

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

**General 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 these FAQs before you read the other Crowdfunding FAQs. These FAQs talk about the NC PACES Act and some basics of crowdfunding.

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## **General FAQs**

### **About securities crowdfunding generally**

#### **1. What is “crowdfunding”?**

Crowdfunding is a way to solicit money from a large number of people and is usually done through the Internet. There are different kinds of crowdfunding. Under the NC PACES Act, we regulate the kind of crowdfunding related to securities.

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#### **2. Is crowdfunding under the NC PACES Act the same as using Kickstarter, Indiegogo or GoFundMe?**

No. Those Web sites allow companies to accept money as a donation or in return for a reward like a t-shirt.

The type of crowdfunding we regulate under the NC PACES Act involves raising money by selling securities to investors.

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#### **3. What is a “security”?**

There is no single definition of the term “security.” Generally, a “security” is a passive investment and is either:

- a debt, or
- an ownership interest in some kind of business or venture.

An investor can buy a security to share in the profits generated by the business. The investor plays no active role in managing the business.

Generally, securities have to be registered with us or with the U.S. Securities and Exchange Commission, called the “SEC”.

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#### **4. Do all securities have to be registered?**

All securities have to be registered unless there is an exemption from registration.

There are nearly 36 exemptions from securities registration in NC. One exemption may suit the needs of a business better than others. Because that’s true, businesses often consult a securities professional or an attorney before starting a securities offering.

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#### **5. Is there an exemption from registration for crowdfunding securities?**

Yes. There is an exemption from registration under the NC PACES Act. A business has to file documents with us and take other actions before it can use the exemption.

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### **About NC PACES and crowdfunding**

#### **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 to raise money from local investors using “crowdfunding”. You can read the law on our website at <http://sosnc.gov/Sec/> or on the General Assembly’s website at: [http://www.ncleg.net/EnactedLegislation/Statutes/PDF/BySection/Chapter\\_78A/GS\\_78A-17.1.pdf](http://www.ncleg.net/EnactedLegislation/Statutes/PDF/BySection/Chapter_78A/GS_78A-17.1.pdf).

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## 7. How can the NC PACES Act help a small business?

The NC PACES Act may be helpful if a small business wants to raise funds and wants to use the Internet to reach investors.

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[About businesses using NC PACES](#)

## 8. What businesses CAN use the NC PACES exemption?

Generally, businesses located in NC and registered and active with our Department's Corporations Division can use the NC PACES exemption.

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## 9. Are there businesses that can't use the NC PACES exemption?

Yes. There are some businesses that can't use the NC PACES exemption. For more information, you may want to read:

The NC PACES Act under [G.S. 78A-17.1](#) and NC PACES Act rules [18 NCAC 06A .2004](#) and [18 NCAC 06A .2117](#).

You can also call us at (919) 807-2100 or toll free at (800) 688-4507.

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[About investors in NC PACES offerings](#)

## 10. Can anyone invest in an NC PACES securities offering?

No. An investor's principal residence has to be here in North Carolina to invest in an NC PACES offering.

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## 11. How much can someone invest in an NC PACES securities offering?

An investor can invest:

- up to \$5,000 in an NC PACES securities offering, or
- any amount if the person is an "accredited investor".

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## 12. Who can be an "accredited investor"?

An "accredited investor" is someone with significant assets available to invest. "[Accredited investor](#)" is defined by federal law. NC PACES relies on the federal definition.

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[About NC PACES securities offerings](#)

## 13. Are there different kinds of NC PACES securities offerings?

Yes. There are two different kinds of NC PACES securities offerings:

- an "NC PACES Offering" or NCPO and
- a "Local Public Offering" or "LPO".

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#### **14. What is an “NC PACES Offering” or NCPO?**

An NCPO is a securities offering where a business is trying to raise up to \$2 million. The business:

- has to use the Internet to communicate with investors,
- can sell most types of securities, and
- has limits on how it advertises the securities offering.

This description doesn't include all the requirements for an NCPO.

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#### **15. What is a “Local Public Offering” or LPO?**

A “Local Public Offering” or “LPO” is a securities offering where a business is trying to raise a maximum of \$250,000. The business:

- doesn't have to use the Internet to communicate with investors but it can,
- can only sell one of these kinds of securities:
  - equity,
  - debt, or
  - revenue share agreements, and
- has fewer limits on how it advertises the securities offering.

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#### **16. How long can a securities offering under NC PACES be offered?**

A securities offering can be offered for up to twelve months.

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#### **17. Will a business have to provide information to investors about its NC PACES securities offerings?**

Yes. A business has to provide all material information about the NC Paces securities offering in a disclosure document and must provide that disclosure document to all investors. That way, the investors can make informed investment decisions.

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#### **18. Does a business have to do a lot of paperwork to file a claim for an NC PACES exemption?**

We don't know what you think is “a lot”. We can tell you that a business that wants an NC PACES exemption has to file significantly less paperwork than if it was registering a securities offering.

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#### **19. What happens to the money that is raised in an NC PACES securities offering?**

A business has to tell the investors how it will use the money it raises in its NC PACES securities offering. The business will not get any of the money until it raises at least 20% of its goal. Until that time, the money will be kept in an escrow account.

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#### **20. What do I do if I believe a business offering an NC PACES security is not complying with the law or is a fraud?**

Call the North Carolina Securities Division and if you have lost money, you may want to contact an attorney to try to get your money back.

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