May 14, 2012

The Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Advanced Comment Letter Regarding Title III of the JOBS Act of 2012

Dear Chairman Shapiro:

Crowdfunding presents an exciting opportunity to circumvent the traditional securities market intermediaries and create an environment of community ownership in start-up businesses. The legislative intent for Title III of the Jumpstart Our Business Startups Act, as reflected in the Performance Goals and Objectives of H.R. 2930, is to create a new registration exemption from the Securities Act of 1933 for securities issued through Internet platforms, also known as crowdfunding.\(^1\) Implicit in crowdfunding is the use of the crowd to supply capital to the issuer and the wisdom of the crowd to supply information to other prospective purchasers.

To achieve the goals of Title III of the JOBS Act, the Securities and Exchange Commission must take into account how the crowd differs from traditional investors. The crowd in crowdfunding expands the friends and family stage of small business capital raising to include people connected to the issuer through Internet communities. These purchasers are likely to be new to investing in individual companies. To account for this difference in purchasers, the funding portal rules should allow funding portals to be a continuous resource for purchasers through transactions accounts for purchasers, and funding portals should be allowed to act as portals for resales of securities that relied on the crowdfunding exemption.

I. FUNDING PORTALS SHOULD BE ABLE TO MAINTAIN ONLINE ACCOUNTS FOR INVESTORS

The success of crowdfunding depends on new investors entering the marketplace for securities. Investors need a resource to track purchases and ownership records. New investors will not have preexisting relationships with brokerage services that provide this service. As such, funding portals should be allowed to fill this need by allowing users to create accounts that track purchases and ownership of crowdfunding securities.

Funding portals can provide this service, and use it as a way to create value for purchasers in such a way that differentiates between funding portals. Here, the rules should enforce the prohibition on funding portals holding, managing, possessing, or otherwise handling investor funds or securities,\(^2\) but still provide sufficient flexibility that investors may use the portals to monitor and trade securities.

II. INVESTORS SHOULD BE ABLE TO EXECUTE RESALES OF SECURITIES TO NEW BUYERS FROM ONLINE ACCOUNTS WITHIN THE FUNDING PORTAL

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\(^2\) JOBS Act, §304(b).
New investors will not enter the crowdfunding market if there is no possibility to sell the purchased securities. While crowdfunding investors will be prepared to lose their entire investment, they are not prepared to sit on a gain without the opportunity to monetize that gain. New investors who purchased their securities through the funding portal should be willing to sell using the same medium. As such, funding portal user accounts that allow for tracking ownership of securities can also be used to facilitate trades of crowdfunding securities.

Effective funding portals will serve as an Internet community for crowdfunding securities. In these communities, issuers can provide updates to shareholders and prospective investors. Current investors, following the one-year holding requirement, can also serve as information sources by setting prices for the resale of their investment through the funding portals.

Funding portal facilitation of the resale of crowdfunding securities further serves the goal of circumventing traditional securities intermediaries. The friends, family, and Internet community investing in crowdfunding securities will be able to sell to other like-minded investors who wish to take their chances with small-businesses within their community.

III. CONCLUSION

The takeaway from my submitted comments is that truly successful crowdfunding will exist separate from the current traditional securities intermediaries. Investors should be able to purchase, track, and sell their crowdfunding securities through the funding portal rather than relying on another intermediary.

Thank you for reviewing my comments. I look forward to reviewing the proposed rules as they are issued.

Sincerely,

Andrew Stephenson