



CrowdFund Intermediary Regulatory Advocates
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January 26, 2014

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: File No.: S7-09-13; Broker Dealer and Funding Portal Fee Sharing; (Release 33-9470)

Dear Ms. Murphy:

I am writing you on behalf of the Crowdfund Intermediary Regulatory Advocates (“CFIRA”), a crowdfunding trade organization that lobbies and advocates for regulations that will support the crowdfunding industry in connection with Title II and Title III of the Jumpstart Our Business Startups Act of 2012. CFIRA’s role is to protect the interests of investors and issuers, and advance the common business interest of intermediaries and third party service providers in the securities industry. Our members are comprised of intermediaries (broker-dealers and funding portals), issuers, investors, and third party service providers who are engaged in, or who intend to engage in, business under Titles II and III.

The question at hand is how to structure a fee-sharing model for crowdfunding portals operated by Broker-Dealers to allow for a healthy working relationship with crowdfunding portals operated by Funding Portals (FP).

SEC Registered, FINRA Member Entities:

This comment letter is in response for both Broker Dealers and Funding Portals since both are required to be SEC registered and FINRA member entities. A Funding Portal registered with FINRA will undergo much of the same scrutiny and analysis of its proposed business activities during the membership process as a new or continuing Broker Dealer requesting approval for conducting crowdfunded offerings.

While a Broker Dealer that has an approved business line for private placement offerings generally is qualified to conduct any type of private offering exempt from registration under the Securities Act, it will still require approval in the same manner as a Funding Portal that will be permitted to conduct exclusively one form of offering exempt under the Securities Act: Crowdfunding. There will be substantial overlap between the activities of Broker Dealers and Funding Portals, as well as significant interchanges that calls for a common compensation scheme.

Rationale Permitting Broker Dealers and Funding Portals Share Compensation

1. Funding Portals are subject to a similar amount of oversight as Broker Dealers engaged in Crowdfunding: While FINRA must develop a distinct set of rules for Funding Portals, those rules are expected to be similar to the rules governing Broker Dealers conducting this business line, including:
 - Membership screening process;
 - Limitations on manner of offerings;
 - Advertising restrictions;
 - Compensation restrictions;
 - Recordkeeping requirements; and
 - Examination, enforcement and rulemaking authority of the SEC and FINRA.

2. Funding Portals as the Gateway to Investors: The JOBS Act suggests that there is potential for collaboration between Broker Dealers and Funding Portals. By permitting Broker Dealers and Funding Portals to share in compensation, the various constituents in the crowdfunding ecosystem (Broker Dealers, Funding Portals, Issuers and Investors) will all benefit as a result of:
 - Synergies between Broker Dealers and Funding Portals allowing each to perform the services that they are best suited to.
 - Funding Portals serving as a conduit to allow Broker Dealers to share education and/or investment advice with prospective investors;
 - Aligning issuers with Broker Dealers who can assist them in raising capital in larger quantities and/or via other private placement exemptions (e.g. Title II) if and when their businesses require it;
 - The experience in the marketplace brought by Broker Dealers;
 - The investor confidence generated by the presence of Broker Dealers.

These positive effects will be more effectively realized when Broker Dealers and Funding Portals are permitted to share compensation in services offered. By incentivizing cooperation between Broker Dealers and Funding Portals through compensation sharing, the market is less fragmented and is better aligned to provide comprehensive protection and services for investors.

Recommendations for Proposed Rules

Before the Final Title III Rules are adopted and crowdfunding is implemented, it is readily apparent that Funding Portals and Broker Dealers will be coordinating efforts to the extent permissible by law. The SEC and FINRA are encouraged to incorporate this understanding in the Funding Portal rule structure and establish guidelines consistent with its Mission Statement

“dedicated to investor protection and market integrity through effective and efficient regulation of the securities industry.” Since Funding Portals will be a recognized participant in the securities industry, they should be able to charge fees in the same manner as a Broker Dealer would for the business they are approved to conduct. And both entities, as fellow FINRA member firms, should be able to work together, including the syndication of offerings, and share revenue accordingly.

The following recommendations are submitted for consideration and will be incorporated into any new rules affecting Broker Dealer and Funding Portal sharing of compensation:

1. **Define Compensation:** Compensation shall be any fees or compensation, subject to guidelines that may be set forth in FINRA and SEC rules, collected by either a Broker Dealer or a Funding Portal in connection with an offering of securities under a Title III exemption.
2. **Sharing in Compensation:** Broker Dealers and Funding Portals should be able to share in compensation for any services offered by either of them as approved business lines.

The proposed rules should not only comport with the spirit of FINRA and SEC regulations, but address the market realities of how best to protect investors and serve all parties engaging in crowdfund investing.

The members of CFIRA remain available for further discussions relating to defining the framework for Broker-Dealer and Funding Portal operating fee sharing models and working relationships. We will continue to be available to work with SEC and FINRA in developing industry standards and best practices that will balance the need for a healthy ecosystem and capital formation and ensure investor protection. We look forward to continued dialog between all parties as the rulemaking process progresses.

We look forward to continuing our work with the Staff and to making crowdfund investing a success for both investors and entrepreneurs.

Respectfully submitted,



Kim Wales
Wales Capital, Founder & CEO
CFIRA, Executive Board Member
CF50, Board Member

Steve Ferrando
CrowdClear, Founder & CIO
CFIRA, Board Member



Chris Tyrrell
OfferBoard, Founder & CEO
CFIRA, Chairman

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