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## Crowdfunding bill may become state law

Illinois businesses are poised to take advantage of investment crowdfunding in the wake of House Bill 3429, which the Illinois Senate passed unanimously on May 20.

The law allows Illinois companies to take equity investments through crowdfunding platforms from investors who meet certain conditions. Under the new law, nonaccredited investors — meaning those whose net worth is less than \$1 million and who earn less than \$200,000 per year — will qualify to make equity investments in startup companies. The new law caps these equity investments at \$5,000 per company per year.

Crowdfunding is not a novel concept in Illinois. Previously, through crowdfunding sites such as Kickstarter, companies or individuals could petition for financial support from the Internet community, offering rewards, but not equity, in exchange for investor support.

The evolution of crowdfunding and allowances for equity investments through crowdfunding platforms truly began with the passing of the federal Jumpstart Our Business Startups (JOBS) Act in 2012, when Congress permitted equity crowdfunding. Since then, the Securities and Exchange Commission has adopted final enabling rules which are set to go into effect June 19. In addition to those rules, several states, now including Illinois,

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have opted to legislate on a local level.

HB3429 amends the Illinois Securities Law of 1953, 815 ILCS 5/1, et seq. Under the new law, investors will be able to buy stock in a company on a crowdfunding website, with limitations.

The law creates an exemption for individual investors from certain filing and registration requirements for intrastate securities offerings that meet specific conditions.

To apply for the exemption, the new requirements include the following: (1) the securities offering must meet all of the requirements of the federal exemption for intrastate offerings provided under the Securities Act of 1933; (2) the aggregate purchase price of all securities sold by an issuer within any 12-month period cannot exceed \$1 million (\$4 million if the issuer has undergone and made available certain financial statements to specified persons); all payments for purchase are made to and held by a qualified escrowee; and (4) the company includes certain offering

materials in connection with the offering to prospective purchasers.

The law also provides that an issuer may make an offering or sale of securities through the use of one or more qualified websites, subject to certain requirements.

The requirements include that (1) the website is at all times owned by a legal entity which is either organized under the laws of, or is otherwise qualified to do business in, Illinois; (2) the website establishes and maintains commercially reasonable measures to limit access to any information concerning an offering or sale of the subject securities to residents of Illinois; and (3) the website establishes and maintains a secure method of communication that permits potential investors to communicate with one another and with representatives of the issuer about the offering. The law also requires the secretary of state to collect a \$100 fee for securities offered or sold under the exemption created under this law and a \$300 fee for the registration and renewal of a qualified website.

The crowdfunding bill, which also passed unanimously by the House of Representatives, now moves to Gov. Bruce Rauner's desk. With Rauner's signature, Illinois will become home to one of the most startup-friendly crowdfunding environments in the country.