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Kevin M. O'Neill
Deputy Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

RE: File No.: S7-09-13 Crowdfunding
Industry Response to Recommendations of the Investor Advisory Ccommittee: Crowdfunding Regulations (April 10, 2014)

This letter is submitted on behalf of Crowdfund Intermediary Regulatory Advocates ("CFIRA"), the crowdfunding trade organization that lobbies and advocates for regulations that supports the crowdfunding industry in connection with Title II, Title III and Title IV 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 comprise 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, III and IV.

CFIRA would like to comment on the recommendations put forward by the Investor Advisory Committee at its meeting on April 10th, 2014, which seek to substantively and negatively rewrite the most meaningful portions of the proposed crowdfunding rules.

Recommendation I – Investor Limits

The Committee recommends that the Commission initially use a "lesser of" approach to setting investment limits (as explained below), with the exception that investment limits for accredited investors be calculated using the "greater of" methodology. CFIRA disagrees with the "lesser of" approach recommended by the Committee and encourages the Commission to stay on course with the original proposed rules using the "greater of" standard for both accredited and non-accredited investors. During the past 6 years the unemployment rate has been at historically high levels and small, emerging companies have suffered the brunt of funding constraints; we believe that people can and should be trusted to rely on their own judgment unless and until this method is proven wrong.

Investing should be no different. In fact, we should not assume that mom and pop will be chomping at the bit to lose money, but rather will identify opportunities that will foster innovation, job creation and perhaps yield some ROI on their investments. Crowdfunded investments are not for short-term investors looking to get rich overnight. These investments should be viewed as a way to diversify one's portfolio while following Benjamin Graham and Warren Buffet's theory of value investing.

The development of an ecosystem with technological and operational utilities for the crowdfunding industry exists and continues to take root daily; that ecosystem will help to create and teach many principles of investing safely that modern investors should practice. When faced with situations that are widely viewed as unreasonable, people will modify their behavior to what they feel is reasonable. George Bernard Shaw once said, "The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man." Henceforth, if the Commission adopts a set of rules that allows for constructive restructuring of the rules to foster capital formation for small emerging businesses, then the tendency of the majority of people would be to adhere to the rules.

Furthermore, as pointed out by the Committee, the Bureau of Labor Statistics states that roughly half of all startups fail within five years; the Committee's recommendations overlook two very important points:

- First, it should be expected that crowdfunding will be used not solely by startups, but by millions of existing small and medium-sized enterprises, many of which are well run and profitable, but have practically no access to capital. The JOBS Act helps to resolve this.
- Second, according to the Small Business Administration (SBA) the #2 reason that startups fail is not lack of sales but, rather, lack of capital. With access to capital it is likely that the failure rates will be reduced. That access to capital is the very essence of the idea behind crowdfunding.

Recommendation 2 – Enforcement of Investment Limits

The Committee proposes requirements to strengthen the mechanisms for the enforcement of the investment limits in order to better prevent errors and evasion. These are not in accord with the intent of the JOBS Act and appear overbearing and condescending. The recommendation that portals create a "tool" to walk investors through the creation of what is essentially a personal balance sheet seeks to treat venture capitalists the same as angels, the same as college graduates, and the same as high school dropouts.

Furthermore, for industry viability, we must be able to rely on the representations of investors. Establishing Best practices and Standard Operating Procedures in the crowdfunding industry is essential to the success of the industry. CFIRA took the first step in 2012 by developing a draft document entitled "Best Practice and Standards Guidelines" for the industry. We expect to amend this document once the final rules have been adopted in order to serve as the foundation for Intermediaries, Issuers and Investors. To remove all individual accountability is just not reasonable and would massively increase the costs and complexity of the industry.

And finally, although CFIRA does not oppose the creation of a master database which portals could be required to use as part of their standard operating procedures to monitor investors' annual investment cap, we believe that private, competing databases would be incomplete without total and absolute industry participation, and as such they would not improve compliance but, rather, needlessly may increase costs. Thus we disagree with the recommendation of the Committee to encourage private industry databases.

Recommendation 3 – Clarify (non-BD) Portal Activities

CFIRA agrees with the Committee that all intermediaries (both BD Portals and registered non-Broker Dealer portals) should have greater latitude in their ability to curate offerings. At minimum the intermediaries should outline issuers guidelines for listing on the portals that are disclosed to the public, should be allowed to review any prospective issuer, including watching the company video (if any), reading the business description and any executive summary, and taking a look at other elements of the offering. All intermediaries (including non-BD portals) should be allowed to use their discretion as to whether or not any particular offering is suitable for their service. This approach should minimize potential problems with unprepared or unsuitable companies posting campaigns on securities based portals.

Recommendation 4 – Investor Education

As the JOBS Act specifically points out, and as the final rules are adopted, investor education must be provided and investors must attest to their level of understanding of the risk inherent in making a crowdfund investment AND their acceptance that they can bear the risk of complete loss of principal and any expected returns (as detailed in the Act) prior to being able to making any investment in any offering. If the Commission wants to expend the resources to create the educational program, as highlighted during the SEC Small Business Forum 2013 in the Crowdfunding breakout session and in further recommendations, the SEC could establish a set of standard educational requirements for the industry that could be adopted by intermediaries.

Recommendation 5 – Electronic Delivery

We are concerned that the reference to earlier policies on electronic delivery might be read as implying that paper delivery might be permitted in certain circumstances. We do not believe that that was the Committee's intent, especially since the Committee specifically states that requiring investors to agree to electronic delivery is appropriate, and it was certainly not the intent of Congress in the JOBS Act. CFIRA agrees that any electronic message through which disclosures are delivered include, at a minimum, the specific URL where the required disclosures can be found.

Recommendation 6 – Integration

We believe that integration would have a negative impact on investors. The proposed final rules allowing concurrent offerings adds to investor protection. As such we are strongly opposed to the recommendations "Integration" by the Committee.

CFIRA's reasoning is straightforward – since the rules effectively prevent professional investors from participating in 4(a)(6) offerings due to the $100,000 annual maximum, small investors are well served by a company being allowed to raise capital via concurrent 4(a)(6) and 506(c) offerings. The presence of professional investors and the diligence they conduct is a significant benefit to all investors in a company, as is the ability for a company to raise future funds from deep-pocketed participants. Allowing a company to raise funds from unaccredited investors, many of whom may be customers, suppliers and business partners of the company, AND from professional investors provides the best possible situation for capital formation, business viability, investor equality and investor protection. The rules as originally proposed enable this, and give investors the best protection and the best chance for equality while also allowing businesses the greatest chance to achieve their funding goals to grow and create jobs. Integration could effectively kill crowdfunding before it even starts, lead to less investor protection and harm small business finance, overall stunting capital formation, which is one of the pillars of the JOBS Act.

The members of CFIRA remain available for further discussions relating to refining the proposed rules for Regulation Crowdfunding. We will continue to be available to work with the Commission in developing industry standards and best practices that will balance the need for a healthy ecosystem and capital formation while also ensuring investor protection. We look forward to continued dialog between all parties as the rulemaking progresses.

Respectfully submitted,

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CROWDFUNDING INTERMEDIARY REGULATORY ADVOCATES