

Regulation EC (Equity with Charity) Draft

Introduction

Regulation EC is established under the Securities Act of 1933 to provide guidelines and regulations for securities offerings that incorporate investor-determined charitable commitments as a condition of investment. This regulation is designed to facilitate capital formation for companies while promoting social impact and philanthropy, ensuring comprehensive and universal inclusivity in investment opportunities.

1 Definitions

- 1.1 **“Charitable Commitment”** means a binding agreement by an investor to donate a specified percentage of dividends and/or shares received from an investment to a designated nonprofit organization, as determined by the investor.
- 1.2 **“Nonprofit Organization”** means a charitable organization that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code or an equivalent designation under state law.
- 1.3 **“Regulation EC Investor Questionnaire”** means a standardized questionnaire created by the SEC to assess an investor’s understanding of the mechanics, risks, and implications of investing under Regulation EC.

2 Eligibility

- 2.1 Issuers offering securities under Regulation EC must be incorporated and operating within the United States.
- 2.2 Nonprofit Organizations designated to receive charitable commitments must be registered and in good standing with the appropriate regulatory authorities.
- 2.3 Investors participating in offerings under Regulation EC must meet the suitability standards established by the SEC. These standards

may include completing a Regulation EC Investor Questionnaire to confirm their understanding of the investment structure, associated risks, and the implications of their charitable commitment. Investors participating in offerings under Regulation EC are not required to meet any basic income or net worth criteria.

3 Offering Requirements

- 3.1 Issuers must provide a clear description of the structure of the charitable commitment in the offering materials, including the process by which investors determine their own percentage of dividends and/or shares to be donated and the designated nonprofit organization.
- 3.2 The offering materials must include a statement that the investment is subject to Regulation EC and the investor's charitable commitment is legally binding.
- 3.3 Issuers must establish mechanisms to verify and enforce the charitable commitments made by investors.
- 3.4 Selection of investors for the offering shall be based solely on the percentage of their charitable commitment, with priority given to those committing to higher percentages, as determined by the investors themselves. Both dividend-based and share-based commitment percentages must be equal.

4 Investor Protections

- 4.1 Investors must receive disclosures that clearly explain the nature, implications, and risks of determining their own charitable commitment, including any potential impact on financial returns. These disclosures should include guidance on reviewing the issuer's audited financial statements.
- 4.2 Issuers must provide investors with periodic reports on the status of their charitable commitments, including the amount of dividends donated and the number of shares transferred to the nonprofit organization.
- 4.3 Investors shall have the right to access the issuer's due diligence materials on the designated Nonprofit, financial statements, and other relevant documentation for informed decision-making.
- 4.4 Investors, regardless of their holdings, shall have the right to receive dividends and other distributions derived from the ownership of the shares on a pro rata basis.

5 Compliance and Enforcement

- 5.1 Issuers must maintain records of all charitable commitments, donations made by investors, and Nonprofit reporting for at least five years.
- 5.2 The Securities and Exchange Commission (SEC) may conduct examinations and audits of issuers to ensure compliance with Regulation EC. Issuers must make available all records, due diligence materials, and other documentation related to the offering for SEC review.
- 5.3 Violations of Regulation EC may result in penalties, including fines and suspension of the issuer's ability to offer securities under this regulation.

6 Reporting

- 6.1 Issuers must file periodic reports with the SEC that include details of capital raised and investment allocation, updates on projects or initiatives supported by charitable donations, and verification of those donations made to the designated Nonprofits.
- 6.2 Nonprofits receiving donations under Reg EC must provide the issuer with periodic reports outlining the use of donated funds and the impact of the charitable contributions.

7 Amendments and Interpretations

- 7.1 The SEC may interpret or amend Regulation EC to promote its objectives, protect investors, and ensure compliance, provided amendments are true to the regulation's original intent and do not introduce wealth-based restrictions. Any such amendments or interpretations shall be publicly available.

Effective Date

Regulation EC shall become effective on **[Effective Date]**.

Adoption

Adopted by the Securities and Exchange Commission on **[Adoption Date]**.