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**Ms. Vanessa Countryman**  
**Secretary**  
**Securities and Exchange Commission**  
**100 F Street, N.E.**  
**Washington, D.C. 20549-1090**

**Re: Securities and Exchange Commission Proposed Rules Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets; File No. S7-05-20**

Before providing specific comments, we would like to express our appreciation to the U.S. Securities and Exchange Commission (the "Commission") for the careful consideration of the responses to its Concept Release on Harmonization of Securities Offerings Exemptions (the "Concept Release"). We understand that the process of incorporating the multitudes of opinions and perspectives is an arduous one and we are grateful for the Commission's efforts to ensure that the regulations it promulgates provide economic value to both entrepreneurs and investors.

MainVest's mission is to connect main-street businesses to their communities and allow for unaccredited investors to invest in the small businesses that form the backbone of their local economies and America as a whole. Historically, these brick and mortar businesses have had limited options in accessing capital from the private market, with venture capital and private equity investors forging them in favor of higher risk opportunities with 10-20x potential returns.

We built MainVest to allow for communities to make debt investments into small businesses to start, grow, and expand their ventures, driving impactful economic development on a local level. Our platform has a few core differences from other platforms that utilize the Title III of the Jobs Act. Principally, our issuers are not high-growth startups that are looking to conduct equity raises using complex instruments such as SAFEs. Rather, the issuers who conduct their offerings through MainVest are local businesses, using debt instruments to raise funds principally from their communities.

Working with small business owners and empowering them to access capital through Regulation Crowdfunding<sup>1</sup> has been an incredible and eye-opening opportunity. We are passionate about creating economic opportunities in communities across the United States and are confident that these regulations are a powerful tool for economic growth. Because of MainVest's direct interactions with local businesses, we have uncovered opportunities for improvement within the regulatory framework to better meet the needs of both investors and business owners, especially at a hyperlocal level. We hope that our unique perspective provides valuable insight on these important matters and thank you again for taking the time to solicit feedback from companies utilizing this new framework.

We appreciate that the Commission has chosen to adopt many of the various proposals of the Concept Release and codify them into its regulatory structure. We also commend the Commission for taking decisive action through its Temporary Amendment to Regulation Crowdfunding (the "Temporary Rules") to ease the regulatory burden on many of the issuers that MainVest services. We also ask that certain proposals which were discussed by the Concept Release and the

<sup>1</sup> 17 CFR §§ 227.100-504.

Proposed Rules Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets (the “Proposed Rules”), but not ultimately included, be reevaluated and included in the final promulgated rules.

The Commission’s Proposed Rules would significantly alter the current offering amount structure but would leave in place the onerous financial review requirements for companies seeking to raise small amounts of capital; effectively leaving in place the current regulatory framework for companies seeking to raise any amount greater than \$107,000. This means for a first-time issuer seeking to raise \$107,001, the financial disclosure requirements would be the same as an issuer seeking to \$5 million, which is 47x the amount of the statutory minimum. This requirement places a significant burden on potential issuers, as the cost is often prohibitive relative to the amount they are seeking to raise, resulting in issuers opting to look for capital elsewhere. We have provided a more detailed response in our attached Appendix A, but desire to stress at the outset that the current requirement that companies seeking to raise more than \$107,000 is the single greatest hurdle facing a potential raise, and should be amended in accordance with the proposed change in the offering limit. Thus, our recommendation is to increase the CPA Review requirement from \$107,000 to \$500,000, which is 10% of the proposed maximum raise amount and consistent with the current framework where \$107,000 is 10% of the maximum raise of \$1,070,000. Furthermore, as discussed in Appendix A, it will tremendously support capital formation for small business issuers while displaying little to no downside to investor protections.

We want to urge the importance of this single issue in the Proposed Rules. In our last letter, we addressed 24 distinct issues that all had significant importance to Regulation Crowdfunding. We believe that the Proposed Rules have improved these regulations on the majority of those fronts, however, we want to caution the Commission that the CPA Review requirement at \$107,000 is the single biggest cost and inhibitor for a small business to raise capital under these regulations. We believe our points laid out in Appendix A provide valuable insight into the question of increasing the CPA Review requirement.

Again, we thank the Commission for the opportunity to be part of this dialogue and look forward to continued discussions regarding the regulatory framework. Please contact the undersigned at [REDACTED] or by email at [info@mainvest.com](mailto:info@mainvest.com) if you have any questions or comments regarding this letter.

Sincerely,

*Nicholas Mathews*

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Co-Founder and CEO  
MainVest, Inc.

*Benjamin Blieden*

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## Appendix A: Responses to Questions on Regulation Crowdfunding

**Question 112.** *What would be the costs and benefits of the alternative of scaling up financial statement thresholds in Regulation Crowdfunding in proportion to the proposed change in the offering limit (from \$107,000, \$535,000, and \$1.07 million to \$500,000, \$2.5 million, and \$5 million, respectively)?*

### MAINVEST RESPONSE:

Scaling up the financial statement threshold would have tremendous benefits to small issuers, while displaying little to no downside to investor protection. Under the current framework, a business seeking to conduct an offering in excess of \$107,000 in compliance with Regulation Crowdfunding is required to undergo the expense of a full review of its financials by an independent accountant (the “CPA Review”) before receiving any capital. New businesses often do not have historic records to review, but nevertheless look to spend thousands of dollars on the financial review, and so will look to other, less restrictive funding sources in order to conserve the capital they would expend or in some cases give up on their project altogether or start it undercapitalized. MainVest has on several occasions worked with potential issuers wanting to raise above the \$107,000 threshold for the CPA Review, but either experienced significant downsides because of the requirement or else found it cost-prohibitive, and ultimately decided to seek funding elsewhere. In reviewing this question, we examined three cases from specific experiences we have had. These three cases are a small portion of similar conversations and situations we have found since our inception in October 2018.

#### *Company A*

- Company A conducted one Regulation Crowdfunding campaign on MainVest and was successful in raising \$107,000. Because of the outpouring of support for this initial campaign, Company A wanted to conduct a second raise in excess of the \$107,000 threshold for the CPA Review. Company A believed that they would be able to be successful to make further improvements to their business and include more of their community as investors. Upon reaching out to a local CPA firm recommend to them by their bookkeeper, the review was quoted at \$13,000 to \$15,000 with the CPA firm stating “*The main considerations that determined our fee range is reviewing and reporting on two years as opposed to one, being a first year review with no previous reviewed financial creates a pretty significant amount of initial work and given the time of year and needed turnaround time*”. This was prohibitively expensive and given the ease of obtaining a loan from a bank with little to no upfront costs, Company A chose that route, which prevented investors from being able to participate in a popular local business.

#### *Company B*

- Company B was a new business with no operating history or financial information to review beyond a balance sheet of \$3,000 of assets and \$9,000 of liabilities. Company B was looking to raise approximately \$300,000 to start its business. Prior to raising funds, they were able to secure a relatively cheap CPA review at \$1,000 but were ultimately unsuccessful in their raise. The CPA process took approximately two weeks and required a small business entrepreneur with no salary or prior funding (other than personal savings)

to expend a portion of capital but added little to no value to investors as there was little to no information to be reviewed.

### *Company C*

- Company C also experienced a successful campaign through MainVest and, due to the strong level of community support, they decided to expand their raise to secure above the \$107,000 threshold for a CPA review. The CPA review cost Company C approximately \$4,500 and allowed the company to attempt to reach a raise goal of an additional \$150,000. However, the CPA Review was delayed, and as a result, the campaign began to lose momentum, ultimately failing to raise a sufficient amount to make the exercise worth it. Company C later obtained an SBA loan without the need for any such review.

The three companies above are illustrative of the problems that can arise related to a low CPA Review threshold as it relates to new or small issuers. MainVest has worked with other companies who desired to avail themselves of the opportunity of community investment through Regulation Crowdfunding, only to be stopped by the costs associated with the CPA Review.

For companies that are pre-revenue or otherwise have a limited operating history, investors are generally unable to rely on historical financials because they do not exist or else do not have enough information to be of any use. For these new businesses, MainVest has seen that the most important factor is the businesses' projections, which are not included in a CPA Review. Under these circumstances, the inclusion of a CPA review, and the time and money such a review costs, provides almost no value to investors and can even be detrimental to a small business.

The funding threshold requirements are particularly unnecessary for debt securities. For debt issuers, projected revenue and operating cash flow are by far the more important components when making investment decisions and since projections are not included in the CPA Review, the review does little to actually aid the investor in making the decision.

Adjusting the CPA Review threshold to be in line with the proposed offering limits would not detrimentally impact investors. As stated above, for nascent businesses and debt securities, the CPA Review itself adds little to the overall investment decision. Further, and as the Report to the Commission: Regulation Crowdfunding ("2019 Regulation Crowdfunding Report") demonstrated, there is no evidence of widespread fraud occurring within the crowdfunding markets.<sup>2</sup> In fact, the report specifically states that they were unable to identify any civil complaints or administrative proceedings filed in relation to Regulation Crowdfunding, with the exception of four FINRA actions.<sup>3</sup> This is likely in part due to the presence of the intermediaries who are incentivized to implement adequate controls to prevent investor harm, and have done so, including in-depth onboarding processes and the engagement of third-party services.<sup>4</sup>

The 2019 Regulation Crowdfunding Report also indirectly demonstrates the benefits of adjusting the CPA Review.<sup>5</sup> According to the Report, the median amount sought in a Crowdfunding campaign was \$500,000,<sup>6</sup> which suggests that a substantial majority of issuers, regardless of

<sup>2</sup> See Report to the Commission: Regulation Crowdfunding (June 18, 2019) at 42, available at [https://www.sec.gov/files/regulation-crowdfunding-2019\\_0.pdf](https://www.sec.gov/files/regulation-crowdfunding-2019_0.pdf) ("2019 Regulation Crowdfunding Report").

<sup>3</sup> *Id.* at 33.

<sup>4</sup> *Id.* at 49.

<sup>5</sup> See 2019 Regulation Crowdfunding Report, *supra*.

<sup>6</sup> *Id.* at 15.

operating history, were required to provide reviewed financials. However, the median amount raised was \$107,367.<sup>7</sup> While the specific ratios are not readily available, this suggests that as of June 2019, only half of issuers were raising the amounts that would require reviewed financials, and yet many of those issuers still incurred the expense, both in time and money, of the full review.

The CPA Review creates a significant challenge for issuers through MainVest given that MainVest services brick and mortar local businesses. These businesses do not usually begin with large amounts of cash on hand as opposed to high-growth tech startups with initial backing from angel investors. While costs will vary based on a business' geographic location, for businesses such as restaurants or breweries, start-up costs can easily reach into the hundreds of thousands of dollars.<sup>8</sup> For a small business owner, success can turn on even small expenditures and the costs of obtaining capital have to be weighted carefully. The Small Business Administration ("SBA") for example charges no guarantee fees on a loan up to \$150,000 and a 3% guarantee fee for loans between \$150,000 and \$700,000.<sup>9</sup> For comparison, even a CPA Review of \$2,500 for a business looking to raise \$107,000 would be more expensive than seeking the SBA loan, and a business owner could receive even more capital for cheaper than conducting a crowdfunding campaign.<sup>10</sup> This is all before the time and expense of the actual crowdfunding campaign itself are accounted for. For various reasons, business may not want to take on additional debt in this manner, but have no choice given the increased costs. Given the availability of other less restrictive sources, such as Regulation D of Rule 506 or SBA/bank loans, a business may forgo a Regulation Crowdfunding campaign entirely, which prevents their local community from participating in any future success.

The current regulatory framework imposes a burden on issuers that is not felt in other forums and can serve to discourage issuers from utilizing Regulation Crowdfunding entirely. This particularly hurts smaller business looking to energize their communities around them and the members of those communities looking for ways to support the growth, revitalization, and recovery of their local businesses. There is little to suggest that at these lower fundraising levels, the costs imposed by a CPA Review are offset by significant investor protections. The Temporary Rules provide some relief to this issuer by raising the requirement for a CPA Review from \$107,000 to \$250,000. The principals that guided the Commission to increase the limit on a temporary basis will remain true even after COVID-19, and so the type of relief offered on a temporary basis should be adopted on a more permanent basis. Given that the review itself often does not provide an investor with meaningful information to determine the success or safety of their investment, and the requirements on funding portal and broker dealers create strong incentives to prevent fraudulent offerings and insufficient disclosures, it is an unjustified burden on small businesses.

It is the hope of MainVest that the commission recognizes that the costs of the CPA Review outweigh the benefits at its current threshold and will restructure the requirements of the CPA

<sup>7</sup> *Id.*

<sup>8</sup> See generally <https://smallbiztrends.com/2018/03/costs-of-starting-a-restaurant.html>; See also <https://www.entrepreneur.com/businessideas/brew-pub>; See also <https://www.restaurantowner.com/public/Survey-How-Much-Does-it-Cost-to-Open-a-Restaurant.cfm> (survey finding the median start-up cost for a restaurant is \$375,000).

<sup>9</sup> See generally <https://www.sba.gov/sites/default/files/files/SBA%20Lending%20Chart.pdf>

<sup>10</sup> See <https://www.nerdwallet.com/blog/small-business/small-business-loans-sba-loans/> (finding the average SBA loan in 2018 was \$425,000).

Review requirements to allow for small and local business to fully utilize the opportunities created by regulation crowdfunding.

**Question 113.** *What would be the costs and benefits of the alternative of waiving certain disclosure requirements (e.g., review and/or audit of financial statements, progress updates, and periodic reports) for issuers in the smallest Regulation Crowdfunding offerings (e.g., up to \$1 million)?*

**MAINVEST RESPONSE:**

Either alternative proposed by Question 113 or Question 112 would help support businesses have access to capital without negatively impacting investors; i.e. have a benefit with little cost. Onerous requirements on smaller issuers can be prohibitively expensive, particularly for business with limited or no operating history. An exemption of the disclosure requirements for the smallest of Regulation Crowdfunding offerings would thereby eliminate compliance expenses that do add value for smaller offerings.

As we discussed above, when an investor is evaluating debt securities, past financials are often a secondary consideration to projected financial information. Further, given that many businesses looking to conduct offerings under Regulation Crowdfunding are new entities with either a limited or non-existent operating history, the value added by a CPA Review for smaller offerings is not outweighed by the cost of that review and can require the expenditure of significant capital that could otherwise be put directly to the businesses.

Operating a business today, and especially in the wake of the COVID-19 pandemic, requires the careful allocation of resources, and when faced with the prospect of an expensive CPA Review, a business will by necessity look elsewhere, and forgo the inclusion of community fundraising. Moreover, the significant expenditure is not justified for newer businesses and debt securities, as the potential value it provides does not offset the significant up-front costs. MainVest has provided a more detailed description of this issue above, and requests that the Commission will take steps to alleviate the costs of the CPA Review for smaller offerings. Specifically, we recommend modifying the CPA Review requirement to be required for all Regulation Crowdfunding raising above \$500,000, rather than the current threshold at \$107,000.