wise up invest well

Crowdfunding

FMA FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Crowdfunding works by many people (the crowd) putting in small amounts to raise money for a company or project.

When you put money into equity crowdfunding, you're buying shares, typically in a small or start-up businesses. While equity crowdfunding is high risk, it is subject to financial markets laws. If you're buying shares through a crowdfunding service, make sure they have been licensed by the FMA.

The term crowdfunding is also often used to describe donation or rewards-based fundraising, but this is not covered by financial markets laws.

How equity crowdfunding works

Equity crowdfunding is usually done on websites run by crowdfunding service providers. Each service will work in a different way, but typically you'll be able to browse the website to see information about potential companies to invest in.

The crowdfunding service provider will explain how you can purchase shares. For example, the service may hold your money until the fundraising goal has been reached. They'll then pass it on to the company who will issue you with the shares you now own. The most a company can seek to raise from equity crowdfunding is $2 million in a 12-month period.

You won't get all the information you normally get when you're buying shares

Usually when you buy shares, you'll receive a product disclosure statement. Companies making these regulated share offers also have to provide other information on an ongoing basis, such as financial statements. This information helps you better understand the risks associated with the company you're investing in.

Companies using crowdfunding to raise money don't have to provide such detailed information. They also don't have the same ongoing reporting requirements.

Investment in new or rapidly growing companies is very speculative

Companies using crowdfunding websites to raise money will often be start-ups or growing businesses. This means there is less of a track record to help you decide whether they are likely to succeed. Some of these companies may not.

You'll be asked to read a warning statement that tells you equity crowdfunding is risky. You'll be told you may lose your entire investment and must be in a position to bear this risk without undue hardship. Think carefully about how much you can afford to lose before you invest.

The FMA doesn't check companies raising money through crowdfunding

By law, companies raising money have to be truthful about who they are and what they're planning to use the money for, but we don't run checks on them. We only check and license the crowdfunding service provider.

Ask your crowdfunding service provider how the companies offering shares through their website are assessed. Crowdfunding service providers must also have information on their websites about their complaints process and dispute resolution scheme. If you believe the crowdfunding service hasn't met its licensee obligations, you can contact us for help. But remember, we won't be able to help you get your money back if the company you invested in fails.

Selling your shares might be difficult

It may not be easy to sell shares offered through crowdfunding websites. For example, these shares are not usually listed on a regulated market such as New Zealand's stock exchange, NZX. Ask the service provider how you might be able to sell your shares at a later date. You shouldn't invest money you might need at short notice, or that you can't afford to lose.

How can I protect myself?

Use a licensed crowdfunding service, as they have been checked by us and must follow rules around helping investors get information to inform their share buying decisions. They must also have a system in place to handle complaints and belong to an independent dispute resolution service. Most services will display their licensing status on their website. If you're not sure you can check the list of licensed crowdfunding service providers on our website.

Carefully read the three important pieces of information the crowdfunding service provider must give you:

1. The warning statement about the risks of crowdfunding. The service must ask you to acknowledge that you've read this information.
2. Their disclosure statement. This tells you things like how the service works, the fees you'll pay, and the checks the service has done and hasn't done on the company you're investing in.
3. The client agreement. This is your contract with the service provider, outlining the terms of your agreement.

General risks around investing also apply

Check our website for risks involved in shares and risks involved in investing for other general information about investment risk.

More information

www.fma.govt.nz

To find out if a provider is licensed and to check for the latest warnings and alerts or names of firms or individuals to be wary of. You can report an investment scam online here too.

www.sorted.org.nz

For general information about investing.