

**Securities Division  
NC Department of the Secretary of State**

**Investor FAQs for the NC PACES Act (Crowdfunding)**

These FAQs provide guidance on the securities registration exemption allowed under the North Carolina PACES Act. These FAQs are not legal advice. You should consult with an attorney who specializes in securities matters if you need legal advice regarding a securities offering.

**NOTE:** You may find it helpful to read the General FAQs before you read these FAQs. The General FAQs talk about the NC PACES Act and some basics of crowdfunding.

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**Investor FAQs**

Some general FAQs

**1. What is crowdfunding?**

Crowdfunding is a way for businesses to raise money from a large number of people. Crowdfunding usually happens on the internet. There are three kinds of crowdfunding:

- Donation-based
- Rewards-based
- Investment-based.

With donation-based crowdfunding, donors give money and expect nothing in return.

With rewards-based crowdfunding, donors give money and get some kind of reward, like a t-shirt. You may have heard of Kickstarter, Indiegogo or GoFundMe. Those are examples of websites used for donation-based and rewards-based crowdfunding.

With investment-based crowdfunding, investors expect to share in the business' profits. They make the investment by buying a “security”.

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## 2. Why do I need to know the different kinds of crowdfunding?

The differences between these types of crowdfunding are important. Donors have no ownership or creditor rights in the business. When investors buy a company's security, they buy ownership or creditor rights.

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## 3. What is a "security"?

There is no single definition of the term "security". A security is a debt or ownership interest in some kind of business. A security usually exists when a buyer provides money for a company and shares in any profits, but plays no active role in the management of the business. The company that sells the securities is called an issuer.

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## 4. Why is it important for me to know what a security is?

It is important to know because federal and state laws give investors certain legal rights. Investors have the right to know details about an investment before they hand over any money. This includes details about the business and the people who run it.

The seller or promoter of a security may not lie to an investor, leave out key information, or defraud the investor.

Investors have the right to sue persons involved in the securities offering over violations of the law.

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## 5. How are securities regulated?

In general, issuers must register their securities with:

- the US Securities and Exchange Commission (SEC), or
- the state(s) in which they wish to sell them.

The appropriate regulator must approve the securities offering before investors can buy the securities.

If a securities offering meets certain conditions, it may be able to claim an exemption from registration. That means the company does not have to register the securities with the regulator. However, the company still has to file paperwork with the regulator in order to be exempt. This is called an "exemption filing". It is not the same as "registration".

Exemptions often limit how a business may sell or market its securities.

These FAQs only talk about North Carolina investment-based crowdfunding and its exemption under the NC PACES Act. The SEC and another organization called FINRA regulate federal crowdfunding.

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## 6. What is the NC PACES Act?

The NC PACES Act is the short name for a law passed by the North Carolina General Assembly in 2016. The NC PACES Act creates a new exemption from registration for securities offered by local businesses seeking funds from local investors using crowdfunding. You can read the law on our website at <http://sosnc.gov/sec/ThePage.aspx> or on the General Assembly's website at <http://www.ncleg.net/gascripts/Statutes/StatutesTOC.pl?Chapter=0078A>.

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## 7. What are some of the benefits of NC PACES crowdfunding for me as an investor?

*Startups.* You can now invest in startup companies just like more experienced investors do. And it is easy to do.

*Community.* An NC PACES securities offering gives you the chance to invest in a local business.

*Purpose.* An NC PACES securities offering can give you a chance to invest in a product or business you know and like.

There may be other kinds of investments that would allow you to do these things too. You may want to consult an investment professional to find out about other options.

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## **8. What are some of the risks of NC PACES crowdfunding for me as an investor?**

Every investment comes with some risk.

*Less regulation.* Businesses that offer NC PACES securities offerings are not evaluated by the regulator on their ability to earn money or for the truth of the statements in their filings. The regulator merely determines that the NC PACES securities offerings' filings comply with the filing requirements and the rules so it's up to you to do some research.

*New businesses.* Some of the businesses that offer securities through NC PACES are startups or in the early stages. Investments in startups or early stage businesses may be risky. Many businesses fail in the early years. You need to research the investment yourself or hire a licensed professional to help you.

*Illiquid.* If you buy an NC PACES investment, you have to hold on to it for at least 6 months before you can sell it. That's because federal law says so. And, then you'll have to find a willing buyer. Not every new business or promising technology is successful. There may not be a buyer for that particular investment when you want to sell. If you do find a buyer, you'll have to comply with federal and state securities laws when you sell.

*Individual business risk.* Every securities offering will also have risks that are specific to the issuer's business.

You should not invest any money that you can't afford to lose. You have to decide for yourself how much risk to assume. If you are risk-averse, are just starting to invest, have only a little money to invest, or may need the money in the short term, crowdfunding investments may not be for you.

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## **9. How can I protect myself from fraud?**

The best thing you can do is to do your homework!

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## **10. What do I need to find out?**

Look for information like:

- What is the business?
- Who are its officers?
- What is their business plan?
- What are the risks of investing in this business?
- How do they intend to use your investment to make money?
- Who are their competitors?
- How long before you could expect to see a return?
- What type of securities are they offering – stocks (equity) or bonds (debt)?
- If there are financial statements, have they been audited or reviewed?
- Do you think it's really too good to be true?

The questions above are just a starting point.

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## 11. Where can I find the information?

*Disclosure document.* The issuer has to give you a legal document. It is called a disclosure document and it may have attachments. To be able to understand what you're being asked to invest in, you must read all of the disclosure document and any attachments.

*Internet.* The issuer may have a website or platform on the Internet with additional information that will be helpful. The issuer's platform will include:

- A copy of the disclosure document and
- A communications channel. A communication channel is a type of forum or internet message board where you can interact directly with the issuer. You can also share information with other people interested in investing or who have already invested.

*Business Registry.* You can find more information at the Department's online business registry: <http://www.sosnc.gov/search/index/corp>.

*Securities Division.* You can call us to find out if the security, firm or salesperson has filed any documents with us before turning over any money. In most cases, the securities and the people or firms that sell them must file or be registered with us. This one of the best things you can do to reduce the chances of falling victim to fraud. You can call us at (919) 814-5400 or toll free at (800) 688-4507.

*Professional.* You may want to contact an investment professional for help.

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## 12. Is there anything else I should know about investing in an NC PACES securities offering?

Remember that no regulator confirms the truth of any statements in the disclosure documents or the issuer's financial statements.

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*About investing in an NC PACES offering*

## 13. Are there any requirements for investors interested in investing in an NC PACES securities offering?

Yes. You can only invest in an NC PACES securities offering if your principal residence is in North Carolina.

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## 14. Do I have to show that my principal residence is in North Carolina?

Yes. You will have to demonstrate that your principal residence is in North Carolina at the time you invest.

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## 15. How can I show that my principal residence is in North Carolina?

Examples of things you can use to show that your principal residence is in North Carolina include:

- Documentation issued by a federal, state, or local government:
  - A driver's license, or
  - A government ID card,
- A public or private database that the issuer has determined is reasonably reliable, including credit bureau databases, directory listings, and public records,
- A recently-dated utility bill,
- A pay-stub, or
- Information in your state or federal tax returns.

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## **16. How much can I invest in an NC PACES securities offering?**

You can invest:

- up to \$5,000 in an NC PACES securities offering, or
- any amount if you are an “accredited investor”.

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## **17. How can I tell if I am an accredited investor?**

An accredited investor is someone with at least \$1 million in investible assets or an income of at least \$200,000 per year. You can read the definition at <https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-accredited-investors>.

You will need to attest that you are an accredited investor if you want to invest more than \$5,000. If the issuer has any doubt about your accredited investor status, they may require you to provide a certification of accredited investor status.

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## **18. Who should I send my money to when I invest in an NC PACES securities offering?**

You should send your money where the disclosure document tells you to send your money. Until the issuer has reached at least 20% of its goal, you will be sending your money to the escrow agent. After that time, these details will be spelled out in the disclosure documents and you may be sending your money to the issuer directly.

The disclosure document will have directions about how to invest in the securities offering and where to send your money.

Like you would for any investment, make sure you keep a record of funds you invest.

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## **19. What if I make an investment and change my mind?**

Until the issuer reaches at least 20% of its goal, you may ask to have your money returned to you and the issuer must give it back to you.

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