owned businesses to market ownership stakes in their ventures to people over the Internet.

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Crowd funding is widely seen as a revolutionary idea.

A 2012 federal law known as the JOBS Act opens the door to allowing small, privately owned businesses to market ownership stakes in their ventures to people over the Internet.

Companies will be able to sell up to $1 million in equity a year to ordinary investors without having to register the offering with the Securities and Exchange Commission or state regulators.

Before the average person can use crowd funding to stake a claim in a startup, the SEC still must draft rules that the Obama administration hopes will result in U.S. businesses growing and adding jobs. At the same time, the securities cop needs to include safeguards that protect less sophisticated individual investors drawn to inherently risky startups.

That's why equity crowd funding under JOBS, or Jumpstart our Business Startups, has some longtime regulators and securities lawyers squirming.

"It can be an invitation for fraudsters to steal money," Matthew Brown, a Katten Muchin Rosenman lawyer, said last month at a CFA Society of Chicago event at 1871, a center for digital startups in Chicago.

But Brown also noted that equity crowd funding also democratizes small-business financing, a process that historically has given access mostly to wealthier — or, as they're known in high-finance circles, "accredited" — investors.

“The world has changed dramatically, and who’s to say who is smarter than anyone

Their acceptance suggests that consumers are willing to engage with companies on a deeper level. As such, enabling unaccredited consumers to invest in companies in small increments online has promise and could become part of the fundraising “ecosystem,” says one Chicago entrepreneur.

Abe’s Market, a Chicago-based e-commerce site selling natural and organic products from more than 1,000 suppliers, said it would consider crowd funding under the JOBS Act, saying it and its vendors have “die-hard fans” and “a core group of customers” who might like to invest in their vision.

Last month, Abe’s raised $5 million from Carmel Ventures, Index Ventures, Beringea and Accel Partners, a Groupon backer. New backers include OurCrowd, a crowd-funding site for accredited investors.

“If you can get passionate people to invest in your business, you’re not just gaining investors, you’re gaining evangelists,” Abe’s Chief Executive Richard Demb said. “The challenge for any consumer brand is: How do you find not just customers, but the right customers who are going to tell their friends?”

But there would also be potential headaches for companies raising equity financing through crowd funding, he said.

“You have to make sure that expectations would be set fairly, that no one is putting their life savings into the investment, and that they don’t also come back and become a challenge to manage as the business grows,” Demb said. “You don’t want someone who invested $250 to come back and say, ‘I don’t think we should expand to the West Coast.'”

Safeguards for average investors exist in the JOBS Act. They include capping nonaccredited individuals’ crowd-funding investments at $2,000, or 5 percent of annual income or net worth of less than $100,000, whichever is greater.

Snapclass, launched a few weeks ago at 1871, provides software enabling businesses

wealthy individuals in its first fundraising round, has seven employees and is looking to add sales jobs. It's an online exchange for businesses wanting to buy and sell used information technology equipment, from iPads to Oracle servers.

"For us, it wouldn't be the sole way to raise money, but it definitely is a viable vehicle to look at raising money," MarkITx partner Marc Brooks said of equity crowd funding under the JOBS Act.

Challenges could include having to educate unaccredited investors.

"Will they be patient?" he said. For future fundraising, "we may consider a hybrid" — wealthy individuals, venture capital and equity crowd funding.

Businesses wanting to use crowd funding to sell equity or other securities must use the website of a broker or a newly registered portal.

On Jan. 10, the Financial Industry Regulatory Authority invited prospective funding portals to voluntarily submit information to it, at no cost and confidentially, about their proposed business models. The purpose is to help FINRA develop its rules. Voluntary filers of the interim form still need to complete a new membership application once the SEC and FINRA rules are proposed and take effect.

The most optimistic timetable for JOBS Act crowd funding to come to fruition is at year's end or in 2014, said Mike Dinan, CEO of Phoenix-based Dinan & Co. and founder of ConfidentCrowd, a crowd-funding platform for accredited investors. The SEC's original deadline was last month.

"The SEC has to promulgate the rules, and they're still in that process," Dinan said. "This is the most dramatic change in securities legislation in 70 years, and it's going to take time."

The Dodd-Frank Wall Street Reform and Consumer Protection Act, for example, was

percent of them have invested in a private sale of securities over the past three years, and, despite that, nearly $1 trillion has been raised in such offerings at the SEC.

"July 2012 was when Title II was supposed to be enacted, but everyone is hopeful that maybe we're a few months away from the SEC promulgating rules on Title II," Dinan said.

He said his firm will be "very, very, very selective" when selling crowd-funding equity to unaccredited investors through Title III of the JOBS Act.

"The quality of offerings in Title III is going to be substantially lower than in Title II, and therefore we're a bit hesitant to jump into Title III because our reputation is what we live by, and every offering that we put out we want to be successful," Dinan said. "Because Title III will be early stage startups there will be a high failure rate, so we will participate, but to a much smaller degree."

One former SEC lawyer said he believes that crowd funding for small investors is doomed.

"The requirement to use an intermediary or funding portal is a kiss of death," said Robert Murphy, senior counsel for Dykema Gossett in Washington. "The restrictions, reporting requirements and duties imposed on funding portals are so onerous that it's unlikely that many, if any, will emerge."

For example, the funding portal will be required to attest that each ordinary investor understands the risks and can bear the loss. They must also investigate the business issuing the shares.

And the businesses themselves must meet certain requirements, such as providing tax returns for enterprises seeking to raise less than $100,000 and audited financial statements for ones trying to raise more than $500,000.

“It seems unlikely that many issuers will go to the trouble to provide all of that

said.

Christopher Cain, partner in Foley & Lardner’s venture capital practice in Chicago, helps technology startups with financing. He is also co-founder of Catapult Chicago, a technology accelerator for Chicago startups.

He said tech startups in Chicago and on the East and West coasts have “adequate” access to venture capital and wealthy individuals and are less likely to need equity crowd funding that could result in a large number of individual shareholders.

And “a lot of startups don’t want that many shareholders,” Cain said, because “sophisticated angel investors or venture capital may not want to invest in a company with dozens or hundreds of shareholders because it could be unruly.”

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