

A small-business boom the SEC needs to encourage

Robert Grosshandler, founder of iGive and a member of the CNBC-YPO Chief Executive Network

I've always wanted to be able to give folks—lots of folks—a stake in the future of my company, iGive.

But as charitable as my business approach may be (every time you shop at the nearly 1,500 retailers in our network, a percentage of what you spend goes to your favorite charity, from among the 35,000 participating ones), the overhead of being a traditional public company made the idea of giving people a stake in iGive foolish.

That's why I am excited about impending government regulation. For once, new regulations may make it easier for iGive and other small businesses to affordably finance themselves—through crowdfunding. They may also make it possible to give many others a stake in our future growth in ways that didn't previously exist.



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My firm has four full-time employees, plus some contractors. Tiny.

Those four full-timers manage 350,000 members (and the 1,500 retailers and 35,000 charities). Technology is our friend, honed over 17 years of being in operation. The technology makes it look easy. But we're actually a "high-touch business"—our average response to an inquiry is less than an hour. That response is from a human. That means we can't leverage traditional crowdfunding, like Kickstarter or Indiegogo.

Enter mom-and-pop equity crowdfunding.

More than two years ago the Jumpstart Our Business Startups Act was signed into law. The JOBS Act is specifically intended to lower the regulatory barriers surrounding equity crowdfunding. Title II, which simplified the regs for accredited investors, went into effect last year and has been well received. The eagerly anticipated release of the rules for Title III, covering unaccredited investors, is hopefully coming this fall.

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iGive

The regulation isn't going to solve all of an entrepreneur's problems. The most you can raise in a year is \$1 million. And unaccredited investor crowdfunding is going to have teething pains. There are going to be lots of untested moving parts to make this work. Many, if not most, of the companies that attempt to raise money under Title III will be very, very young (after all, they're the primary focus of the JOBS Act). There will be some companies that really shouldn't raise money from anybody. There may be some frauds.

The only thing I can confidently predict is that money will be lost. The Title III rules are intended to provide a level of protection for inexperienced investors. For most of the offerings under Title III, mom and pop are going to become venture investors—early-stage angels.

Making sure that we distinguish our 17-year-old company from the crowd will be another of our challenges. The JOBS Act anticipates that portals will act as the middlemen in matching investors with opportunity. Firms, like StartEngine in Los Angeles, are going to be crucial to our success. StartEngine, like the other companies that are busy creating equity-funding platforms, is anticipating that the market will be there. Of course, since the rules aren't yet published, they're forced to do a bit of guessing as to the exact nature of what they'll need to offer.

This leads back to the biggest challenge of all: getting the rules released.

The JOBS Act, now more than two years old, was intended to help grow our economy and give the small investor a chance to participate. Small investors aren't stupid; they understand that there is great risk in investing in smaller companies. If we spend too much time trying to protect them, if the rules are too arcane, they'll never get the chance to participate in this market. The small companies whose well-being the JOBS Act is supposed to promote might not get funded.

In iGive's case, reasonable rules, put forth in a timely fashion, should mean that America's small investors and charities can help iGive grow even faster, and they can participate in that growth in new and rewarding ways.

In today's economic environment, there are probably lots of easier, possibly cheaper, ways for companies to raise money. But none of them allow us to give thousands of people and their charities a participation in our future.

—Robert Grosshandler, founder of iGive and a member of the CNBC-YPO Chief Executive Network

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