

# Crowdfunding in a Canadian Context

Exploring the  
Potential of  
Crowdfunding  
in the Creative  
Content Industries

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## 1. INTRODUCTION

Crowdfunding is an emerging alternative financing vehicle that has experienced a recent boom in Europe and North America, primarily driven by recent multi-million dollar record-breaking successes on platforms in the US. In the wake of the increased media attention for these campaigns and recent changes to securities laws in the US to accommodate crowdfunding, this financing model has become more visible in Canada as well. A number of Canadian-based crowdfunding platforms have emerged and discussion has been abundant among regulatory and industry bodies—from the tech sector to the creative media sector—regarding how crowdfunding fits into Canada’s current legal, regulatory and funding environment.

The Canada Media Fund (CMF) commissioned Nordicity to conduct a study on the topic of crowdfunding in Canada with a mandate to provide both an overview of the global crowdfunding phenomenon as related to the creative content industries and also a domestic environmental scan to determine what the demand for crowdfunding might be among content creators, how they might best leverage this type of funding and how it might fit into the broader structural environment for the creative content industries in Canada.

Through secondary research, case study analysis and stakeholder interviews (with producers, interactive digital media (IDM) content developers, industry and regulatory bodies, and legal and finance experts), Nordicity explored the opportunities and challenges regarding the regulatory, financial, social and operational deployment of crowdfunding within the Canadian creative content environment.

The following report first provides a working definition of crowdfunding and a description of the various crowdfunding models, as defined by Nordicity. The report then goes on to provide an overview of global market trends in crowdfunding. Finally, the report outlines the needs and key considerations from the perspective of content creators as well as key considerations related to the regulatory, legislative, and financial environment for the creative content industries in Canada.

## 2. CROWDFUNDING DEFINED

This section provides a working definition of the term “crowdfunding” and a broad overview description of the concept; what it is and how it is used. The sub-sections that follow provide an overview of the three basic existing crowdfunding models.

### **CROWDFUNDING: A Working Definition**

**Crowdfunding is the raising of funds through the collection of small contributions from the general public (known as the crowd) using the Internet and social media**

**Crowdfunding has its origins in the concept of crowdsourcing**, which is the broader concept of an individual reaching a goal by receiving and leveraging small contributions from many parties.<sup>1</sup> Crowdfunding is the application of this concept to the collection of funds through small contributions from many parties in order to finance a particular project or venture.

Interpreted in this way, Crowdfunding has existed for a long time in the not-for-profit world, where fundraising campaigns are ubiquitous. It has also existed in what is commonly referred to as a ‘friends and family’ financing round in the technology start-up sector.

**The key to crowdfunding in the present context is its inextricable link to online social networking and its ability to harness the power of online communities in order to extend a project’s promotion and financing opportunities.** Indeed, the social networking aspect of crowdfunding is the primary driving force behind its success.<sup>2</sup>

From the beginning, crowdfunding was based on the shared values and relationships built between those seeking support and the donors, often resulting in repeat donations. By leveraging existing communities both online and offline, crowdfunding relationships are strengthened through increased engagement and instant gratification via social media, as opposed to the limitations of one-way messaging with broadcast media and direct mail. While the concept of donation is not new, the ability for online crowdfunding to engage funders on such a large scale enables it to raise large amounts of money in shorter periods of time from a larger pool of potential investors.

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<sup>1</sup> *Crowdfunding: Disintermediated Investment Banking*. Brian J. Rubinton. McGill University. April, 2011.

<sup>2</sup> *SEC Regulations Barricade The Crowdfunding Floodgates*. Kevin Lawton. Huffington Post. November 30, 2011. [http://www.huffingtonpost.com/kevin-lawton/crowdfunding\\_b\\_789088.html?](http://www.huffingtonpost.com/kevin-lawton/crowdfunding_b_789088.html?)



**The non-profit sector was the first to successfully employ crowdfunding in its present online form.** Two notable and often-cited early examples of successful crowdfunding efforts include the Hurricane Katrina disaster relief fundraising campaign and President Barack Obama's first-term election campaign back in 2008.

**More recently, crowdfunding is becoming an increasingly common form of raising funds in the technology and media industries; including music, film and video games.** Although internet crowdfunding has existed in the music and film industries for almost a decade, it is only in the last five years that crowdfunding in the media industries has gained momentum.<sup>3</sup>

**Traditionally, crowdfunding is used to raise money to fund the development of a well-defined, singular project** (another key characteristic of crowdfunding being that it is an ex ante form of financing—meaning that sponsors, backers, customers or investors finance a project that is still in the development stage).<sup>4</sup> As such, it has become particularly effective in projects where individuals have an affinity for the cause or for the creative team involved. Acting as a social media platform in their own right, some crowdfunding platforms facilitate a 'world of communities' where individuals can fund their interests and passions.

**The new form of crowdsourced private financing has lowered the barriers to entry not only for financing projects, but also for the average citizen to play the role of investor.** Producers of all sizes have increased their access to financing, contributing to the democratization of content production. Increasingly, new entrants have the potential to be recognized and rewarded for their craft, where they may not have conventionally been able to secure funding or distribution for their projects due to traditional value chain barriers.

**Crowdfunding also has a unique dual function of providing both private financing and generating publicity and attention for a project.** The power of the investor as ambassador is fuelled by the high impact of social media, where projects or the fundraising initiative have the opportunity to go viral. Often, before a production has even begun, crowdfunding can generate

audience engagement through the project's investors, who will in turn become the consumers. A crowdfunding network can be a project's best source of cost-free promotion. Investors and funders become ambassadors of the cause, influencing their networks through social media and word of mouth. Indeed, due to the trust involved in personalized endorsements, social media can be more influential than many promotional campaigns, committees, CRM networks and websites. Crowdfunding also allows project creators to engage more closely and more directly with those audiences and ambassadors, who are increasingly attracted to this type of direct connection and deeper engagement with the development and production process of the content they are consuming.<sup>5</sup>

As such, crowdfunding is redefining the relationship between producer, investor and consumer, often resulting in some form of convergence and democratization of the three. Producers are compelled to be as open and honest as possible in their crowdfunding campaigns in order to earn enough trust from audiences to secure their financial support. It is therefore in the producer's best interest to maintain higher levels of transparency and accountability in their practices. However, levels of transparency can vary and can become the object of public scrutiny. For example, the crowdsourced fundraising campaign behind the Invisible Children Inc., and their short film *Kony 2012*, has been criticized for a lack of transparency on expenditures.

**Crowdfunding has also provided many creative content developers with a means of concept validation or beta testing.** Through crowdfunding campaigns, content creators can crowdsource public reactions and critiques to a project's concepts and features. In this way, creators are equipped with vital information to help with business and editorial decision-making that respond directly to their audience's expressed needs and desires. Useful back-end analytics that can come from crowdfunding campaigns include click-through rates, time spent on the site, the amount of money raised, and the number of contributors as well as more open-ended qualitative audience feedback in the form of comments, suggestions, community promotion and viral marketing.

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<sup>3</sup> *Crowdfunding Plan may Open Pandora's Box for Investors*. Robert J Metzler. April 16, 2012. <http://hbweb.sx2.atl.publicus.com/article/20120416/PRINTEDITION/304169981>.

<sup>4</sup> *Crowdfunding: Disintermediated Investment Banking*. Brian J. Rubinton. McGill University. April, 2011.

<sup>5</sup> *Putting your money where your mouse is: Crowdfunding: Artists, musicians and writers are using the Internet to aggregate lots of small donations to fund their work*. The Economist. Sept 02, 2012. [www.economist.com/node/16909869](http://www.economist.com/node/16909869).

## 2.1 Crowdfunding Models

Three models of crowdfunding are emerging for the creative industries: The Donation Model, the Lending Model and the Investment Model. Each model has its own unique features, functions, levels of applicability, and advantages and disadvantages.

### 2.1.1 The Donation Model

The Donation Model encompasses approaches to crowdfunding that are based on donations, philanthropy and sponsorship. It is also sometimes referred to as micro-patronage.

**In the Donation Model, individuals make a financial contribution to a project without any expectation of a financial return on that contribution.** The primary driver behind individual contributions in this model is a personal desire to support the development and realization of a project that is in some way meaningful to the contributor. Projects and platforms that employ the donation model typically also use a reward or incentive system to help stimulate contributions. Incentive rewards, gifts or tokens can range from named recognition of contributors in the project's credits or acknowledgements to branded merchandise or opportunities to meet with creators and/or attend special events related to the project such as a launch party or premiere screening event. Typically, a range of incentives is offered for any given project and contributors receive different rewards depending on the amount that they contribute.

With its roots in philanthropy, the Donation Model is derived from the online donation model used by charities. The key to this model is that while contributors might receive recognition or rewards for their contribution, they do not receive any rights or equity in the project. The Donation Model of crowdfunding is currently the most common means of crowdfunding in Canada and around the world, due primarily to securities regulations. Indeed, a recent report by Massolution/Crowdsourcing LLC determined that donation-based crowdfunding initiatives raised the most money in 2011 at a total \$676 million (USD) from platforms around the world.<sup>6</sup>

<sup>6</sup> *Crowdfunding: \$1.5B Raised, 1M Campaigns Funded In 2011; Figures Set To Double In 2012.* Rip Empson. TechCrunch. May 08, 2012. <http://techcrunch.com/2012/05/08/crowdfunding-state-of-the-union/>.

## Record-breaking Donation-based crowdfunding campaign: Double Fine Adventure (Kickstarter)

**Type of production/project:** Digital Media (game)

**Funding Target:** \$400,000 (USD)

**Funds Raised:** \$3.3 million (USD)

**The Company:** Double Fine

Based in San Francisco, and founded in 2000 by industry veteran Tim Shafer, Double Fine is an award-winning independent games development company with a strong track record on different games platforms including XBOX and Playstation.

**The Story:** Double Fine set out to raise an ambitious target of \$400,000 (USD) for a point and click game and behind the scenes video. On March 13, 2012 when Double Fine's Kickstarter campaign concluded, the company had raised seven and a half times that amount, reaching \$3.3 million (USD), more than enough to fund the development of their game. The campaign set a precedent for how independent games can finance their projects without engaging publishers.

**Analysis:** Of all genres, games arguably have the most active communities and sub-communities around specific properties such as the phenomenally successful and persistent "World of Warcraft." Games are interactive and attract users who want to be members of a community



and participate in it. Double Fine recognized this community desire and engaged potential investors by offering them exclusive access to development forums and to brainstorm with developers. Double Fine's success proves that avid gamers will pay for this privilege.

For the independent games producer, Kickstarter provides the promise of creative freedom. Games developers that meet their funding targets with consumer support can move forward without the compromise that often comes when working with publishers. According to Double Fine, crowdfunding "democratizes" the process giving "developers the freedom to experiment, take risks, and design without anyone else compromising their vision. It's the kind of creative luxury that most major, established studios simply can't afford. At least, not until now."<sup>7</sup>

<sup>7</sup> How Double Fine Raised \$3.3 million on Kickstarter and Changed Game Financing Forever. Dave Ther, Forbes.com. March 14, 2012. <http://www.forbes.com/sites/davidthier/2012/03/14/how-double-fine-raised-3-3-million-on-kickstarter-and-changed-game-financing-forever/>.

## Overwhelming support for a first-time feature length documentary filmmaker: *Within Every Woman* (Kickstarter – HotDocs Curated Page)

**Type of production/project:** Documentary (Film/TV)

**Funding Target:** \$50,000 (USD)

**Funds Raised:** \$56,525 (USD)

**The Company:** Golden Nugget Productions

Toronto-based Golden Nugget Productions is a relatively new company without an established reputation among major broadcasters. It is difficult for new entrants to fund their documentaries using the conventional method of financing through broadcasting development funding or a broadcasting licence. They often pay to pitch before licensing executives at forums such as Hot Docs or the Banff World Media Festival.

**The Story:** The pitch forum at Hot Docs in 2011 is the route Golden Nugget's director, Tiffany Hsiung, took to crowdfunding in order to raise funding for "Within Every Woman" ([www.wewoman.org](http://www.wewoman.org)). Hot Doc's Forum and Market Director, Elizabeth Radshaw recommended "Within Every Woman" for the HotDocs curated page on Kickstarter. Initially, Hsiung's producer wanted to target \$100,000 but the company was late to take advantage of their 60-day funding window; they did not begin to promote the Kickstarter campaign until 30 days after the campaign had been kicked-off, which is half way through the allotted 60-day funding period imposed by Kickstarter. As such, given that the producers effectively had only 30 days to raise their funds, they decided that a goal of \$50,000 was more realistic. The \$56,000 (USD) raised falls within the range of development funds typically offered by broadcasters and did kick-start "Within Every Woman" but it is not enough to finance the full production of the documentary. Hsiung estimates she requires another \$200,000 and is seeking a broadcasting license as well as private investment, but does not plan on starting another crowdfunding campaign for this project. The time and effort needed to promote and administer the campaign is fairly onerous and the producers would be reluctant to undertake it again for the same project –

they would rather focus on the production (which has already kicked-off) and on soliciting the remaining necessary funds from other sources. In addition, Hsiung and her team are conscious of the possibility of donor fatigue and do not wish to go back to the same pool of supporters for additional funds.

**Analysis:** The Kickstarter campaign not only proves there is an audience for "Within Every Woman," but due to its web based platform, provides analytics that may be useful for Golden Nugget as it approaches funders and broadcasters. Crowdfunding can become a useful tool for savvy producers who can leverage information and metrics about their projects by monitoring and analysing when people use the Internet, how they surf and by testing and targeting blogs. This moves the documentary funding model closer to that of web site producers who, when seeking funding from Bell Fund or

**Within Every Woman - The Documentary Film**  
A Film & Video project in Toronto, Canada by Tiffany Hsiung • [Send message](#)

PROJECT HOME UPDATES 17 BACKERS 590 COMMENTS 18 TAGS 10

PLAY VIDEO

**590** BACKERS  
**\$56,525** PLEDGED OF \$50,000 GOAL  
**0** SECONDS TO GO

**FUNDING SUCCESSFUL**  
This project successfully raised its funding goal about 18 hours ago.

Canada Media Fund (Experimental Stream), typically have to demonstrate that there is an audience for their project with supporting audience demographic characteristics.

Hsiung and the Golden Nugget team had to work around regulatory issues associated with Kickstarter's terms. Canadians who want to raise funds from U.S. based Kickstarter must do so through a U.S. account. Golden Nugget partnered with a U.S. based charitable organization that in turn already was in partnership with one of Golden Nugget's Canadian partners.

Still to be addressed is the status of third party funding. It is unclear whether or not this type of third party funding might affect a producer's ability to secure a broadcasting license from a major broadcaster.

## 2.1.2 The Lending Model

**The Lending Model of crowdfunding is similar to any typical lending scenario, where individuals lend money to a project or company with the expectation that it will be repaid.** In the context of crowdfunding, the lending model can take a number of forms, shown below:

- **A traditional lending agreement** – standard terms are used and there is an expectation for a monetary reimbursement in the form of interest. In this case, the loans may or may not be guaranteed, depending on the crowdfunding platform being used.
- **A forgivable loan** – contributions are reimbursed to the lender only if one of two possible conditions is met: a) if and when the project begins to generate revenue or b) if and when the project begins to make a profit.
- **Pre-sales** – the finished product is promised in return for the contributor's pledge. In the case of a pre-sale lending model, the contribution amounts are determined according to an assessment of the fair market value of the product. In addition, larger contribution amounts are typically accompanied by a promise of more copies of the product equal to the value of the amount of the contribution.

According to Massolution/Crowdsourcing LLC, Lending Model campaigns tend to reach completion in half the time it takes for Investment Model campaigns.<sup>8</sup> The Lending Model is similar to micro-financing schemes common in developing countries or micro-lending platforms, such as Kiva, which allow individuals to solicit and provide micro-loans to support individuals or communities in developing countries or support small businesses. These micro-lending platforms have helped pioneer the concept of individual investment through micro-lending.

Lending-based crowdfunding also accounted for \$522 million (USD) of the crowdfunding monies raised globally in 2011, making it the second-largest form of crowdfunding in terms of the amount of money raised.<sup>9</sup>

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<sup>8</sup> *Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms*. Crowdsourcing.org. May 2012. P. 22.

<sup>9</sup> *Crowdfunding: \$1.5B Raised, 1M Campaigns Funded In 2011; Figures Set To Double In 2012*. Rip Empson. TechCrunch. May 08, 2012. <http://techcrunch.com/2012/05/08/crowdfunding-state-of-the-union/>.

**A successful DIY lending-based crowdfunding campaign:  
My Million Dollar Movie (DIY Campaign)**

**Type of production/project:** Feature Length Movie

**Funding Target:** \$1 million

**Funds Raised:** \$1.9 million

**The indie Producer:** Casey Walker

**The Project:** A Little Bit Zombie

**The Story:** In 2006, Canadian director Casey Walker launched a Do-it-Yourself crowdfunding campaign to fund an independent feature-length film. Five years later, in 2011, he finally reached his funding goal and began production.

Walker's inspiration for the My Million Dollar Movie campaign from a website he had come across where a student sold pixels on his website for \$1 each, calling the campaign The Million Dollar Homepage. Instead Walker, adapted the concept to frames of the film, which he sold at roughly \$10 per frame.

Contributors who purchased frames received credit as producers and were also promised a reimbursement on the funds they contributed when (if) the film generates revenues. In addition, should the project become profitable, contributors are promised a share of the profits, which will be donated to a charity of their choice.

**Analysis:** Casey Walker encountered a run-in with Canadian Securities Administrators when they accused him of selling securities under the auspice of selling frames of the film. In order to address the issue, Walker adopted a lending model, where "frameholders" would be reimbursed for their contribution once the film began to generate revenue. Another issue in his campaign was the promise of profit-sharing based on the number of frames (shares) held by a contributor. In order to ensure that this promise did not violate securities laws, Walker devised a model where any profit dividends awarded to "frameholders" would be donated to a charity of the contributor's choosing.



Walker's campaign was one of the earliest crowdfunding initiatives for the creative sector in Canada. As such, Walker acted as a trailblazer of sorts. And it took him five years to get the funding he needed to begin production on the movie, which he finally did in 2011. Walker's difficulty in drumming up the necessary funding in a more timely manner could be attributed to a number of factors:

1. He was crowdfunding at a time when nobody knew what crowdfunding was;
2. His original funding goal of \$1 million dollars likely put potential contributors off; and
3. He used a do-it-yourself approach, which meant he could not benefit from additional exposure as a result of other traffic to the platform website.

The A Little Bit Zombie case is an important case study because it illustrates some of the regulatory challenges and ambiguities that exist within this new form of funding, particularly considering the absence of clear guidelines or regulations to govern it.

## A record-breaking pre-sale crowdfunding campaign: Pebble Watch (Kickstarter)

**Type of production/project:** Digital Media hardware (Watch)

**Funding Target:** \$100,000 (USD)

**Funds Raised:** \$10,266,845 (USD)

**The Company:** Pebble Technology

Eric Migicovsky first came up with the idea for the Pebble Watch when he was still a student at the University of Waterloo. After graduating in 2009 he and a team developed the first iteration of the smart watch called InPulse, which was only compatible with BlackBerry. Following a stint at start-up accelerator Y-Combinator and a round of angel investment fundraising, the newly named Pebble Technology decided to put its efforts into building a Kickstarter Campaign for the new Pebble Watch, which is now compatible with iPhone and Android devices through Bluetooth technology, and moved his company to Palo Alto, California.

**The Story:** Migicovsky turned to crowdfunding when his attempts to charm major investors fell flat. Although he did successfully raise \$375,000 from angel investors, he was unsuccessful in raising larger sums or enticing venture capital investment. Migicovsky attributes his difficulty in drumming up financing to less-than-exciting sales figures for the earlier InPulse and the fact that investment in hardware is generally difficult to come by.

From the first day of its crowdfunding campaign it was already clear that the Pebble Watch would be a record breaker. Within the first 28 hours of the Kickstarter campaign Pebble Technology had raised \$1 million (USD), after less than a week that number had surpassed the previous Kickstarter record of \$3.3 million (USD), and within two weeks it had reached \$8 million (USD).

Finally, two weeks before the end of the pre-determined funding campaign Pebble Technology decided to close the funding early, after reaching just over \$10 million (USD) in funding, in order to focus on making the watches.



The Pebble Watch Kickstarter campaign used a primarily pre-sale Lending Model campaign, however they also offered one contribution level for any contributors who wished to support the project but did not want to purchase the product.

**Analysis:** The Pebble Watch story demonstrates the potential behind crowdfunding to support and bring to fruition a project that might not otherwise be able to access more traditional funding or financing sources. Not only was Migicovsky able to prove that the watch was a good idea, but he was also able to instantly build a market for the product and has a large number of guaranteed sales.

The case study also demonstrates the power of a pre-sale crowdfunding model. The promise of a copy of a product that contributors are keen to support is a very powerful incentive.

A key to the success of the Pebble Watch campaign was also Migicovsky's initial significant investment in creating high quality promotional materials, such as the promo video featured on the Kickstarter campaign page.



### 2.1.3 The Investment Model

**The Investment Model resembles a standard equity investment, where an individual receives equity in an entity in return for financing.** There are two standard sub-categories of Investment Model crowdfunding:

***Securities Investment Model***

shares in the company are bought by investors. In this model, contributors would be buying ownership in the parent company or rights in a project.

***Profit or Revenue-sharing Model***

a share of the revenue or profits of the project is earned by investors, as opposed to shares in the underlying company. This is also known as a 'Collective Investment Scheme'.

Typically under a crowdfunding investment scheme, the investment would be passive rather than active. In other words, investors buy ownership or revenue or profit shares but do not have an active role in creative or management decision-making.

The investment model is currently not legal in Canada due to current securities laws. However, The US recently passed the Jumpstart Our Business Start-ups (JOBS) Act, which opens the door to investment-based crowdfunding. Although the act outlines some initial regulations related to the new law, the full extent of the new regulations are currently being developed by the National Securities Regulator and will not be known until the new law comes into effect in early 2013.

There are currently a number of platforms based in the US and other countries that offer investment-based crowdfunding models, including SellABand.com, Appbackr, EquityCircle, SEEDUPS and Motaavi.

## Investment Model Case Study: The Age of Stupid

**Type of production/project:** Documentary

**Funding Target:** N/A

**Funds Raised:** £730,000

**The Company:** Spanner Films

**The Story:** Fanny Armstrong and UK-based Spanner films decided to crowdfund *The Age of Stupid* so that the film could remain completely independent and they could retain 100% of the creative decision-making on the film. It was important for Armstrong because she wanted to create a film that would have a strong social-political commentary and did not want that to be hindered by other parties vested in the project.

The campaign used a hybrid investment-donation-lending model. The campaign provided potential contributors with two options: 1) Purchase profit shares, 2) Donate. Investors had to contribute a minimum of £5,000 for a 0.5% share of profits in the film. However, the investment was actually structured like a forgivable loan with clear lending terms and the provision that profit dividends would only be awarded if and when the film made a certain amount of profit. As such, the campaign avoided legal difficulties associated with selling equity or shares.

For contributors who could not contribute the minimum amount for an investor, the project team provided a second option where contributors could simply donate any amount to the film. They ascribed incentives for certain ranges of donation amounts—such as recognition on the website or in the film credits or a chance to appear in the film.

Spanner films raised £450,000 for the production, £180,000 for the UK release and £220,000 for the international release between 2004 and 2009, spread over three separate funding rounds.



**Analysis:** *The Age of Stupid* is an interesting do-it-yourself crowdfunding case study that created a unique model which met the needs of the creators, the project's contributors and worked within the legal and regulatory considerations in the UK.

It is also a great example of how a campaign can successfully complete multiple funding rounds for a single project by clearly defining what the funding is for and how it will be used.

One of the key success factors in the case of *The Age of Stupid* is that the film was about a topic that people are passionate about and were excited to support.

However, the most striking feature of *The Age of Stupid* case is that the terms and risks of the investment are described in clear detail so that potential contributors are fully aware of what their relationship is with the project and its creators. Indeed, Armstrong was so committed to transparency that she took special care to make any and all information relating to the production available on the film's website including a detailed funding plan, a detailed production budget and regular updates on the progress of both her fundraising efforts and progress on the actual production process for the film.

## 2.2 Market Trends

It is clear that crowdfunding is a growing and increasingly mature industry. In 2011, almost \$280 million (USD) was invested in the development of approximately 35 crowdfunding platforms (primarily in the US).<sup>10</sup> And this says nothing of the volume of funds being raised via these platforms.

Indeed, crowdfunding has become a significant way for people to fund their ideas and projects across a number of industries. In particular, it has become popular in art, film, music and interactive digital media. Its applicability for financing television remains unclear, although a recent platform dedicated solely to independent television production has emerged in the US (Mobcaster), where the Australian series *The Weatherman* recently raised almost \$74,000 (USD) to produce a first 6-episode season.<sup>11</sup>

According to Crowdsourcing LLC's *Directory of Sites*, **as of April 2012 there are more than 450 active crowdfunding platforms online around the world, most of which are based in North America and Western Europe** (see table at right)<sup>12</sup>. Out of that number, the vast majority (191) are in the US, followed by the UK (44), with Canada (17) trailing behind much of Western Europe (sum of 173)<sup>13</sup>.

**TABLE 1 – NUMBER OF CROWDFUNDING PLATFORMS BY COUNTRY**

Country	Number of Crowdfunding Platforms (2012)
US	191
UK	44
Netherlands	29
France	28
Brazil	21
Germany	20
Spain	18
Canada <sup>14</sup>	17
Australia	12
Other Europe <sup>15</sup>	49
India	6
New Zealand	6
China	4
Japan	3
South Africa	3
Other Countries <sup>16</sup>	10
Total	461

Source: Massolution/Crowdsourcing LLC, as of April 2012

<sup>10</sup> *Crowd-Sourced Funding for Media Properties*. FanTrust. Spring, 2012.

<sup>11</sup> *Mobcaster Crowdfunds Its First TV Season*. Anthony Ha. TechCrunch. March 09, 2012. <http://techcrunch.com/2012/03/09/mobcaster-crowdfunds-the-weatherman/>.

<sup>12</sup> <http://www.crowdsourcing.org/directory>

<sup>13</sup> *Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms*. Crowdsourcing.org. May, 2012. P. 18.

<sup>14</sup> Additional detail about the Canadian platforms is provided in the following section.

<sup>15</sup> Belgium(6), Italy(6); Portugal(6); Switzerland(5); Poland (4); Denmark(3); Finland(3); Ireland(3); Sweden(3); Czech Republic(2); Russia(2); Austria(2); Estonia(1); Hungary(1); Latvia(1); Norway(1); Romania(1).

<sup>16</sup> Argentina(2); Mexico(2); Chile(1); Haiti(1); Hong Kong(1); Israel(1); Phillipines(1); Zambia(1).



A recent report published by Massolution/Crowdsourcing LLC, *Crowdfunding Industry Report: Market Trends, Composition and Crowdfunding Platforms*,<sup>17</sup> states that **over \$1.5 billion (USD) was raised through crowdfunding platforms globally to fund more than 1 million projects or initiatives, the majority of which followed the Donation (or reward-based) Model.**<sup>18</sup>

Massolution/Crowdsourcing LLC also reported that the last six years have seen unprecedented growth in crowdfunding, with the growth in the number of crowdfunding platforms reaching 54% in 2011 and set to reach an estimated 60% in 2012.<sup>19</sup> In addition, the study reports that over the last three years, the total amount of funds raised worldwide through crowdfunding grew by 63% Compound Annual Growth Rate (CAGR), largely within the Donation and Lending Models.

According to the same study, **North America and Europe are the two most active markets for crowdfunding, with North America currently representing the largest market in terms of the volume of funds raised**, at a total of \$837 million (USD) for 2011.<sup>20</sup> By contrast, of the world's 1,187,000 total successful crowdfunding campaigns, the majority originated from Europe (654,000), exceeding the number originating in North America (532,000).<sup>21</sup>

**Among the three crowdfunding models, the Donation Model or reward-based model currently represents the largest crowdfunding category worldwide in terms of the number of existing platforms.**<sup>22</sup> Indeed, a recent market research study by Daily Crowdsourc shows that 93% of campaigns launched globally in 2011 were rewards-based where only 7% were investment-based.<sup>23</sup> Similarly, 83% of funds raised globally in 2011 came from reward-based campaigns and only 17% was raised through investment-based campaigns.<sup>24</sup>

However, the Massolution/Crowdsourcing LLC report asserts that the Investment Model has been the most successful model in terms of the number of successful campaigns and the average amount of money raised per campaign. For example, over 80% of the global Investment Model campaigns raised over \$25,000 (USD) each.<sup>25</sup> By contrast, only one-third of the global Donation Model campaigns have raised over \$5,000 (USD), and a mere 10% have raised over \$10,000 (USD).<sup>26</sup>

In addition, **the Investment Model is generally seen to have the greatest potential for growth.** Massolution/Crowdsourcing LLC predicts that the total global funding volume for crowdfunding will double in 2012, to \$2,806 million (USD) from an estimated \$1,470 million (USD) in 2011. Of this, they predict a 300% growth in the Investment Model, a 75% growth in the Lending Model and a 50% growth in the Donation Model.<sup>27</sup> However, the Investment Model poses a number of problems, including breaches of securities regulations and also raises questions about IP ownership and creative control. Furthermore, crowdfunding is a model that was built for and is best suited to financing one-time projects rather than providing capital.

**The popularity and success of each of the three existing crowdfunding models varies by market**, with a higher frequency of the Investment Model found in European markets, where the securities regulations may be less restrictive. Indeed, the Massolution/Crowdsourcing LLC report shows that of the \$112 million (USD) raised in equity or Investment Model crowdfunding globally in 2011, over half of that amount came from Europe.<sup>28</sup>

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<sup>17</sup> In April 2012, Massolution/ Crowdsourcing LLC released the first-ever profile of the global crowdfunding industry in its Crowdfunding Industry Report.

<sup>18</sup> *Crowdfunding in Canada: Opportunities and Hurdles*. Louis Rayeaume. Techvibes. May 11, 2012. <http://ht.ly/aRbgw>.

<sup>19</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May, 2012. P. 14.

<sup>20</sup> *Crowdfunding: \$1.5B Raised, 1M Campaigns Funded In 2011; Figures Set To Double In 2012*. Rip Empson. TechCrunch. May 08, 2012. <http://techcrunch.com/2012/05/08/crowdfunding-state-of-the-union/http://techcrunch.com/2012/05/08/crowdfunding-state-of-the-union/>.

<sup>21</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May, 2012. P. 18.

<sup>22</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May, 2012. P. 17.

<sup>23</sup> Crowdfunding is Growing Really Fast!. [dailycrowdsourc.com](http://dailycrowdsourc.com). <http://dailycrowdsourc.com/crowdsourcing/news/1054-crowd-census-ii-is-finally-here>.

<sup>24</sup> Crowdfunding is Growing Really Fast!. [dailycrowdsourc.com](http://dailycrowdsourc.com). <http://dailycrowdsourc.com/crowdsourcing/news/1054-crowd-census-ii-is-finally-here>.

<sup>25</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P. 19.

<sup>26</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P. 21.

<sup>27</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P. 15.

<sup>28</sup> *Accelerating Crowdfunding In Canada: White Paper*. Cindy Gordon, Andrew Weir. Helix Commerce International, Canadian Advanced technology Alliance. 2012.



## 2.2.1 US Market Trends

The United States (US) has the world's highest level of activity in crowdfunding. Many of the US's 191 crowdfunding platforms have an international reach, and as the US crowdfunding market matures, some are aggressively working to expand and establish a foothold in foreign markets. IndieGoGo, for example, has recently seen its Chief Executive on a roadshow through Europe to expand its international reach and prominence.<sup>29</sup> Moreover, the platform is likely to continue to grow and expand following the closing of a recent Series A funding round in which they raised \$15 million (USD).<sup>30</sup> Similarly, Kickstarter has initiated a move to expand into other territories. The platform recently announced on Twitter that starting in the fall of 2012, projects based out of the UK will be able to launch campaigns on the popular platform, without having to partner with someone in the US.<sup>31</sup> Previously, Kickstarter was only available to project owners who were US residents with US bank accounts, primarily due to restrictions set by their payment partner, Amazon Payments.

Until recently, with the passing of the JOBS Act, equity-based or Investment Model crowdfunding was illegal in the US. In fact, before the Act was passed several crowdfunding companies were ordered to cease their activities by state laws. Many of the companies that were shut down, such as ProFounder in California, responded by lobbying the government for changes to securities regulations.<sup>32</sup>

These efforts resulted in a significant securities regulation reform with the passing of Section 302 of the Jumpstart Our Business Start-ups (JOBS) Act, the details of which are still under review by the Securities Exchange Commission. However, some preliminary features of the act include:

- Companies will be able to raise up to \$1million (USD) from private unaccredited investors, or up to \$2 million (USD) if they supply audited financial statements;
- Companies will not be obliged to disclose financial statements if they have fewer than 1,000 shareholders (an increase from the previous number of 500);
- Investors who have an annual income or net worth of less than \$100,000 (USD) will be able to invest either 5% their total income or up to \$2,000 (USD), whichever is the larger amount; and<sup>33</sup>
- Investors who have an annual income or net worth of more than \$100,000 (USD) will be able to invest up to 10% of their total income up to a maximum of \$100,000 (USD).<sup>34</sup>

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<sup>29</sup> IndieGoGo is currently active in over 196 countries, including Canada.

<sup>30</sup> *Indiegogo Raises \$15 Million Series A To Make Crowdfunding Go Mainstream*. Colleen Taylor. TechCrunch. June 06, 2012. <http://techcrunch.com/2012/06/06/indiegogo-funding-15-million-crowdfunding/>.

<sup>31</sup> <https://twitter.com/kickstarter/status/222359796718911488>

<sup>32</sup> ProFounder.com Blog. February 17, 2012. <http://blog.profounder.com/2012/02/17/profounder-shutting-down/>.

<sup>33</sup> *New law allows entrepreneurs to sell securities via crowdfunding*, Eileen Ambrose. The Baltimore Sun. April 14, 2012. [http://articles.baltimoresun.com/2012-04-14/business/bs-bz-ambrose-crowdfunding-20120414\\_1\\_crowdfunding-investors-securities](http://articles.baltimoresun.com/2012-04-14/business/bs-bz-ambrose-crowdfunding-20120414_1_crowdfunding-investors-securities).

<sup>34</sup> *Accelerating Crowdfunding In Canada: White Paper*. Cindy Gordon, Andrew Weir. Helix Commerce International, Canadian Advanced technology Alliance. 2012.

## 2.2.2 European Market Trends

Information regarding the crowdfunding market in Europe is relatively sparse. However, the recent industry report by Massolution/Crowdsourcing LLC shows that while North America, and in particular the US, represents the largest crowdfunding market in both number of platforms and volume of funds raised, the other main market for crowdfunding is Europe, particularly Western Europe. Indeed, according to one source, the European market share in terms of the volume of money raised is dominated by the United Kingdom (63%), followed by Germany, Poland, France, Italy and Spain.<sup>35</sup> Moreover, according to Crowdsourcing LLC's directory of platforms, the largest markets in Europe in terms of the number of platforms are the UK (44) followed by the Netherlands (29) and France (28), Germany (20) and Spain (18).<sup>36</sup>

Investment Model crowdfunding is more common in Europe than other jurisdictions, particularly in countries that might have less restrictive securities regulations. Indeed, the number of Investment Model platforms in operation is larger in Europe than in North America.<sup>37</sup> In addition, Massolution/Crowdsourcing LLC report that the recent growth in the number of equity-based platforms (114% CAGR over the last three years) is primarily driven by growth in European markets.<sup>38</sup>

In the UK, crowdfunding is seen as a valuable source of financing for the interactive digital media sector. Where access to finance has been identified as a key barrier to growth for the interactive digital media industry, the UK Interactive Entertainment Association (UKIE) is leading an initiative to advance and accelerate the use

of crowdfunding for the video games industry. In February 2012, UKIE published the influential *A Proposal to Facilitate Crowd Funding in the UK*, which provides a series of recommendations to improve the regulatory environment to make crowdfunding a viable option for indigenous investors, producers and crowdfunding platforms. In December 2011, the UK government initiated a Business Funding Taskforce, which will encompass a review of crowdfunding as part of its remit, in order to address the access to finance barriers for growth.

Current UK securities regulations restrict the potential of Investment Model crowdfunding. As it stands, crowdfunded projects are required to be managed by a Financial Services Authority (FSA)-authorized individual, which is nearly impossible for each crowdfunding project. Meanwhile, projects run by a special purpose company are able to offer shares to investors (the Securities Investment Model), but this process and the compliance requirements are generally too costly and onerous for most crowdfunding projects.

In France crowdfunding has experienced significant growth over the last few years with the emergence of several platforms following the success of MyMajorCompany.<sup>39</sup> Indeed, there are currently about 25 crowdfunding platforms operating in France which have collectively raised €6 million to fund about 15,000 projects and initiatives since 2008.<sup>40</sup> However, entrepreneurs, platform operators and general proponents of crowdfunding in France fear that the current securities and bank regulations in

<sup>35</sup> *crowdfunding market share in terms of volume of money*. mymicroinvest.com. August 18, 2011.  
<http://mymicroinvest.com/blog/posts/crowdfunding-market-share-in-terms-of-volume-of-money>.

<sup>36</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P. 18.

<sup>37</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P. 14.

<sup>38</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P. 17.

<sup>39</sup> *La finance participative entre en champagne*. Marc Lipskier. Locita Société. May 05, 2012.  
<http://fr.locita.com/societe-2/la-finance-participative-entre-en-campagne/>.

<sup>40</sup> *Le « crowdfunding » français donne de la voix*. Christine Lejoux. La Tribune. March 27, 2012.

<http://www.latribune.fr/entreprises-finance/banques-finance/industrie-financiere/20120327trib000690532/le-crowdfunding-francais-donne-de-la-voix.html>.



the country and in Europe in general could hinder the growth of this emerging alternative financing channel. Indeed, during the recent presidential election a group of platform operators, project developers and other crowdfunding proponents from the private financing space signed a manifesto challenging the presidential candidates to consider changes to the country's securities rules to allow more flexibility for crowdfunding. Changes that the group has requested include: increasing the number of shareholders allowed within one holding company to 150 from the current 50, entrepreneurs seeking less than 3,000 euros are not part of the initial public offering.<sup>41</sup> The group has also asked for a number of changes to existing rules around general fundraising and direct lending that would better accommodate and encourage the growth of crowdfunding in France.<sup>42</sup> For example, the group has asked that lenders be able to receive tax benefits such as the ones that charitable donors currently receive.<sup>43</sup> They are also presenting amendments that will loosen the requirements for lenders—under the current rules, for a loan of as little as 100 dollars lenders are still required to provide two pieces of identification, proof of address and a proof of residency in France.<sup>44</sup>

Similarly, a group of platform operators are also lobbying the European Commission for similar changes at the European level, however they anticipate that this process will be much longer and more demanding.<sup>45</sup>

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<sup>41</sup> *Le Crowdfunding: Trouver des fonds souscrits par des particuliers via des plateformes internet, c'est possible.* Cyril André. *lenouveleconomiste.fr*. April 12, 2012. <http://www.lenouveleconomiste.fr/lesdossiers/le-crowdfunding-14433/>.

<sup>42</sup> *La finance participative entre en champagne.* Marc Lipskier. *Locita Société*. May 05, 2012. <http://fr.locita.com/societe-2/la-finance-participative-entre-en-campagne/>.

<sup>43</sup> *Le « crowdfunding » français donne de la voix.* Christine Lejoux. *La Tribune*. March 27, 2012. <http://www.latribune.fr/entreprises-finance/banques-finance/industrie-financiere/20120327trib000690532/le-crowdfunding-francais-donne-de-la-voix.html>.

<sup>44</sup> *Le « crowdfunding » français donne de la voix.* Christine Lejoux. *La Tribune*. March 27, 2012. <http://www.latribune.fr/entreprises-finance/banques-finance/industrie-financiere/20120327trib000690532/le-crowdfunding-francais-donne-de-la-voix.html>.

<sup>45</sup> *Le Crowdfunding: Trouver des fonds souscrits par des particuliers via des plateformes internet, c'est possible.* Cyril André. *lenouveleconomiste.fr*. April 12, 2012. <http://www.lenouveleconomiste.fr/lesdossiers/le-crowdfunding-14433/>.



### 2.2.3 Canadian Market Trends

In Canada, the primary crowdfunding model currently in use is the Donation Model, as there are no *a priori* regulatory limitations to that model. However, crowdfunding endeavours cannot currently qualify as registered charities. Unlike Telefilm's new private donation fund, crowdfunding endeavours are ineligible to issue tax receipts unless they are structured as a charitable entity.

The Investment Model is currently not feasible in Canada due to provincial securities regulations. The provincial regulators have stringent rules on financial reporting and the issuing of shares to investors. Securities regulations in Canada tend to restrict the number of investors in a private business, and thus to a crowdfunded project, which stands as a major hurdle to the Investment Model. While not as explicitly difficult to implement as the Investment Model, the Lending Model faces many of the same challenges. Perhaps one of the main obstacles to such regulatory changes is that they need to be coordinated across each of the provinces and implemented at the provincial level because Canada does not have a national securities regulator.

There are some innovative crowdfunding models emerging in Canada which are connecting companies and projects to capital which go beyond a simple Donation (reward-based) Model but remain on the good side of Canadian provincial securities laws. For example, Calgary-based Podium Ventures connects individuals or start-ups with accredited investors en-masse using a crowdfunding-style platform whose secret weapon is a database of accredited investors across Canada.<sup>46</sup> SoKap on the other hand, based out of Vancouver, has taken an innovative approach to licensing and revenue sharing. The SoKap model effectively sells a product's marketing and promotion rights for a pre-determined geographic area to contributors.<sup>47</sup> As such, the product creators retain ownership and contributors receive a cut of the revenues generated from the area for which they own the rights.

The Massolution/Crowdsourcing LLC industry report cites that there are a total of 17 crowdfunding platforms based in Canada. However, a number of other platforms based in the US and Europe are open to projects and companies based in other countries, including Canada (e.g. Indiegogo, SellaBand, RocketHub). In addition, the industry is constantly in flux, and more platforms continue to emerge. The table in Appendix A provides a sample list of crowdfunding platforms based in Canada and their respective features.

In spite of the number of platforms that have recently emerged in Canada, several stakeholders have expressed concerns that the size of the Canadian market could impact the sustainability of crowdfunding in Canada due to a smaller pool of potential donors, resulting in a higher risk of donor fatigue.<sup>48</sup> In addition, at least one stakeholder expressed concern with the fact that the culture of philanthropy is different in Canada and may lend itself less well to the crowdfunding model.<sup>49</sup> Another stakeholder also expressed that crowdfunding is still a fairly new concept in Canada and that lack of awareness among the public and potential contributors is a current challenge.<sup>50</sup> Moreover, the business model for crowdfunding platforms is typically commission-based. A smaller population in Canada means that this business model is less viable and the crowdfunding business is less attractive in the Canadian market.<sup>51</sup> Nevertheless, some stakeholders feel that crowdfunding provides a unique opportunity to bring Canadian content and products to international markets and solicit private financing from broader, international pools.<sup>52</sup>

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<sup>46</sup> *Crowdfunding evolving as Canadians reap benefits*. Danny Bradbury. The Financial Post. May 28, 2012. <http://business.financialpost.com/2012/05/28/crowdfunding-evolving-as-canadians-reap-benefits/>.

<sup>47</sup> *Crowdfunding evolving as Canadians reap benefits*. Danny Bradbury. The Financial Post. May 28, 2012. <http://business.financialpost.com/2012/05/28/crowdfunding-evolving-as-canadians-reap-benefits/>. Stakeholder interviews. Conducted by Nordicit. May–June, 2012.

<sup>48</sup> Stakeholder interviews. Conducted by Nordicit. May–June, 2012.

<sup>49</sup> Stakeholder interviews. Conducted by Nordicit. May–June, 2012.

<sup>50</sup> Stakeholder interviews. Conducted by Nordicit. May–June, 2012.

<sup>51</sup> Crowdfunding in Canada, NorthBridge Consultants, June 04, 2012, <http://www.northbridgeconsultants.com/blog/2012/06/04/crowdfunding-in-canada/>.

<sup>52</sup> Stakeholder interviews, conducted by Nordicity, May–June 2012.

### 3. DEMAND FOR CROWDFUNDING IN CANADA'S TV AND DIGITAL MEDIA INDUSTRIES

This section provides a summary of current demand for crowdfunding among Canadian content creators as well as outlining the key perceived benefits and risks for content creators. The section is primarily based on the stakeholder interviews conducted by Nordicity with both producers and key stakeholders in the legal, financing/funding and regulatory environment.

#### 3.1 The best fit for creative content crowdfunding

Screen-based content creators generally agree that **traditional sources of funding for creative media projects are becoming more competitive**—with more companies and producers competing for relatively unchanged amounts of funding—making it increasingly difficult for creators to access necessary funds to produce their projects. More recently, producers and creators are becoming increasingly concerned that existing funding dollars will begin to disappear as a result of continued cuts to government programs.<sup>53</sup> Moreover, this is in an industry where there has always been a sense that there is not enough funding to go around, perhaps due to the relatively small and sometimes conservative investment community and a greater demand for public funds than availability. As a result, producers are actively looking for alternative funding sources. Even well-established TV production companies are pursuing non-traditional funding solutions.<sup>54</sup> Given this climate, there is overwhelming consensus among stakeholders that crowdfunding presents a compelling opportunity for an alternative funding solution and that there is an existing demand for crowdfunding among screen-based creative content creators.

However, **stakeholders are careful not to view crowdfunding as a panacea for the industry's funding challenges.** Crowdfunding's viability and sustainability have yet to be tested

over the long term and key stakeholders do not believe it could ever generate enough funds to fully replace existing funding sources. While stakeholders do not seem to see crowdfunding as a magical new solution for funding projects, they do see it as a sustainable part of the larger funding ecosystem. For example, it could be harnessed to supplement remaining budget shortages after other funding options have been exhausted. Moreover, the crowdfunding model does not necessarily fit all creative project scenarios.

In general, stakeholders agreed that **crowdfunding is best suited to independent producers and developers who work on a smaller scale, with smaller budgets.** It is often more difficult for these producers working on a small scale to access traditional funding streams for a number of reasons. There currently exists a clear funding gap for amounts between \$20,000 and \$80,000, the level of funding that many of these smaller-scale producers are looking for. And crowdfunding appears to be best suited to smaller-scale funding with the majority of projects posting funding goals and reaching funding volumes of between \$10,000 and \$50,000.

In addition, the simple overhead cost in time and effort of the administrative processes needed to access those funds present a particular challenge to smaller-scale independent producers who lack the additional human resources that can help support the efforts of preparing and submitting funding applications

For similar reasons, crowdfunding is particularly appealing to emerging creators and producers. These producers face the additional challenge of not being established or recognized in the industry, making it difficult for them to secure private funding options and establish broadcasting or other industry partnerships. Moreover, emerging producers rarely have any capital to invest in their projects themselves. As such, they resemble a new start-up that does not have the collateral or a strong enough business case to secure private financing from venture capitals or banks. Crowdfunding could provide a means of bridging the funding gap until other monies can be accessed by the project's creators.<sup>55</sup>

<sup>53</sup> Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

<sup>54</sup> *Time to Join the Crowdsourcing Trend?*. Playback. Spring 2012. P. 13-117.

<sup>55</sup> *The JOBS Act opened up exciting investment opportunities for middle class Americans: Should Canada follow suit?*. Neil Hazan. TheMark News. April 28, 2012. <http://www.themarknews.com/articles/8456-crowdfunding-in-canada>.



**Crowdfunding appears to be most common among independent filmmakers for one-off projects, whereas television or serial projects are much less common and typically have lower success rates on crowdfunding platforms.**<sup>56</sup> In particular, documentary films seem to be one of the most common types of projects featured on crowdfunding platforms.<sup>57</sup> It is harder for television producers to use crowdfunding because the cost of producing a traditional broadcast television production is too high for a typical crowdfunding campaign.<sup>58</sup> However, web series are very well suited to a crowdfunding model because their production cost is significantly less than a traditional broadcast production.<sup>59</sup> Similarly, **stakeholders agree that the crowdfunding model is extremely well suited to interactive digital media projects**, because of the project-based business structure of IDM content developers (much like that of smaller, independent production companies).

**Crowdfunding is also a great funding alternative solution for projects that deal with very niche content.** Projects aimed at niche markets are typically much harder to fund through traditional funding options. Crowdfunding provides creators of these projects with a way to access funding by directly appealing to the audiences that would consume the product for support. In many ways, crowdfunding provides an opportunity for projects to be created that might not otherwise have been possible.

Stakeholders seemed to show the most reluctance when considering selling equity or giving up intellectual property rights for their projects. **Most producers are highly reluctant to explore funding options where they would have to give up rights or equity.** This reluctance is most often related to equity structures that would complicate or even prevent additional financing and that could require such substantial legal maintenance to make the project financially unsustainable.

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<sup>56</sup> *Mobcaster Crowdfunds Its First TV Season*. Anthony Ha. TechCrunch. March 09, 2012. <http://techcrunch.com/2012/03/09/mobcaster-crowdfunds-the-weatherman/>. Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

<sup>57</sup> Stakeholder interviews; conducted by Nordicity; May-June 2012.

<sup>58</sup> *Time to Join the Crowdsourcing Trend?*. Playback. Spring 2012. P. 13-117.

<sup>59</sup> *Time to Join the Crowdsourcing Trend?*. Playback. Spring 2012. P. 13-117.

## INGREDIENTS FOR A SUCCESSFUL CROWDFUNDING CAMPAIGN

Stakeholders and secondary research identified a number of key characteristics that increase the chances of a crowdfunding campaign being successful, these include:

- **A compelling project.** The most successful projects are ones that manage to capture an audience's emotions and get people excited. People need to care about and believe in the project in order to be motivated to contribute to it.<sup>60</sup>
- **An existing passionate audience.** Projects that appeal to already existing, highly supportive and passionate audiences (e.g. projects that deal with topics that have strong grass roots following) are far more successful because those audiences help support and promote the campaign on behalf of the project owner.<sup>61</sup>
- **A strong existing network.** Successful crowdfunding campaigns typically start off being promoted in the project owner's network and spread from there. A strong existing social networking presence and network of followers make it easier for creators and project owners to leverage the power of the social networking side of crowdfunding.<sup>62</sup>
- **High quality promotional materials and high level of promotional effort.** Successful campaigns typically result from strong promotional efforts by the project owners throughout the entire duration of the campaign. In addition, the quality of promotional materials, such as a promotional video or trailer, need to be of good quality. The promotional materials need to inspire confidence among potential contributors that the final product will be worth their contribution.<sup>63</sup>
- **Good audience engagement.** Part of the appeal in crowdfunding comes from the audience's desire and ability to participate in the development process. Campaigns that provide their audiences with regular updates on the project's progress or other promotional and funding activities related to the project will tend to be more successful.<sup>64</sup>
- **Compelling contributor incentives.** Typically, tangible goods (i.e. branded merchandise) or pre-sale copies of a product are the most compelling incentives as well as advanced access to the product. Unique experiences related to the product and/or its creative team are also good incentives.<sup>65</sup>
- **A realistic funding goal.** Projects that succeed in reaching their funding goal tend to have a goal that makes sense from the perspective of potential contributors. An amount that appears too high can make it seem like the creator either does not have a good understanding of the cost of producing his/her project or that they are simply greedy. A funding goal that seems too small similarly makes it seem like the producer does not know the real cost of producing their project and could create doubt in a contributor's mind about whether or not the project will actually get made.<sup>66</sup>
- **A clearly-defined fund allocation plan.** Projects are more likely to be successful if the creator clearly demonstrates why they need to raise the funds they are asking for and how it will be used to further their project. Contributors need to feel confident that their contributions will be well-used.<sup>67</sup>

<sup>60</sup> *Whitepaper Presents Community Sourced Approach to Better Crowdfunding Campaigns*, PRWeb, June 12, 2012, <http://www.prweb.com/releases/2012/6/prweb9596475.htm>; Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>61</sup> *RocketHub founder Brian Meece on crowd funding*, Russ Martin, Canada.com, June 12, 2012, <http://blogs.canada.com/2012/06/12/rockethub-founder-brian-meece-on-crowd-funding/>

<sup>62</sup> *RocketHub founder Brian Meece on crowd funding*, Russ Martin, Canada.com, June 12, 2012, <http://blogs.canada.com/2012/06/12/rockethub-founder-brian-meece-on-crowd-funding/>; Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>63</sup> *7 Reasons Why Crowdfunding Projects Fail*. Justin Kownacki. CrowdFundingHelp., January, 2012. <http://crowdfundinghelp.com/7-reasons-why-crowdfunding-projects-fail/>; Some Thoughts on Kickstarter. Celcius Game Studios. May 2012. <http://www.celsiusgs.com/blog/?p=446#more-446>; Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>64</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>65</sup> <http://blogs.canada.com/2012/06/12/rockethub-founder-brian-meece-on-crowd-funding/>; Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>66</sup> <http://crowdfundinghelp.com/7-reasons-why-crowdfunding-projects-fail/>; Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>67</sup> <http://www.celsiusgs.com/blog/?p=446#more-446>



### 3.2 Benefits for the Creator

**Crowdfunding campaigns provide producers with a number of benefits, beyond the strict financial gains,** including:

- **A raised profile.** A successful crowdfunding campaign for a compelling project can help raise a producer's profile and provide a boost to their reputation.
- **A proven market.** Crowdfunding is a great way for creators to develop proof that the concept for their project has an existing audience and market. In the case of an unsuccessful campaign, it provides good market feedback that a certain concept is not viable. Beyond simply reaching the funding goal, which provides one level of proof, analytics regarding the number of backers, contributors or pledges are invaluable in terms of estimating the size of the project's audience. If the campaign fails to attract attention, then creators have solid market feedback that the project may not have an audience in its current incarnation. This is a very important run-off benefit of crowdfunding as market research is often weak or non-existent or difficult to amass for creative content producers.
- **Audience building.** The funding campaign itself and all the promotional efforts around the campaign have the add-on benefit of promoting the project itself among existing and potentially new audiences. In this way, a crowdfunding campaign can help a producer reach existing audiences, as well as build and grow new audiences for their project before they even begin to produce it. Producers are also excited by the direct distribution potential behind crowdfunding platforms, such as with pre-sales-based models.
- **Audience engagement.** Stakeholders agree that one of the most unique add-on benefits of crowdfunding is its role as a forum where content creators can engage with their audiences and audiences can engage with meaningful content. Audiences are increasingly interested in the creation of the content they consume and producers are increasingly looking for new ways to engage with their audiences more deeply.<sup>68</sup> Crowdfunding facilitates just that. Audiences can both contribute financially to a project they care about, and engage in the production process by following progress through updates from the creators and sharing feedback via comment features on the project's crowdfunding page.
- **Audience Feedback.** One of the follow-on effects of being able to engage with audiences through crowdfunding is that content creators can use crowdfunding websites to gather important creative feedback from their audiences as the project develops. For example, beyond just the proof of concept feedback that comes from completing a successful campaign, project owners can gather more specific creative feedback from contributors or other visitors about specific aspects of the project through a comment feature on their campaign page, which is available on most crowdfunding platforms. In addition, offering pre-release access to content and/or the opportunity to beta-test content as part of a funding incentive package provides creators with instant access to good market testing feedback data on the project beyond just knowing whether or not there is a large enough audience that supports the concept or idea.<sup>69</sup> It provides an opportunity for audiences to give more specific creative feedback on various aspects of the project.
- **International support for Canadian projects.** Crowdfunding provides a unique opportunity to attract audiences and investors from around the world to support Canadian productions, thereby expanding the market reach of Canadian-produced content. This is a very important potential benefit of increased crowdfunding efforts among Canadian screen-based content creators.<sup>70</sup>

<sup>68</sup> *Time to Join the Crowdsourcing Trend?*. Playback. Spring 2012. P. 13–117.

<sup>69</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>70</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.



### 3.3 Risks and Barriers for the Creator

**Crowdfunding also comes with a number of potential risks or barriers that might hinder the adoption of this emerging funding model** among screen-based content creators in Canada. The risks and barriers identified by stakeholders include:

- **Awareness.** Crowdfunding is just beginning to emerge as a serious industry in Canada and as such, the majority of content creators do not have a fully developed understanding of the crowdfunding environment or how they could use it.<sup>71</sup> The general public is even less aware of crowdfunding and do not necessarily know that they can support creative projects they care about in this way, let alone where they can go to do so.
- **A Damaged Reputation.** If a content creator starts a campaign and does not meet his/her funding goal or receives very little support, this is a very public failure. There is a certain measure of apprehension among producers about what impact this type of public failure could have on their reputation. Producers are also concerned about what could happen to their reputation in the event that they successfully gather a large amount of public support for a project but are not able to complete it for some reason. Similarly, producers are concerned about not meeting the expectations of their supporters once the project is complete.
- **Cost and return on investment.** Many producers are apprehensive about the costs in resources and effort that are needed in order to manage a successful crowdfunding campaign. First, there are hard costs such as the cost of creating promotional material (e.g. a promo video) and those associated with producing and shipping any tangible goods incentives. Second, there is the time and effort cost associated with

creating and promoting the campaign as well as the ongoing effort needed to engage and update contributors on the project's progress both during and after the campaign. On the flip side is the ever-present risk that the campaign will be unsuccessful and that any time, effort or other resources invested in the campaign would have no return.

- **Skills gap.** Many producers do not have the necessary skills to carry out the various activities related to the campaign (e.g. promotion, audience engagement, fulfillment management related to honouring incentives) and would need to engage additional internal human resources or pay for external services just to be able to manage the campaign.
- **IP protection.** Many Interactive Digital Media (IDM) developers and content producers are reluctant to publicly announce the details of a project before production starts due to concerns about idea theft and protecting their IP from plagiarism.<sup>72</sup>
- **Donor exhaustion.** There is always the risk that if a content creator reaches out to the same network multiple times, that network will eventually cease to supply the necessary support. When producers are leveraging their existing online networks to promote their crowdfunding campaigns, there is a risk that the network will cease to be supportive if they are approached too many times. In addition, as crowdfunding grows and the number of platforms and projects to choose from increases, it will become increasingly difficult for projects to distinguish themselves from the masses and attract the necessary support.
- **Public fear of abuse.** Amongst the investors and venture capitalists that we interviewed, there was a shared concern that without a regulatory framework, the likelihood of a scam or abuse of funds was quite high. This valid concern could become a barrier to public engagement and funding if the regulatory framework in Canada does not quickly address the addition of crowdfunding financing in a non-accredited investor context.

<sup>71</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>72</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

## 4. IMPLEMENTATION CONSIDERATIONS FOR THE CANADIAN TV AND DIGITAL MEDIA INDUSTRIES

There are a number of structural considerations to take into account when thinking of how crowdfunding applies to screen-based content creators in Canada. Due to the emergent nature of crowdfunding, particularly in the Canadian market, it is difficult to fully understand what implications there might be in the broader legal, regulatory and funding ecosystem. That being said, there are a few potential implications that are commonly raised in discussions on crowdfunding in Canada.

### CROWDFUNDING PLATFORMS: STRUCTURE

- There are **three types of crowdfunding platforms**, based on what types of projects they feature:

- **Specialized platforms:** Certain crowdfunding platforms cater to specific industries such as music recording (SellABand), video games (Gambitious), or independent television (Mobcaster).

- **Activity-specific platforms:** Other platforms cater to a variety of industries but focus on certain types of projects (e.g. creative projects, technology or hardware development). For example, Kickstarter only features creative projects, though they can fit in any number of categories (e.g. Music, Art, Film, Video Games).

- **General Purpose platforms:** These platforms have no restrictions on what they will feature. These platforms feature campaigns that range from individuals soliciting support for a medical procedure or a wedding to artists seeking to fund creative projects and technology start-ups seeking to fund the development of a new innovative product.

- **A fourth option is for project owners to set up their own Do-it-Yourself platform on their company or project website.** This requires a great deal more administrative effort from the project creator, but allows them to engage directly with their supporters (rather than going through a third-party platform) and means that 100% of the funds raised go to the creator without having to pay a commission to the platform operators.

- There are **two ways in which crowdfunding platforms typically structure the allocation of funds:**

- The majority of platforms use a timed funding round, typically ranging from 30-90 days.

- **The As-it-comes-in model.** Some platforms award any funds raised during the funding period to the project owner (e.g. Indiegogo).

- **The All-or-Nothing model.** Many platforms only award funds to the project owner if the original funding goal is either met or surpassed within the pre-determined funding period (e.g. Kickstarter). In the event that the project does not meet its funding goal, contributors are either reimbursed or their pledges are never fulfilled (i.e. credit cards or other payment accounts are never charged).

- **Crowdfunding platforms typically use a commission-based business model** where the platform receives somewhere in the range of 2%-5% of the total amount of funds raised during the campaign from the project owner. However, a few platforms have adopted a fixed-fee approach where a project creator pays a pre-determined fixed fee to the platform operator in exchange for the service of housing their campaign on that platform's website.<sup>73</sup>

<sup>73</sup> Crowdfunding Industry Report: Market Trends Composition and Crowdfunding Platforms. Crowdsourcing.org. May 2012. P.23.

## 4.1 Canadian Securities Law and Private Financing

As discussed in sections 1.1.3 and 1.3.3, **under current Canadian securities laws it is illegal for a company to sell equity in a project or company through crowdfunding.**

Under current laws, there are limited circumstances under which private investors can buy securities in a company without that company issuing an in-depth prospectus used in a traditional initial public offering.<sup>74</sup> There are some exemptions to the prospectus requirement, but these vary across provinces/territories and are typically limited to Friends and Family contributions. Nevertheless there are two exemptions that do apply in all of the provinces and territories: 1) Accredited investors — those who have either a net worth of more than \$1 million or annual income of more than \$200,000 or 2) if an investment is a minimum of \$150,000 or more.<sup>75</sup> Current laws also prohibit public solicitation of equity investments, which makes the social networking aspect of the crowdfunding concept inherently illegal when equity is being sold.

**The Canadian Advanced Technology Alliance is currently engaged in a large-scale lobbying campaign in an effort to have the 13 provincial and territorial securities regulators change the securities legislation** in a manner similar to how the federal securities legislation is currently being changed in the US in the wake of the new JOBS ACT. In addition, the Canadian Securities Administrators (the umbrella group for the country's 13 provincial and territorial securities commissions) is also in the process of a large-scale review of the prospectus requirement exemptions with the intention of broadening them to potentially leave room for crowdfunding.<sup>76</sup> And the Ontario Securities Commission has officially submitted a notice of review of the exemptions in Ontario.<sup>77</sup>

If it were to ever become legal to sell securities via crowdfunding, it would come into direct competition with seed or angel investors.<sup>78</sup> However, crowdfunding would not compete directly with venture

capital financing because traditional venture capitalists (VC) do not typically invest in projects, they invest in companies and most content creators are using crowdfunding for individual projects. Nor do traditional VCs typically invest in an initiative at the concept stage, which is where the majority of creative projects enter a crowdfunding campaign. Furthermore, traditional VCs do not typically make investments of less than \$1 million, which is significantly higher than the average crowdfunding goal or a creative project (typically \$20,000–\$50,000). For most VC firms looking for higher returns, higher levels of investment are more attractive. Investments that fall under \$1 million would typically get picked up by the boutique VC community or angel investment network.<sup>79</sup> On the flip side, VCs might benefit from a crowdfunding campaign because it can yield useful market analytics that could help validate the case for investment at a later stage.<sup>80</sup>

Beyond the clear legal restrictions associated with equity-based crowdfunding, there are concerns among stakeholders about how changes to securities laws could affect the public's protection against investment fraud. There is an inherent risk of fraud either originating with project owners or with the platforms and services that host campaigns. However, proponents of the model claim that crowdfunding actually encourages greater transparency because of the larger role that trust plays in influencing an investor's decision, thereby maintaining a relatively low risk of fraud.<sup>81</sup> The JOBS ACT in the US has a number of provisions to help mitigate the increased risk of investor fraud, as outlined in section 1.3.1.

There is also the risk of unintentional fraud which can happen when a successfully funded project never gets produced for some reason or when the final product delivered is not quite what was originally envisioned and advertised.<sup>82</sup> Furthermore, it is common that a creative project never generates revenue or profit making it risky to promise revenue or profit share return on investment.<sup>83</sup>

<sup>74</sup> *A case for crowdfunding*. Christine Dobby. Financial Post. April 18, 2012. <http://business.financialpost.com/2012/04/18/a-case-for-crowdfunding/>.

<sup>75</sup> *A case for crowdfunding*. Christine Dobby. Financial Post. April 18, 2012. <http://business.financialpost.com/2012/04/18/a-case-for-crowdfunding/>.

<sup>76</sup> *A case for crowdfunding*. Christine Dobby. Financial Post. April 18, 2012. <http://business.financialpost.com/2012/04/18/a-case-for-crowdfunding/>.

<sup>77</sup> Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

<sup>78</sup> *Venture capital rejection leads to funding record*. Wallace Immen. The Globe and Mail. April 18, 2012. <http://www.theglobeandmail.com/report-on-business/small-business/sb-money/business-funding/venture-capital-rejection-leads-to-funding-record/article2405552/>.

<sup>79</sup> Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

<sup>80</sup> *Venture capital rejection leads to funding record*. Wallace Immen. The Globe and Mail. April 18, 2012. <http://www.theglobeandmail.com/report-on-business/small-business/sb-money/business-funding/venture-capital-rejection-leads-to-funding-record/article2405552/>.

<sup>81</sup> *The Crowdfunding Revolution Will Democratize Venture Investing*. Kevin Laughton. Huffington Post. December 08, 2010. [http://www.huffingtonpost.com/kevin-lawton/democratizing-venture-cap\\_b\\_792498.html](http://www.huffingtonpost.com/kevin-lawton/democratizing-venture-cap_b_792498.html).

<sup>82</sup> *US: State acts to boost start-ups through 'Funding Portals'*. Chriss Nuttall. Financial Times. July 12, 2012. <http://www.ft.com/intl/cms/s/0/79363204-aff5-11e1-b737-00144feabdc0.html#axzz1ypg3rmO5>.

<sup>83</sup> Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

## LEGAL CONSIDERATIONS FOR CANADIANS USING KICKSTARTER

**While Kickstarter is not accessible to Canadians, many Canadian producers have hosted campaigns for their projects on the popular platform. However, there are a number of considerations to take into account for producers looking to access Kickstarter:**

- Kickstarter is only available to project owners who comply with the following eligibility requirements:
  - Are a permanent US resident with a Social Security Number
  - Have a US state-issued identification (e.g. driver's license)
  - Have a US bank account and a major US credit card or debit card
  - Have a US address

The eligibility requirements listed above exist primarily in order to comply with the requirements of Amazon Payments, Kickstarter's payment processing partner.<sup>84</sup>

- In order to host a campaign on the Kickstarter website, Canadian content creators need to engage a third-party based in the US—be it a friend or family member or a partner company. Engaging a third-party partner in this way comes with a number of implications:

- A third-party may not own the rights to promote and distribute a product on behalf of the creator, and therefore not have the legal right to do so.
  - There is ambiguity about ownership of the project and the legal relationship between the platform, the creator and the third-party partner.
- Funds raised through Kickstarter would have to be transferred from a partner's foreign (US) bank account to the original project owner's Canadian bank account, which has a number of legal implications regarding duties and income taxes when money crosses borders in that way.<sup>85</sup> For example, revenues gained from a reward-based and/or pre-sale-based crowdfunding campaign could be considered revenue from the sale of goods and would be subject to income tax, if the money is not properly reported as such when it is passed from the US partner to the Canadian project owner this could have legal implications.<sup>86</sup>

<sup>84</sup> Kickstarter announced in early July, via Twitter, that project owners based in the UK would be eligible to host projects on the platform beginning in Fall of 2012.

<sup>85</sup> Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

<sup>86</sup> Stakeholder interviews. Conducted by Nordicity. May-June, 2012.

## 4.2 The Creative Content Funding Ecosystem

As a relatively new phenomenon in Canada, there remains a great deal of ambiguity about crowdfunding and what the broader financial implications might be for producers who wish to access both crowdfunding and other more traditional sources of funding for their projects.<sup>87</sup> Many of the stakeholders in the funding ecosystem are currently either reviewing the crowdfunding question or using a “wait and see” or “case-by-case” approach. However, in the absence of clear positions and guidelines to follow, producers who are already accessing funds through crowdfunding campaigns do not know how to report these funds in their funding or tax credit certification applications. As such, they could be at risk of penalties should they be audited at a later date and it is found that crowdfunding dollars were not reported in the appropriate manner.

The issues relating to how crowdfunding impacts content creators’ access to other forms of funding is only applicable to producers who would be accessing both traditional and non-traditional sources of funding. However, as section 2.1 discusses, those projects and producers that are best suited to crowdfunding may be the very projects that cannot access traditional funding sources to begin with.

That being said, stakeholders did identify key considerations or potential implications that should be noted in cases where a producer might want to access both crowdfunding and traditional funding sources.

### 4.2.1 Certified Independent Production Funds and other funding grants

Currently, there are no clear restrictions on the use of crowdfunding in terms of how it impacts a producer’s eligibility for funding grants.<sup>88</sup> Most funding bodies currently allow producers to engage in crowdfunding without it impacting their eligibility for funding. However, many are also waiting to encounter an application that cites crowdfunding in order to make a decision for how it will be treated.<sup>89</sup>

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<sup>87</sup> *Time to Join the Crowdsourcing Trend?*. Playback. Spring 2012. P. 13–117.

<sup>88</sup> *Time to Join the Crowdsourcing Trend?*. Playback. Spring 2012. P. 13–117.

<sup>89</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.



## 4.2.2 Provincial and Federal Tax Credits

**There remains a great deal of ambiguity around how crowdfunding might affect a producer's eligibility and access to provincial and federal tax credits.**

In fact, **the Canada Revenue Agency is currently conducting a review and examining questions relating to how crowdfunding revenues should be treated for the purposes of production tax credits.**<sup>90</sup> In the meantime, provincial and federal tax credit administrators are waiting for the decision before they take action to change their own certification guidelines. It is unclear whether or not tax credit administrators have received applications from producers who have accessed crowdfunding as they may have accounted for that revenue in any number of ways on their applications (e.g. as assistance, as a producer or distributor arm contribution, as revenues from sales, etc).<sup>91</sup>

The key considerations regarding crowdfunding when it comes to tax credits include:

- **Assistance.** If the CRA concludes that crowdfunding dollars raised via a Donation Model campaign should be reported as assistance (much like receiving funding through a fund like the Bell Fund), that amount would become deductible from the project's eligible expenses.<sup>92</sup> In addition, the CRA could conclude that funds raised via a Lending Model crowdfunding campaign which takes the form of a forgivable loan would also be considered assistance for the purposes of tax credit calculations.
- **Revenues from the exchange of goods at a fair market value.** The CRA could conclude that under a Donation Model or pre-sale-based Lending Model, the exchange of incentives or pre-sold copies of a product falls under the provision of exchange of goods at fair market value. In this case there would be no implications regarding either eligibility or calculations for tax credits. Nor would there be any legal issues under securities laws

because this would be considered a legitimate exploitation of the producer's rights for money (revenue). However, this particular position could become complicated due to issues surrounding how the fair market value of certain intangible incentives (e.g. acknowledgement in the credits, a dinner with the creative team, a character named after the contributor) is ascertained.<sup>93</sup> Intangible incentives are inherently difficult to value. Moreover, there might be some grey areas about the true fair market value of goods in the crowdfunding world, which could differ from the value of the same goods in a retail, e-commerce or digital distribution context.<sup>94</sup>

- **Loans.** A Lending Model campaign that follows a traditional lending agreement would likely be counted in the same way as traditional loans, which would have no specific implications when it comes to calculating eligible expenses for the purposes of tax credits.<sup>95</sup>
- **Equity crowdfunding.** According to tax credit administrators, an Investment Model campaign would likely automatically disqualify a producer or project from access to tax credits. There are very strict regulations under the tax credit guidelines about what entities are allowed to hold interest in a production.<sup>96</sup>
- **Producer or distributor contribution.** If a production company is structured in such a way that there is a parent company and then a single production corporation for a specific project, then producers could conceivably collect crowdfunding dollars on behalf of the parent company and count it as a producer contribution from that parent entity. Similarly, for companies that have set up a distribution arm, the crowdfunding campaign could be done under the distribution arm of the company and any monies raised would be counted as a distributor's contribution. If the CRA decides to sanction this way of accounting for crowdfunding dollars then it would not run counter to any tax credit regulations and would be considered a legitimate way of collecting and reporting crowdfunding dollars.<sup>97</sup>

<sup>90</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>91</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>92</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>93</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

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<sup>95</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>96</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>97</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

### 4.2.3 Broadcast and Distribution Partners

**Broadcasters and distributors have yet to take a firm stance on how crowdfunding might affect their willingness to engage with a production.** For the most part, though broadcasters are cautiously observing the developments, they generally agree that the money raised through crowdfunding is legitimate and do not currently have any reason to reject a production on the basis that it is not a legitimate source of funding. However, one consideration that broadcasters do take into account is whether crowdfunding would impact the ability to access any necessary additional funding for the production, thereby putting the project in jeopardy.

That being said, there are a number of other considerations that might have the potential to become barriers for producers utilizing crowdfunding when it comes time to engage broadcast and distribution partners.

- **Ownership of rights.** In an Investment Model, where contributors receive equity in the company or rights to the product in exchange for their contribution, a producer would likely jeopardize his/her ability to establish a licensing agreement with a broadcaster. Broadcaster agreements typically come with very specific and very strict limitations on who can own rights to the product.<sup>98</sup> They typically do not allow any private third party investment.

- **Journalistic standards and artistic license.** One of the major concerns from the perspective of broadcasters is the risk that crowdfunding could pose to journalistic standards and policies regarding editorial control.<sup>99</sup> Any campaign that has the appearance of giving up or sharing a creator's artistic decision-making power with contributors could make broadcasters nervous. Any perception that the content of a project was in any way influenced by contributors (e.g. advocacy through the sponsorship of ideas) or that a contributor has a specific interest in the content could be viewed very negatively by broadcasters and those projects are likely to find it difficult to engage a broadcast partner.

- **Exploitation of rights.** Producers who use a pre-sale-based Lending Model could encounter difficulties securing broadcast license agreements because the broadcaster could perceive this as an exploitation of rights that diminishes the value of the rights they would be purchasing.<sup>100</sup> Broadcasters might feel that the market for a production has already been tapped through the pre-sale funding efforts. Similarly, it might be difficult to secure a distributor advance if the producer is already engaging in direct distribution via the pre-sale model.<sup>101</sup> However, under a Donation Model broadcasters and distributors may actually value a project funded through crowdfunding. On the one hand, a successful crowdfunding campaign provides the distribution or broadcast partner with evidence that there is an existing audience for the production. On the other hand, the production will already have been promoted as part of the crowdfunding campaign which means that the broadcaster or distributor have less work to do in promoting the production.

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<sup>98</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>99</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>100</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

<sup>101</sup> Stakeholder interviews. Conducted by Nordicity. May–June, 2012.

## 5. SUMMARY AND CONCLUSIONS

Crowdfunding is an emerging alternative financing vehicle that has experienced a recent boom in Europe and North America, primarily driven by recent multi-million dollar record-breaking successes on platforms in the US. Indeed, crowdfunding has become a significant way for people to fund their ideas and projects across a number of industries. In particular, it has become popular in art, film, music and interactive digital media.

In the wake of the increased media attention for high-profile campaigns and recent changes to securities laws in the US to accommodate crowdfunding, this new financing model has become more visible in Canada as well. A number of Canadian-based crowdfunding platforms have emerged and discussion has been abundant among regulatory and industry bodies—from the tech sector to the creative media sector—regarding how crowdfunding fits into Canada’s current legal, regulatory and funding environment.

There are three basic crowdfunding models: (i) The Donation Model when contributors offer a contribution—often in exchange for a small reward—with no expectation of repayment, financial gain or ownership; (ii) The Lending Model where contributors expect a repayment of their contribution in some form; and (iii) The Investment Model where contributors purchase securities be they equity or other. All three models have their advantages and disadvantages and some are better suited to the creative content industries than others.

Current securities regulations in Canada make it illegal for companies to sell securities through crowdfunding, meaning that an Investment Model is not currently feasible for Canadian creative content creators. Furthermore, an Investment Model is not well suited to the creative content industry because (i) it would complicate the financial structure of companies for film/TV producers and (ii) it does not fit the project-based business structure of interactive digital media and small independent production companies. The Investment Model also carries many risks when it comes to accessing funding or building relationships with broadcast or distribution partners because of restrictions around third-party investment and third-party ownership in funding guidelines and licensing agreements.

Lending Models are not burdened by the same restrictions when it comes to a producer’s ability to access other types of funding. However, they come with additional administrative effort to contract and manage the lending relationship.

The Donation Model, with a clear exchange of goods in the form of incentives, or the pre-sale Lending Model are the two best suited crowdfunding models for content creators in Canada. While there are still a number of outstanding questions on how a Donation Model might affect producers’ ability to access existing funding sources. These risks become less significant when the model is accompanied by an incentive program because it becomes an exchange of goods for money in a defined market. In addition, a pre-sale Lending Model is a simple exploitation of project rights and comes with the least amount of risk, barring the possibility that it might impact negotiations for broadcast licenses or distributor advances.

There is certainly a demand for crowdfunding among Canadian creative content creators. However, the highest demand seems to be among independent producers or interactive digital media content developers working with smaller-scale budgets. Crowdfunding is typically most effective for raising smaller amounts of money from \$5,000–\$50,000, although there are exceptions to this general rule. In addition, emerging content creators who cannot access or do not yet know how to navigate other funding sources tend to be most interested in exploring this new funding vehicle. Projects that deal with niche content or content with a very specific grass-roots following also tend to be more common on crowdfunding platforms. Crowdfunding offers the additional advantage of direct audience building, audience engagement and market testing with the ability to leverage social-media to access those markets—all things that lend themselves well to projects that need to access niche markets or want to harness the support of a strong grass-roots movement.

That said, stakeholders in the creative content industries—whether content creators, legal experts or industry support organizations—also expressed a lack of understanding for how crowdfunding fits into the broader funding ecosystem in Canada. There is a valid concern that guidelines surrounding tax credits and other funding sources have not yet been established for funds raised via crowdfunding.

Given the lack of clarity regarding legal, financial and policy issues related to crowdfunding and the relative novelty of the concept, producers exploring the potential opportunities offered by crowdfunding should adopt a philosophy of experimentation. In addition they should proceed with caution, ensuring they are aware of all the associated risks of engaging in this type financing activity before launching a campaign.

## APPENDIX A CANADIAN CROWDFUNDING PLATFORMS

TABLE 2 – CROWDFUNDING PLATFORMS IN CANADA: SAMPLE LIST

Platform	Focus	Jurisdiction	Funding Model and Structure	Fee structure	Additional Features
DocIgnite	Documentary	Only available to Canadian projects	Donation Model (reward-base) Projects receive any and all funds raised, without restriction	No fees	Only features one project at a time HotDocs provides support to producers throughout the campaign HotDocs provides additional incentives in-kind to the project's contributors
Springboard	General Purpose (e.g. technology, games, music, retail services, publishing, photography, hospitality, food, design, film, art and community)	Global	Donation Model (reward-based) All-or-Nothing funding	5% of total funding amount for springboard Additional 3-5% for PayPal Fees are only paid if a project is successful	Contributors can opt-out of the rewards and make an anonymous donation Minimum contribution level of \$1
Ideavibes	General Purpose	Global	Customizable	\$899 per month for a yearly subscription \$800 set-up fee	A crowdsourcing, and crowdfunding software solution. Customers can host crowdfunding campaigns on their own websites or create a purpose-built site. Accepts funds via all major credit cards and INTERAC direct payment online.
SoKap	Creative projects (e.g. design, music, film, publishing, food, fashion)	Global	Hybrid Lending Model (pre-sale) and Investment Model (promotional rights) All-or-nothing funding	During fundraising mode SoKap charge project owners a 5% fee which is applied to product sales and town licenses During distribution mode SoKap charges project owners a 10% fee on the selling price of goods or services sold Additional 3% Credit/Debit card transaction fee	Only features projects or products that can be sold online Doubles a distribution platform Uses a micro-licensing (geographically by city) and pre-sale model Has an additional "Distribution Mode" feature where creators can solicit promotional support from backers to market the product in their license area Features a "promote" button that allows individuals to drive traffic to a project and collect a referral bonus or affiliate fee for helping the campaign Project owners can also set up a virtual storefront and raise funds by selling other existing products that they own Hold excess funds (over original funding goal) until the project owner delivers the completed project

Platform	Focus	Jurisdiction	Funding Model and Structure	Fee structure	Additional Features
Crowdventure	<i>Crowdventure is currently in stealth mode and there is no available information about the structure of the platform (as of July 2012).</i>				
Haricot	General Purpose	Not specified	Donation Model (reward-based) All-or-Nothing funding	7% of total funds raised for projects that either reach or exceed their funding goal  Additional PayPal transaction fee	n/a
FundWeaver	General Purpose, focused on Inuit, Metis and First Nations projects and causes	Only open to Canadian projects or initiatives	Donation Model (reward-based) Projects receive any and all funds raised, without restriction	Fundweaver collects 4% funds raised if a project reaches its original funding goal and 6% if the project does not reach its goal  Additional 4% transaction fee	Will only feature defined projects, not companies (e.g. will not support fundraising for general operational costs)
Fundchange	Charitable organizations and social change projects	Only available to Canadian projects	Donation model No incentives, pure donation Projects receive any and all funds raised, without restriction	Small Change Fund charges a 10% fee to project owners on any funds raised	Offers the added service of “advisors”, subject matter experts who provide featured projects with advice and support  Closes funding as soon as a project reaches its funding goal Minimum donation of \$5 Project owners have to be charitable organizations or “qualified donees”
Podium Ventures	Equity investment for high tech start-ups	Not specified	Investment Model	Not specified	Database of accredited investors Brings equity-based crowdfunding to a network of accredited investors
ArtMarket-Canada	Creative and artistic projects	Only available to Canadian projects or initiatives	Donation Model (reward-based) All-or-Nothing funding	8.5% commission on funds raised if a campaign is successful (includes any transaction or payment processing fees)  Additional \$59 one-time fixed fee (for background check)	Projects have to be able to be fulfilled in Canada Artists that did not reach their funding goal in the allotted time but who achieved 25% or more of their funding goal are given the option to re-launch their campaign  All project owners are subject to a background check in an effort to prevent fraud

Platform	Focus	Jurisdiction	Funding Model and Structure	Fee structure	Additional Features
Kivendi	<i>Information for Kivendi is not currently available on the Kivendi website (as of July 2012).</i>				
Ideacious	General Purpose, tangible products	Global	Hybrid Lending Model (pre-sale) and Investment Model (revenue-sharing)  All-or-Nothing funding	\$100 dollar fixed fee, reimbursed to the project owner if the project reaches its goal  15% commission on sales from a product's first production run  5–10% commission on the margin from subsequent production runs	Doubles as an e-commerce platform for finished products  Individuals who pre-order a product earn the right to earn revenue on every production run of the product for 10 years. Revenue share amounts are negotiated on a case-by-case basis  Uses a deposit-based pre-order model. Buyers put \$5 down to guarantee their position in line for the product once it is complete  Ideacious has a network of creative, legal and professional service providers that project creators can access for support  Ideacious retains non-exclusive distribution rights for the product

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