

The Crowd-funding proposal written by the SEC is fair. I think the proposal has a good framework, however it needs some adjustments. The crowd-funding proposal has a blend of current Regulation D exemptions, however I find it odd that the proposal has some strict restrictions from Regulation D and some less stringent regulations from Regulation D. Parts of the Crowd-funding offering proposal include components from Rule 504, Rule 505, and Rule 506. Although I can appreciate the new proposals restricting the issuers to US Corporations, and prohibiting blank check corporations from issuing, I think the regulations are too stringent. The risk profile to investors with income and net-worth less than \$100K is only the greater of \$2000 or 5% of annual income or net-worth. The small risk for these investors does not meet the consideration of audited financial statements. At a maximum this risk profile justifies 2 years of tax returns and a balance sheet prepared and signed by the CEO and CFO of the issuer.

These statements should also include a statement similar to the management assertion of financial statements or Sarbanes-Oxley (SOX) section 302 statement that management has reviewed the financials and they do not material misstatements. I find it poorly written that "Financial Statements depending on the amount offered, the target offering amount offered and sold during a twelve month period, would have to be accompanied by a copy of the companies tax returns or reviewed or audited by an independent public accounting firm." I think that it is in the best interest of the investors to receive audited financial statements, however with a maximum placement of \$1 Million the cost of audited financial statements to the issuer is too great. The typical mid-size private company financial statement audit costing in excess of \$50,000 and presents a substantial financial hurdle for the issuer. Considering that broker-dealers (the only current intermediary example) charge the issuer about 5 % of funds raised in a normal placement and the aforementioned audit costs, there is no need for all Crowd-funding issuers to provide audited financial statements.

I propose amendments that placements under \$500K require only 2 years of tax returns and unaudited balance sheets (if available). If the placement is greater than \$500K the issuer should provide an audited balance sheet and income statement for 2 years. These financial documents should be signed by management with a statement similar to the management assertion of the financials or SOX 302 stating that management has reviewed the financial statements and they are free from misstatements.

Next, although due diligence is the responsibility of the investor, the intermediary, and the SEC, the SEC's proposal only mentions the intermediary as being required to take measures to reduce the risk of fraud. Some of the SEC's restrictions on the type of issuer will help prevent the frauds that are occurring in the crowd-funding space currently, however the investor is still ultimately responsible for their own due diligence. The SEC should not force "enhanced due diligence" type of fraud prevention on the intermediaries as this will only drive the costs of these small private placements up. These costs will ultimately be pushed down to the issuer and add to the financial burden of these small private placements.

My final proposal is that Officers and Directors of the issuer should disclose their (or family members) Officer and Director positions with other SEC registrants. They should also disclose material > 10% holdings with other SEC registrants. If these Officers and Directors have other positions in the industry

which the issuer operates, then they should disclose why they are using Crowd-funding for this entity and any disputes with their other employers. Basically this will allow the investors to analyze whether the entity is commercially viable or not. Along with some of the SEC's other suggestions, this will also discourage the use of Crowd-funding by entities and business persons who have substantial industry influence and existing entities to finance their companies.