

August 6, 2014

Parliament of Canada
Chantal Gilliland
Clerk of the Standing Committee on Finance
Ottawa, Ontario K1A 0A9
Tel: (613) 992-9753
Email: FINA@parl.gc.ca, finapbc-cpb@parl.gc.ca

Re: 2014 federal pre-budget consultation – Canadian Crowdfunding Industry

Dear Standing Committee on Finance,

Thank you for the opportunity to participate in the 2014 federal pre-budget consultations.

The National Crowdfunding Association of Canada (**NCFA Canada**) is a grass roots and membership-driven not-for-profit trade association that is actively engaged with both social and investment crowdfunding stakeholders and communities across the country. Our mandate is to provide crowdfunding education, advocacy and networking opportunities for our growing national membership of over 900 members, ambassadors, advisors and board members.

We support innovation, entrepreneurship and small businesses, and early stage investments and believe that crowdfunding markets and the eco-systems around them can play a significant role in mobilizing start-up capital and resources to early stage projects and businesses in an efficient and cost effective manner.

We would like to request an in-person consultation once the hearing dates have been finalized to discuss a \$3-5 million commitment to develop a national crowdfunding network and financial literacy program that will create Canadian jobs, stimulate innovation and support the development of a competitive and sustainable macro policy in the rapidly expanding Canadian Crowdfunding industry.

Please feel free to contact me at any time to discuss.

Sincerely,



Craig Asano
Founder and Executive Director
NCFA Canada
+1 (416) 618-0254

Enclosure

About NCFA Canada

The National Crowdfunding Association of Canada (**NCFA Canada**) is the only cross-Canada non-profit organization with a mandate to develop Canada into a world class crowdfunding hub by providing education, advocacy and networking opportunities to members in the rapidly evolving crowdfunding industry. For more information please visit the website: www.ncfacanada.org or you can learn more about the organization [here](#).

Crowdfunding Globally

According to a US-based research group, Massolution, the global crowdfunding industry exceeded \$5.1 billion in 2013 representing a compound annual growth rate (CAGR) of 63%. In Oct 2013, the World Bank released a report [here](#) that predicted the global industry to grow into to a \$96 billion per year industry by 2025. In Feb 2013, International Organization of Securities Commission's (IOSCO) research department released a report [here](#). The report says that while the crowdfunding market is small, it is growing fast, and, given "the focus of policymakers and regulators on growth and funding of the real economy means that this segment of the financial industry has the potential to develop into a credible investment option for sophisticated and retail investors alike."

Canadian Crowdfunding Industry

While donation and reward-based crowdfunding markets can be described as growing significantly in Canada (transactions total approx. \$150MM), they are currently being dominated by international branded brands, such as US sites Kickstarter and Indiegogo. As of June 2014, NCFA Canada has tracked over 80 Canadian portals and 19 service providers (see [Canadian Directory](#)).

Strengths and Opportunities:

- High market traction and support across all sectors; market formation and growth (tipping point)
- Favourable regulations with strong need to 'fill the funding gap'
- 1 province adopted (SK); 6 provinces seeking comments
- Crowdfunding may catalyze formation of a national regulator
- Financial support is needed to create a one-window resource to support Crowdfunding in Ontario and the rest of Canada
- Crowdfunding can be integrated with existing angel networks, start-up incubators / accelerators and commercialization hubs
- Opportunity to increase capital flow to underserved populations

Weaknesses and Threats:

- Equity crowdfunding not yet legally permitted (outside of Saskatchewan)
- Lack of financial resources in the start-up and SME sector
- Market is nascent and fragmented
- Very little Canadian data available (benchmarks, market indicators, ecosystem support)
- Lack of a national securities regulator
- Foreign portals aggressively pursuing to enter market
- Canadian project owners and companies using foreign portals
- Canadian industry needs to build strength and agility to compete with cross-border activity

Invest in a National Crowdfunding Literacy Program, Policy and Network

NCFA Canada is looking for a commitment in the range of \$3-5 million to develop a national crowdfunding network and financial literacy program so that all involved, from investors to issuers, can confidently use this new financing tool, and to ensure Canada has a macro policy in place to remain competitive. We feel that this is an appropriate amount given the range and nature of deliverables and ability to quantify the literacy objective with precision at this time.

1. Invest in Crowdfunding infrastructure, education and research (data and knowledge)

- One-window resource to provide education and support for SMEs, investors, providers and portal operators to access ‘gold standard’ content, tools and networks
- Support industry led peer network exchange, dynamic events & convening
- Support the development and delivery of high quality online crowdfunding literacy program (self-guided courses, seminars and instructor led Q&A sessions) that can lead to certification
- Support a National Ambassadors network of qualified educators to deliver endorsed content at in person educational events and bootcamps
- Establish a crowdfunding and venture funding roadmap, guidelines, best practices ‘tool kit’, content and research bank
- Develop and track key metrics, benchmarks and lead key industry research initiatives

2. Invest in market diversification and support a national macro policy

- Integrate crowdfunding into the existing early stage venture funding ecosystem
- Strengthen partnerships and facilitate follow-on investments from angels networks, and VCs
- Nurture capital flow and national partnerships from underserved populations (i.e., rural areas)
- Support the development and delivery of programs that position Canada as a leading and innovative Crowdfunding hub
- Develop national funding programs and eco-system partnerships (e.g., universities)
- Work with federal crown corporations that are in the SME financing business such as BDC, EDC and FCC to develop a national strategy and loan program for qualified crowdfunded ventures
- Support the establishment of a national securities regulator

3. Invest in integrity (risk reduction)

- Equifax-type services for individuals and businesses
- Assistance with fraud prevention (Insurance program, hot line)
- Dispute resolution process
- Issuer, portal and investor background check and due diligence service (compliance)

4. Invest in increasing efficiency of Canadian crowdfunding participants

- Crowdfunding incubation tools for start-ups and SMEs (improve funding readiness and success)
- Modularized milestone and business planning development
- Lead generation tools (facilitated intros, matching service, follow-on investment)
- Qualified provider-orientated marketplace
- Investor tools to track and engage early stage SMEs seeking capital
- Investor package content generation

What is Crowdfunding?

Crowdfunding is the ‘practice of funding a project or venture by raising capital from a large number of people, typically using the internet and social media’. It is often described as a ‘game changer’ for the financial industry that enables small amounts of capital (i.e., \$1-5MM) to flow from the general public to early stage business ventures. Crowdfunding as a prospective solution solves two of the greatest challenges plagued by small businesses in Canada – access to cash (51%) and the ability to expand the impact and reach of their marketing efforts (21%).¹

Why is Crowdfunding Important to Canadians?

SMEs are the backbone of the Canadian economy (jobs, exports, GDP) yet they face a well-documented funding gap (\$1-5MM) that is not currently being satisfied by friends and family networks, angels, incubator/accelerator programs and venture capital (VC) groups. Crowdfunding is an onramp to spur business and economic growth, employment and innovation and can help fill the funding gap that exists for SMEs. Many high impact, innovative and scalable small businesses leverage ‘crowd-based funding’ as a stepping stone to strengthen and organize their offerings with upstream capital markets including angel and venture capital investments.

Crowds spur creativity and encourage a cross-pollination of ideas and feedback, which helps strengthen products/services and business operating models for companies ahead of committing significant risk capital. Crowds foster networking, mentorship and support. Moving financial transactions online streamlines administration, improves data tracking and adds transparency, allowing policy makers to ‘right size’ regulations. Crowdfunding is unique in that the ‘crowd’ votes with their dollars enabling capital to flow to projects and geographic areas that the general public (communities) believe are important. In this regard, crowdfunding unlocks a new source of capital and support for underserved communities across verticals, geography and social economic tiers.

What’s at Stake?

Fundamentally there’s a strong need to ensure SMEs have the proper access to capital to innovate and develop competitive products/services to bring to Canadian and global markets. Without a clear funding roadmap for small businesses or an efficient and legally viable capital formation process many valid business ideas will not get funded in Canada.

Canada needs to review its securities laws to ensure they are current, competitive and meet the needs of SME issuers and their ability to connect with prospective investors to raise early stage capital from online market places. Otherwise, Canada risks losing its Canadian funded ideas and best entrepreneurs to countries with more supportive funding environments and access to capital (e.g., United States) keen to commercialize on Canadian start-up ventures. Status quo is not an option as Canada will continue to slide down global innovation rankings and the economy will suffer as a result negatively impacting job creation and Canada’s strategic social-economic advantages.²

Contact Information

Craig Asano, Founder and Executive Director, NCFA Canada, +1 (416) 618-0254

¹ <http://www.cbc.ca/news/business/10-surprising-stats-about-small-business-in-canada-1.1083238>

² <http://www.ncfacanada.org/poor-innovation-ranking-dims-the-lights-on-canadas-competitiveness-and-prosperity/>