THIS IS HUGE. On April 5, 2012, President Obama signed the Jumpstart Our Business Startups (JOBS) Act, and the provisions within it to legalize crowdfunding for equity in the United States. "For the first time ordinary Americans can go online and invest in the entrepreneurs they believe in," the President said in his brief remarks before signing the bill, surrounded the legislators and business leaders who helped to make it a reality.

The Capital Raising Online While Deterring Fraud and Unethical Non-Disclosure Act of 2011 (CROWDFUND Act) , an amendment to the larger JOBS Act allows companies to raise up to $1,000,000 annually through crowdfunding on registered internet websites. Web sites seeking to list companies must register with the regulators and provide investors the basic information about the companies they list. Crowdfunding companies themselves must provide basic disclosures to investors and regulators.

This means that US based start-ups will be able to issue shares in the business in exchange for equity. Until now, companies (a.k.a. “issuers”) had to register their stock with the Securities and Exchange Commission if they wanted to sell shares to more than 500 investors. Now, shares can be sold to as many as 2,000 investors and remain exempt from SEC registration provided the following:

(A) no more than $1,000,000 is raised via crowdfunding in any 12 month period; and

(B) no single investor invests more than a specified amount in the offering, namely:

i. the greater of $2,000 or 5% of the annual income or net worth of the investor, as applicable, if the investor has annual income or net worth of less than $100,000; or

ii. 10% of the annual income or net worth of the investor, as applicable, if either the annual income or net worth of the investor is equal to more than $100,000, capped at a max of $100,000 invested.

(C) the offering is conducted through a registered broker or “funding portal” (a new term made up by the JOBS Act); and

(D) the issuer complies with certain other requirements that we’ll get to below.

It isn’t yet clear what registration as a funding portal will entail – regulations from the SEC will be forthcoming during the coming months. What we do know is that funding portals will also be required to register with FINRA, the financial industry self-regulatory organization.

While exempt from SEC registration, issuers are subject to a number of reporting requirements aiming to prevent fraud and abuse, and issuers must be qualified by crowdfunding intermediaries promoting the capital raise.

Provided a balanced regulatory approach, which has yet to be seen, this could prove to be the genesis of capitalism 2.0 so to speak.