



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 593 of the 131st G.A.

Date: November 28, 2016

Status: As Introduced

Sponsor: Rep. Arndt

Local Impact Statement Procedure Required: No

Contents: Permits intrastate equity crowdfunding

State Fiscal Highlights

- **Intrastate equity crowdfunding.** The bill allows for an exemption under Ohio Securities Law to permit intrastate equity crowdfunding. The Division of Securities within the Department of Commerce enforces the Ohio Securities Law.
- **OhioInvests issuer fee.** The bill requires equity crowdfunding issuers to be an OhioInvests issuer and pay a \$300 filing fee. This fee will likely be deposited into the Division of Securities Fund (Fund 5500).
- **Portal operator fee.** The bill requires these sales of securities through an OhioInvests portal, to be operated by a portal operator. Portal operators, if not a licensed dealer, must register with the Division and pay an annual \$200 filing fee.
- **Division of Securities expenses.** The Division may have to purchase new technology to oversee intrastate equity crowdfunding. However, this cost will at least be partially offset by issuer and portal operator filing fees likely deposited into Fund 5500.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Overview

The bill permits intrastate equity crowdfunding by allowing for an exemption under the Ohio Securities Law. Equity crowdfunding is regulated under both state and federal security laws, requiring registration under both sets of laws unless an exemption applies. Currently, federal security law contains an exemption from registration for intrastate offerings. To qualify for the Ohio exemption created by the bill, an offering and sale of securities must meet the bill's requirements for an "OhioInvests offering." For more detail on the bill's provisions, please consult the LSC Bill Analysis. The provisions that have a fiscal effect are discussed below.

Fiscal effects

The bill requires that the equity crowdfunding issuer be an OhioInvests issuer. In order to be an issuer, an entity must provide the Division of Securities within the Department of Commerce (COM) with (1) a notice of a claim of exemption from registration, (2) a copy of the disclosure document that will be given to prospective purchasers, and (3) a \$300 filing fee. Additionally, the bill requires that the sale of securities must be conducted exclusively through an OhioInvests portal, a website that is operated by a qualified portal operator. A qualified portal operator must be registered with the Division of Securities or currently licensed as a dealer under the Ohio Securities Law. An entity other than a licensed dealer wishing to be a portal operator must file a registration application with the Division and pay a \$200 filing fee, with an annual renewal fee of \$200.

As a result, the Division will incur some additional costs to administer the bill's provisions. According to COM, the Division may have to purchase new technology for overseeing this type of activity. However, this cost will at least be partially offset by issuer and portal operator filing fees mentioned above. These filing fees will likely be deposited into the Division of Securities Fund (Fund 5500).

The number of issuers and portal operators will ultimately depend on the number of startup and small businesses seeking to raise funds through crowdfunding. According to the North American Securities Administrators Association, 179 total offerings have been filed as of June 2016 in the 32 states that permit intrastate crowdfunding. In FY 2016, \$19.1 million was deposited into Fund 5500, a 3.2% increase from FY 2015 revenues of approximately \$18.5 million. Actual spending in FY 2016 was approximately \$4.2 million, a 5.0% increase from FY 2015 spending of \$4.0 million.