

## SEC Increases Crowdfunding Limits

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In November 2020, the Securities and Exchange Commission (“**SEC**”) voted to amend and liberalize the many securities law rules affecting startups that are raising capital. Of particular interest to such companies, the amendments will change the crowdfunding rules to allow companies to increase the offering limits for Regulation Crowdfunding, Regulation A and Rule 504 offerings, and revise certain other individual investment limits.

Under Regulation Crowdfunding, companies have been allowed to raise money online through an SEC-registered broker-dealer or a funding portal. Previously, the offering limit under Regulation Crowdfunding was \$1.07 million in a 12-month period, which is a relatively small amount given the costs and compliance burden associated with the exemption. The amendments raise the offering limit to \$5 million, remove investment limits for accredited investors and use the greater of annual income or net worth when calculating the investment limits for non-accredited investors. The amendment also extends for 18 months the existing temporary relief, providing an exemption from certain Regulation Crowdfunding financial statement review requirements for issuers offering \$250,000 or less of securities in reliance on the exemption within a 12-month period.

Regulation A is an exemption from registration for public offerings and has two offering tiers: Tier 1, for offerings of up to \$20 million in a 12-month period; and Tier 2, for offerings of up to \$50 million in a 12-month period. The amendments raise the maximum offering amount under Tier 2 of Regulation A from \$50 million to \$75 million and raise the maximum offering amount for secondary sales under Tier 2 of Regulation A from \$15 million to \$22.5 million.

Rule 504 of Regulation D exempts from registration the offer and sale of up to \$5 million of securities in a 12-month period. The amendments raise the maximum offering amount from \$5 million to \$10 million. Companies relying on Rule 504 must continue to file a "Form D" electronically with the SEC after they first sell their securities.

While the foregoing amendments may be most relevant for early stage startups, the amendments make many other changes intended to harmonize registration exemptions and eliminate complexity. The amendments will be effective 60 days after publication in the Federal Register, except for the extension of the temporary Regulation Crowdfunding provisions, which will be effective upon publication in the Federal Register.