Israeli Parliament Eases Regulation On Start-Up Equity Crowdfunding

Crowdfunding is a method of raising small sums of capital from a large number of investors using an online platform. The crowdfunding industry is growing at a fast pace, resulting in crowdfunding campaigns raising large sums of capital for a significant number of diverse companies, organizations and projects.

According to a recent report by IVC Research Center Ltd., an Israel-based high-tech industry research company, over the last five years approximately 150 Israel-linked tech companies have raised in aggregate $197 million in financing through equity crowdfunding platforms.

In March 2017 the Israeli Parliament amended a series of regulations that will ease equity and debt crowdfunding for start-ups and small businesses. The regulations became effective in December 2017.

Israeli legislation allows private companies to offer investment opportunities, on a private placement basis exempt from prospectus, from a group of up to 35 investors. This 35 investor limit does not apply to investments received from accredited investors. An "**Accredited Investor**" is an investor with a special status under securities regulation laws. The definition of an accredited investor, and the consequences of being classified as such, vary between countries. Generally, accredited investors include high-net worth individuals, banks, insurance companies, pension fund management company, financial institutions, large corporations, venture capital funds, and others.

Until now, crowdfunding platforms operating in Israel offering **equity** (shares in the company) or **debt** (an investor makes a loan with the expectation to be paid back the principal plus interest) were available solely to accredited investors. Previously, non-accredited investors, which make up the vast majority of the civilian population, were able to invest in start-up companies through **rewards-based** crowdfunding (backers contribute small amounts of money in exchange for a reward, such as a gift or future product) and **donation-based** crowdfunding (no benefit to the donator beyond the gratitude of the beneficiary and possibly a tax deduction).

As of the end of December 2017, private companies can sell equity or raise debt from the public through crowdfunding platforms. Such platforms enable small and early-stage companies that can't yet afford to list on an exchange to raise money from a wider range of investors than was legal until now.

According to the new regulations, equity crowdfunding platforms can also offer investment opportunities in anonymous diversified investment portfolios. Crowdfunding is considered a risky investment as early-stage companies are historically more likely to fail than succeed.

In an effort to mitigate the inherent risk in investing in a start-up company, the regulations limit the **maximum** amounts an non-accredited investor can invest through crowdfunding platforms as follows:

- Investors with an annual income of up to ₪350,000 are allowed to invest as much as ₪10,000 in a single company and up to ₪20,000 overall annually.
- Investors with an annual income of between ₪350,000 and ₪750,000 are allowed to invest up to ₪30,000 overall annually.
- Investors with an annual income of between ₪750,000 and ₪1,200,000 are allowed to invest up to the lower of either ₪100,000 or 5% of their annual income.
- Investors with an annual income of over ₪1,200,000 are considered Accredited Investors and may invest with no regulatory limitations.

According to the new regulations, the cap for each individual crowdfunding company financing raise is ₪4,000,000 per twelve month period, and under certain conditions this cap is raised to ₪6,000,000.

The new regulations demonstrate that Israel has recognized the potential in permitting smaller, individual investors, to partake in the "Start-Up Nation" through small investments in start-up companies. Crowdfunding platforms should alleviate some of the obstacles faced by small start-ups when approaching the traditional and powerful financing sources of banks, institutional investors and venture capital funds. The regulations do, however, responsibly limit the amount of risk non-accredited investors can take. Investing in a start-up company can be a fulfilling and lucrative endeavor. However, the possibility of a high reward comes with a high risk.

Benjamin Shalev, Adv.
Shalev@Schumanlaw.co.il

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Schuman & Co. Law Offices
Beit Bynet, 8 Hamarpe Street, P.O.Box 45392
Har Hotzvim, Jerusalem 97774 Israel
Tel: +972-2-581-3760, Fax: +972-2-581-5432
Schuman@Schumanlaw.co.il
http://www.schumanlaw.co.il/