

crowdentials

Ladies and Gentlemen:

We submit this comment on behalf of Crowdentals, a regulatory compliance software company that provides accredited investor verification services. We applaud the Commission's efforts to lift the ban on general solicitation and commend you for wanting to evaluate the impact Rule 506(c) will have on the existing market.

In this comment, we will focus on the proposed amendment to Form D—specifically Item 22—that would require additional information from issuers.

Because Item 22 would require issuers to state the methods they used to verify accredited investor status, we believe this proposed amendment would strengthen the Commission's commitment to investor protection and fraud reduction. We understand that others feel as if the additional requirements place an undue burden on small issuers. However, the added benefits far outweigh and justify any burden. We support Item 22 and would like to respectfully explain our reasoning.

Provides Information

The additional information from issuers would provide the Commission with the necessary information to analyze the impact Rule 506(c) will have on the existing market. This additional information would also allow the Commission to evaluate how issuers are using Rule 506(c) and what area in this new market, if anywhere, needs more regulation or enforcement.

These added items could always be removed at a later date if they no longer serve the Commission's purpose. However, because the 506(c) market is new, these items are critical at this time to aid the Commission in collecting information and determining how to better serve issuers and investors.

Protects Issuers

Although the proposed amendment to Form D would require extra effort and time from issuers in filling out the additional information, we believe that these items would significantly protect issuers. In other words, although the Commission is asking more of issuers, issuers would be getting more in return. Item 22 would compel issuers to take the reasonable steps that are now necessary to verify investors and ensure that they are only getting investments from accredited investors.

Because the self-identification and "check the box" method are no longer enough to verify accredited investors, issuers must be convinced to go to greater lengths to verify. The Commission outlined a non-exclusive list of verification methods, but adding Item 22 to the Form D requirements would encourage issuers to follow through with the Commission's recommendation by requiring issuers to explicitly state which verification method they used.

Item 22 will also be helpful to the Commission in determining which verification methods are the most effective in keeping issuers and investors safe from fraudulent activity. Furthermore, if Item 22 was not added to Form D, issuers may see no reason to verify accredited investors because they may believe that the Commission will not enforce the reasonable steps requirement.

Verification is Not A Burden

Although issuers might think that verifying accredited investors is a timely, costly, and unnecessary process, Crowdentals provides an inexpensive service that fully automates this process and does not require investors to disclose sensitive information like tax records.

Because several companies are offering services similar to Crowdentals, this is a testament to the fact that investor verification and Item 22 do not present an undue burden to issuers.

Needs Teeth

As much as we commend the Commission for amending Form D to require additional information, we believe these rules need to go further. Issuers need to be convinced—not just instructed—to take the reasonable steps to verify investors. The Commission needs to show that it is serious about enforcing investor verification to keep this industry regulated and ensure that making investments is restricted to accredited investors until the Commission takes action on Title III. Outlining a non-exclusive list of verification methods is a start, but the Commission needs to add some teeth to this rule if it wishes issuers abide by the new rules and follow through with investor verification. Much like the proposed one-year ban disqualifying issuers from using Rule 506 for future offerings if they fail to comply with the proposed filing requirements, we propose adding a one-year ban for issuers who fail to comply with Item 22 on Form D and do not verify their investors.

Respectfully Submitted,
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