

August 26, 2010

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

Dear Ms. Murphy:

I believe the US would benefit greatly from leading the way on crowdfunded securities, and that the exemption outlined in **Petition for Rulemaking File No. 4-605** would be an easy and positive first step.

Investor protection must always be a primary concern, of course, which is why the proposed exemption rightly sets strict limits. But I also believe that crowdfunding, by its very nature, would be a difficult and ineffective framing for fraudulent operations, to the extent that the public understands how crowdfunding works. Scams often rely on isolating and pressuring the “mark,” but crowdfunding solicitations function under opposite conditions; they're inherently open, transparent, word-of-mouth, collaborative, and widely-seen. Word travels fast, far, and efficiently through crowdfunding space, and potential donors are free to research and discuss the pitches that interest them on their own time, using any tools at their disposal. Some scams might certainly start using "crowdfunding" as a buzzword, but I cannot imagine how such ruses could be successfully contrived to resemble the real thing.

Looking ahead, the SEC could maximize both investor protection and its ability to investigate and halt abuses by establishing itself as the operator of the sole legal crowdfunding market in the US. Under such a setup, the SEC would own the central database of crowdfunding offerers, investors, and transactions. The SEC would therefore have the identities, financial account info, digital signatures, etc. of all market participants, and would initiate all movements of funds through its own system. This would grant the SEC full knowledge of and control over this market, allowing it to program red flags, investigate abuses, and shut down transactions and users as needed, without approvals or cooperation from any other entity.

The SEC could then publish an application program interface (API) that front-end crowdfunding platforms would programmatically call into in order to create and manipulate the software objects that the system uses to represent users, offerings, transactions, and other elements of the market.

To pay for running this service, the SEC could take a cut of all transactions, which could be a “cash cow” for the SEC for many years to come!

I would be delighted to discuss any of this.

Sincerely,

Paul Spinrad

