



January 31, 2013

David Blass, Chief Counsel
Trading and Markets Division
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Support of Title III Crowdfunding and Limit its Regulatory Burdens

Dear Mr. Blass:

The International Franchise Association (IFA) is eager to submit comments on the rulemaking process regarding, Title III: Crowdfunding, in the *Jumpstart Our Business Startups (JOBS) Act* to the Securities and Exchange Commission (SEC). Title III opens private investment opportunities to all Americans. Americans will soon be able to invest in the local franchise of the brands they love. We believe additional regulatory burdens will inhibit a prosperous crowdfunding industry.

The IFA is the world's oldest and largest organization representing franchising worldwide. As such, we count the following as our members: franchise executives, small business owners and suppliers from all sectors of the franchise industry, including companies such as Dunkin' Brands, McDonald's, Wendy's, Marriott International, ServiceMaster, Driven Brands, Yum! Brands, H&R Block, Choice Hotels and many more.

FTC registered franchise businesses often represent the easiest and most risk-mitigated path for Americans to join the ranks of small business ownership because of the proven underlying business models and the attendant franchisor support systems. In fact, in the U.S. alone, franchising represents more than 90 different industries, including more than 11,000 franchisee, 1,100 franchisor and 500 supplier members nationwide. According to a 2011 study conducted for the IFA Educational Foundation, there are nearly 800,000 franchised establishments in the U.S., creating 18 million American jobs and generating \$2.1 trillion in annual economic output.

Investment crowdfunding has the potential to represent a new and exciting source of capital for franchisees. In this economy, prospective franchisees continue to face unprecedented obstacles in finding access to the capital necessary to start their business. While the main focus of crowdfunding intermediary organizations has

been concentrated on the Title II modifications to Rule 506 offerings, Title III of the JOBS Act has greater potential to provide essential capital for key segments of franchise businesses. Franchise businesses tend to require lower equity investments, as compared to untested startups and typically do not require multiple rounds of investment. Existing securities exemptions have historically proven ineffective for such small equity rounds.

We respectfully urge the Securities and Exchange Commission to recognize that the rules governing Title III crowdfunding must accommodate small equity offerings that are not viable under the current laws. Title III is predicated upon a common sense understanding that low transaction fees and low compliance costs are essential components of making this new securities exemptions a practical reality. Licensed broker-dealers, as now constituted, cannot assist in small equity transactions because their own compliance requirements are cost prohibitive for offerings. These offerings, by definition, involve a large number of investors and a small offering. Title III requires the use of a crowdfunding intermediary and, as an essential component, does not require these crowdfunding portals to be registered as broker-dealers. The IFA believes it is absolutely essential that the SEC's regulations, which implement the crowdfunding provisions of the JOBS Act, do not include obligations on crowdfunding intermediaries that would make small crowd-funded offerings uneconomical or impractical. Further, it is our belief that to make their job creating system work, issuers of crowd-funded securities cannot have compliance costs that would be disproportionate for small offerings.

Investor protection issues are also important. As a critical component of investor protection, Title III limits investment by any given individual. Title III also limits the total size of the round and the combined impact ensures that exempt transactions constitute actual crowdfunding: small investments with larger numbers of investors. Additionally, it is important to understand that franchise-based businesses already have inherent investor protections that most start-ups lack. Typically, franchise businesses have proven and transparent business models, which involve reporting systems to a third-party franchisor that is, itself, regulated by the FTC and various state agencies. Therefore, the potential for fraud and investor confusion is vastly mitigated in comparison to unproven or undeveloped business models that tend to change and "pivot" business models after investment. FTC and state disclosure obligations already provide significant investor protections for franchisees; as a result, crowdfunding investors that provide capital to these franchisees indirectly benefit from these protections.

Title III opens private investment opportunities to all Americans. Americans will soon be able to invest in the local franchise of the brands they love. These franchise businesses are often "Main Street" businesses that have an immediate impact on local jobs. In this challenging economy, franchise unit expansion has been stymied by the absence of home equity and other sources of capital. Title III crowdfunding has the potential to reverse this trend, and we would ask you to specifically consider the unique attributes of franchising when developing Title III rules.

The IFA is available for further discussions relating to the important work of developing industry standards for Title III crowdfunding and would welcome the opportunity to work with the Commission to establish balanced regulations that enable the creation of a crowdfunding industry and related capital formation while providing reasonable investor protections. Please contact Vice President of Government Relations, Jay Perron, by e-mail at jperron@franchise.org or by telephone at 202.628.8000.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Jay B. Perron" followed by a horizontal line extending to the right.

Jay Perron
Vice President, Government Relations and Public Policy