use of intermediaries. The proposed rules would require that all crowdfunding transactions under Section 4(a)(6) be conducted through a registered intermediary on an Internet Web site or other similar electronic medium to help ensure that the offering is accessible to the public and that members of the crowd can share information and opinions. Registered intermediaries are necessary to bring the issuer and potential investors together and to provide safeguards to potential investors.¹⁸ The proposed rules also would require that intermediaries provide communication channels to facilitate the sharing of information that will allow the crowd to decide whether or not to fund the idea or business.¹⁹ The proposed rules further provide intermediaries a means by which to facilitate the offer and sale of securities without registering as brokers. We are mindful of the timing and presentation of information required to be disclosed to investors pursuant to the terms of the statute. The proposed rules would require that this information be provided to investors at various points in time in connection with an offering and through various electronic means, such as through filings with the Commission and disclosures provided on the intermediary’s platform. We believe this approach would be most practical and useful to investors in the crowdfunding context.

We understand that these proposed rules, if adopted, could significantly affect the viability of crowdfunding as a capital-raising method for startups and small businesses. Rules that are unduly burdensome could discourage participation in crowdfunding. Rules that are too permissive, however, may increase the risks for individuals and investors, thereby undermining the facilitation of capital raising for startups and small businesses.²⁰ We have directed the Commission staff, accordingly, to develop a comprehensive work plan to review and monitor the use of the crowdfunding.

¹⁴ See Mollick Letter (stating that allowing ongoing discussions between potential investors, community members and issuers is a vital aspect of avoiding fraud and improving proposed projects).

²⁰ One press article, for example, described non-securities-based crowdfunding campaigns that successfully raised funds but left investors with problems manufacturing and delivering the “perks” or products that were promised in exchange for contributions. See Matt Krantz, Crowd-funding dark side: Sometimes investments go down drain, USA Today at B1 (Aug. 15, 2012). Investor confidence in crowdfunding could be eroded if such delays occur with regularity in securities-based crowdfunding and compounded by any prevalence of fraud. See, e.g., Laws Provide Con Artists with Personal Economic Growth Plan, North American Securities Administrators Association (Aug. 21, 2012) (identifying crowdfunding and Internet-based offers of securities as a threat to investors), available at http://www.nasaa.org/14679/laws-provide-con-artists-with-personal-economic-growth-plan/. See also Adrienne Jeffries, This is What a Kickstarter Scam Looks Like, BetaBeat (Apr. 30, 2012), available at http://betabeat.com/2012/04/this-is-what-a-kickstarter-scam-looks-like/. But see Olga Khazan, Kickstarter spits a sunglasses startup, Washington Post at A14 (May 28, 2012) (discussing a successful sunglasses company that used crowdfunding for startup funds); Crowdfunding: Kickstarter Central raises $120,000 in one day, Wash. Post at A10 (Jul. 23, 2012) (mentioning a company that was able to raise capital through crowdfunding when it could not otherwise secure traditional financing for an expansion of its business).
exemption under Section 4(a)(6) and the rules the Commission adopts to implement crowdfunding. Upon adoption of final rules, the Commission staff will monitor the market for offerings made in reliance on Section 4(a)(6), focusing in particular on the types of issuers using the exemption, the level of compliance with Regulation Crowdfunding by issuers and intermediaries and whether the exemption is promoting new capital formation while at the same time providing key protections for investors. These efforts will assist the Commission in evaluating the development of market practices in offerings made in reliance on Section 4(a)(6). These efforts also will facilitate future Commission consideration of any potential amendments to the rules implementing crowdfunding that would be consistent with the Commission’s mission of protecting investors, maintaining fair, orderly and efficient markets and facilitating capital formation. We urge commenters, as they review the proposed rules, to consider and address the role that our oversight, enforcement and regulation should play once a crowdfunding market under Section 4(a)(6) begins to develop.

II. Discussion of Proposed Regulation Crowdfunding

A. Crowdfunding Exemption

New Securities Act Section 4(a)(6) provides an exemption from the registration requirements of Securities Act Section 5 for certain crowdfunding transactions. To qualify for the exemption under Section 4(a)(6), crowdfunding transactions by an issuer must meet specified requirements, including requirements with regard to the dollar amount of the securities that may be sold by an issuer and the dollar amount that may be invested by an individual in a 12-month period. The crowdfunding transaction also must be conducted through a registered intermediary that complies with specified requirements.

Title III also provides limitations on who may rely on the exemption and establishes a liability scheme for improper use of the exemption. As discussed below, the rules we are proposing are designed to aid issuers and investors in determining the applicable limitations on capital raised and individual investments.

1. Limitation on Capital Raised

The exemption from registration provided by Section 4(a)(6) is available to a U.S. issuer provided that “the aggregate amount sold to all investors by the issuer, including any amount sold in reliance on the exemption provided under [Section 4(a)(6)] during the 12-month period preceding the date of such transaction, is not more than $1,000,000.” Under Section 4(a)(6), the Commission is required to adjust the dollar amounts in Section 4(a)(6) “not less frequently than once every five years, by notice published in the Federal Register, to reflect any change in the Consumer Price Index for All Urban Consumers published by the Bureau of Labor Statistics.”

Several commenters indicated that the $1 million maximum aggregate amount is too low. Several commenters requested that the Commission state that the $1 million aggregate limit pertains only to offerings under Section 4(a)(6) and does not include all exempt offerings. Two commenters suggested, however, that the calculation of the $1 million aggregate limit should include all issuer transactions that were exempt under Securities Act Section 4(a) during the preceding period. Another commenter requested clarification that the limitations and requirements of the offering exemption under Section 4(a)(6) would not affect other methods of raising capital that do not involve the sale of securities, such as contributions from friends and family, donation crowdfunding, gifts, grants or loans.

Several commenters had concerns about the possible integration of an offering under Section 4(a)(6) with other exempt offerings and suggested that the Commission should allow for simultaneous or sequential offerings under Regulation D and Section 4(a)(6) without integration.

Section 4(a)(6) specifically provides for a maximum aggregate amount of $1 million sold in reliance on the exemption in any 12-month period. The only reference in the statute to changing that amount is the requirement that the Commission update the amount not less frequently than every five years based on the Consumer Price Index. Additionally, statements in the Congressional Record indicate that Congress believed that $1 million was a substantial amount for a small business. We do not believe that Congress intended for us to modify the maximum aggregate amount permitted to be sold under the exemption when promulgating rules to implement the statute. Therefore, we are not proposing to increase the limitation on the aggregate amount sold.

Title III provides that the $1 million limitation applies to the “aggregate amount sold to all investors by the issuer, including any amount sold in reliance on the exemption provided under [Section 4(a)(6)].” Section 4A(g), however, provides that “[n]othing in the exemption shall be construed as preventing an issuer from raising capital through means other than [Section 4(a)(6)].” These two provisions create statutory ambiguity because the first provision could be read to provide for the aggregation of amounts raised in all exempt transactions, even those that do not involve crowdfunding, while the second provision could be read to provide that nothing in the Section

24 See ABA Letter 1; Lingam Letter 2 (stating that offerings under Regulation D and Section 4(a)(6) should not be integrated if: (1) No general solicitation takes place; (2) the Section 4(a)(6) offering closes prior to any general solicitation related to a Regulation D offering; or (3) the Regulation D and the Section 4(a)(6) offerings occur simultaneously and the offerings have the same economic terms, but the size of the Regulation D offering is greater than the size of the Section 4(a)(6) offering); CFIRA Letter 8 (stating that CFIRA’s members have opposing views on whether the integration doctrine should be applied to crowdfunding offerings); Liles Letter 1; CFIRA Letter 2; CommunityLeader Letter Final Report of the 2012 SEC Government-Business Forum on Small Business Capital Formation (April 2013) (“2012 SEC Government-Business Forum”), available at http://www.sec.gov/info/smallbus/sbforumreps.htm (recommending that we consider permitting concurrent offerings to be made to accredited investors in excess of the $1 million limit).


26 Cf. Securities Act Section 4A(b)(1)(D)(iii) (giving the Commission discretion to increase the aggregate target offering amount that requires audited financial statements).
4. Igniting Ideas, Investment & Impact, StartSomeGood
StartSomeGood is a new platform for social good initiatives to raise funds and grow a community of supporters.
WHAT?

SSG, launched on February 28, 2011, is an international “Kickstarter for social change” which empowers for-profit, nonprofit, and unincorporated groups to raise funds side-by-side.
YOU + IDEA + COMMUNITY + STARTSOMEGOOD = IMPACT
THE
STARTSOMEGOOD
DIFFERENCE
FOCUSED ENTIRELY ON SOCIAL IMPACT PROJECTS
THE STARTSOMEGOOD DIFFERENCE

- FOCUSED ENTIRELY ON SOCIAL IMPACT PROJECTS
- AVAILABLE TO ALL SOCIAL GOOD GROUPS
THE STARTSOMEGOOD DIFFERENCE

- FOCUSED ENTIRELY ON SOCIAL IMPACT PROJECTS
- AVAILABLE TO ALL SOCIAL GOOD GROUPS
- INTERNATIONAL
THE STARTSOMEGOOD DIFFERENCE

- FOCUSED ENTIRELY ON SOCIAL IMPACT PROJECTS
- AVAILABLE TO ALL SOCIAL GOOD GROUPS
- INTERNATIONAL
- UNIQUE TIPPING POINT MODEL
THE STARTSOMEGOOD DIFFERENCE

- FOCUSED ENTIRELY ON SOCIAL IMPACT PROJECTS
- AVAILABLE TO ALL SOCIAL GOOD GROUPS
- INTERNATIONAL
- UNIQUE TIPPING POINT MODEL
- FOUNDED BY SOCIAL ENTREPRENEURS FOR SOCIAL ENTREPRENEURS
HERE'S A CHART WE CREATED TO HELP PEOPLE CHOOSE THE PLATFORM THAT'S BEST FOR THEM.
<table>
<thead>
<tr>
<th></th>
<th>START SOME GOOD</th>
<th>KICKSTARTER</th>
<th>INDIEGOGO/ROKETHUB</th>
<th>POZIBLE</th>
<th>CAUSES/RAZOO/CROWDRISE</th>
<th>33NEEDS</th>
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<tbody>
<tr>
<td><strong>US 501(c)3’s Only</strong></td>
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<tr>
<td><strong>For-Profits Only</strong></td>
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<td><strong>Creative Projects Only</strong></td>
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<td><strong>Social Good Projects Only</strong></td>
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<td><strong>For All Incorporation Types</strong></td>
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<tr>
<td><strong>All-Or-Nothing Funding Model</strong></td>
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<td><strong>“Keep What You Raise” Funding Model</strong></td>
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<td><strong>“Tipping Point” Fundraising Model</strong></td>
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</table>
THE TIPPING POINT MODEL

VENTURE 1

PRE-TIPPING POINT FUNDS

$0 $250 $500 $750 $1,000

POST-TIPPING POINT FUNDS
THE TIPPING POINT MODEL

VENTURE 2

PRE-TIPPING POINT FUNDS

POST-TIPPING POINT FUNDS

$0 $250 $500 $750 $1,000
THE TIPPING POINT MODEL

VENTURE 3

$0  $250  $500  $750  $1,000

PRE-TIPPING POINT FUNDS

POST-TIPPING POINT FUNDS
WE BELIEVE...
THE WORLD IS FULL OF INNOVATIVE IDEAS...
AND CHANGEMAKERS
READY TO MAKE A DIFFERENCE.
A GROUP’S ORGANIZATIONAL STATUS DOESN’T MATTER...
ITS VISION DOES.
A COMMUNITY UNITED BEHIND THIS VISION HAS THE POTENTIAL TO CHANGE THE WORLD.
<table>
<thead>
<tr>
<th>Venture</th>
<th>Revenue</th>
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<tbody>
<tr>
<td>THE DO GOOD BUS</td>
<td>$101,781</td>
</tr>
<tr>
<td>SHOUTING FIRE</td>
<td>$9,227</td>
</tr>
<tr>
<td>HAIRFLAIR FOR HOPE</td>
<td>$7,369</td>
</tr>
<tr>
<td>OIMEI COMPANY</td>
<td>$5,660</td>
</tr>
<tr>
<td>THE SPUR FOUNDATION</td>
<td>$3,175</td>
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</tbody>
</table>
TEAM

TOM  CO-FOUNDER
ALEX  CO-FOUNDER
BRYAN  LEAD DEVELOPER
KY  DEVELOPER
EMERSON  LEAD UI DESIGNER
VANESSA  DIRECTOR OF OUTREACH
SUE ANNE  DIRECTOR OF ENGAGEMENT
STAY IN TOUCH

WWW.STARTSOMEGOOD.COM
@STARTSOMEGOOD
FACEBOOK.COM/STARTSOMEGOOD
HELLO@STARTSOMEGOOD.COM
Bibliography


“Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act of 2012,” the Crowdfund Act Title III.


FundedbyMe. “What is FundedByMe.” www.fundedbyme.com


