



October 15, 2019

Via Online Submission

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
rule-comments@sec.gov

Re: Comments to the Concept Release on Harmonization of Securities Offering Exemptions (File Number S7-08-19)

The Crowdfunding Professional Association (the “CfPA”) Legislative & Regulatory Affairs Division (“LRA”) is pleased to submit this comment letter in response to the Securities and Exchange Commission’s Concept Release on Harmonization of Securities Offering Exemptions, particularly with respect to the modernization of the accredited investor standard.

The CfPA was created to serve as a strong and viable trade association for the emerging alternative finance industry. Our organization supports the development of our members and encourages participation and awareness in crowdfund investing across the globe. The CfPA’s LRA is committed to furthering this mission by advocating for targeted rulemaking and regulatory reform that encourages capital formation.

We support expanding the ‘accredited investor’ standard to account for individuals with suitable domain expertise. Under the current standard, individuals that do not meet the current minimum income or net worth thresholds, but who have relevant investment experience or subject-matter knowledge, are generally excluded from participating in early-stage and smaller company investment opportunities. This group of individuals includes science, healthcare and technology professionals, many with advanced degrees, who are prevented from investing in emerging companies in their field. This group also includes professionals in the financial services industry, such as attorneys and accountants, who may have years of experience working closely in private placements and other exempt offerings but are nonetheless prohibited from participating themselves. Perhaps more importantly, the current bright line standard does not provide a pathway for prospective investors to achieve accredited investor status through non-financial means, ultimately serving as a great impediment to individual wealth creation and furthering income inequality.

Our belief is that individuals holding specified degrees or professional licenses related to the financial industry and those that are able to demonstrate sufficient investing knowledge should be permitted to participate in private securities offerings. Consistent with the 2016, 2017, and 2018 SEC Small Business Forum Reports, and the recommendations of the Advisory Committee

on Small and Emerging Companies, we encourage the Commission to retain the existing financial test and expand the categories of qualification for accredited investor status with a three-pronged approach, as follows:

- (1) **Financial Threshold:** The current bright-line test, based on income and net-worth, should remain as a threshold standard to qualify an individual as an accredited investor. Investors who do not meet the minimum financial standard, may look to achieve investor accreditation status under one or both of the proposed non-financial standards below.
- (2) **Professional Degree or Certification:** The Commission should recognize individuals holding certain educational or professional certifications as eligible to invest in private placements. These may include holders of specified degrees in a field of expertise, as well as certified financial analysts (CFA), or persons holding a FINRA license (passing the Series 7, Series 65, Series 66, or Series 82 examinations).
- (3) **Accredited Investor Examination:** A standardized test should be available as an additional basis to qualify individuals as accredited investors. The examination should test proficiency on securities industry investing basics, with a subject matter focus on an individual's ability to assess private investment opportunities and identify risk.

This structure maintains the binary definition (accredited/unaccredited) but expands upon the objective standard by creating clear criteria for eligibility as an accredited investor. The proposal to expand the accredited investor status to certified professionals and those who pass a sophistication test has received considerable industry support, with commenters advocating for a private market or industry organization to take part in developing and certifying the accreditation standards.¹

The CfPA is qualified and willing to act as a certifying body for developing a standardized test or otherwise qualifying third-party organizations to recognize professional licenses and administer an accreditation exam. Composed of securities industry, fintech and crowdfunding professionals, the CfPA is ideally situated to serve as a governing body to develop the framework for degree and examination-based accredited investor certification services. The development of a certifying body responsible for setting industry standards expands upon the JOBS Act's "principles-based" approach, which permits an issuer to rely on a third-party to determine accredited investor status, provided that it takes "reasonable steps" to verify that an investor is accredited. In this capacity, the CfPA would oversee third-party investor accreditation services for non-financial accredited investor status.

¹ See Letter from National Small Business Association (Mar. 29, 2016), available at: <https://www.sec.gov/comments/4-692/4692-18.pdf> ("If that test is housed within a single organization or scores filed with a single organization it would also make the verification of accredited investor status relatively simple."); see also Letter from Investment Management Consultants Association (Mar. 29, 2016), available at: <https://www.sec.gov/comments/4-692/4692-19.pdf> ("the most cost-effective way of screening private sector exams is to rely on an outside, independent certifying organization.").

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The CfPA can also engage with other industry and regulatory groups, such as the North American Securities Administrators Association (“NASAA”) or FINRA, for the development and administration of a model test. For example, FINRA offers the Securities Industry Essentials (SIE) exam for individuals entering the securities industry, testing basic knowledge of types of products and risks, regulations, secondary trading, and prohibited practices. The proposed accredited investor examination can similarly serve to qualify individuals to invest in private and exempt offerings, with multiple choice questions designed to test an individual’s ability to assess offering materials, spot red flags and identify bad actors.

On the federal level, and for offerings that preempt state law, one standardized test certified by the CfPA would be available. With NASAA’s input and support, individual states could then adopt the model test, or alternatively create and administer their own test or impose additional requirements.

The ultimate objective should be to develop industry-wide standards for determining whether an investor has demonstrated sufficient sophistication such that they may “fend for themselves” within the meaning of the Supreme Court’s test in *Ralston Purina*. Our private markets should not cater only to high-net worth individuals and entities. Main Street investors should have a pathway to access these opportunities, while ensuring that they are adequately protected. We believe that our proposal accomplishes these goals.

We appreciate the opportunity to comment on the Concept Release and look forward to working with the Commission to effect meaningful change to the accredited investor framework.

Sincerely,

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