NC3 NATIONAL COALITION for COMMUNITY CAPITAL

August 25, 2020

FROM: The National Coalition for Community Capital (NC3)

TO: The SEC Office of the Advocate for Small Business Capital Formation

First, thank you for the invitation to provide some thoughts and perspectives on issues currently under consideration at the SEC; our organization and colleagues in the community capital eco-system have been working and thinking deeply about this work for some time. We have appreciated the openness and open-minded approach your office has brought to the table and believe in the end this openness will benefit all our communities and the country overall.

Second, please note that in addition to calling on the expertise of those within our organization, we also engaged thought leaders and practitioners in the industry so that their thinking and perspectives could inform this document. We had a vigorous and thoughtful discussion!

Having said that, here are some specific steps that we at NC3 specifically support or would like to see the SEC take in the near term:

1. **The accredited investor definition should be expanded as much as possible.** One way to do that would be to simply lower the threshold. Why is it $1 million? Is there any evidence to support the notion that $500k would lead to substantially greater fraud or unacceptable loss rates? Another way to effectively lower it would be to re-include primary home value in the net worth calculation that was removed by Dodd Frank. We appreciate and support the ideas put forth in the recent proposal, including the addition of “spousal equivalents” in the net worth calculation, the recognition of entities by type (though the $5 million dollar threshold seems unnecessarily high), the expansion of the qualifications for “sophisticated” status to include knowledgeable employees of a fund, people who have attained specific professional designations or passed tests (series 7, 65, 82, etc.) or have attained particular degrees (MBA, etc.). We especially like the series 65 credential, as it does not require a sponsor and therefore would allow more people access. At the same time, we believe there are other, more easily attainable and/or commonly attained credentials, and over time, it may well make sense to roll out a progressively inclusive list along these lines:

i. people with college degrees or advanced degrees or credentials in business or related fields (esp. MBAs, CPAs, etc.)
ii. people with college degrees of any type
iii. people who have completed high school or passed an equivalency test
iv. people who have completed a basic test that could be administered in high schools and colleges that follows a short course and confirms basic understandings of risks, finance, etc.

2. **We also support the proposed amendments to facilitate capital formation and increase opportunities for investors by expanding access to capital for entrepreneurs by simplifying, harmonizing, and improving certain aspects of the exempt offering framework.** And we agree with the increased limits - especially since they'd better enable fund offerings. Though rather than focusing on increasing raise limits, we think it'll be especially important moving forward to bring down the barriers and the costs for small offerings for small businesses. The possibility of making offerings under a threshold like $250k (or perhaps a graduated schedule of thresholds like $250k, $100k, $25k follow progressively easier disclosure and reporting requirements) along the lines of the requirements of intrastate offerings could make a lot of sense. In terms of investor limits, we like the shift to the language that would allow investors to determine their investment limit based on the *greater* of their annual income or net worth, though we believe that over time as private markets mature and prove safe, the limit should increase. We also agree with the greater allowances for demo days and "testing the waters" appeals. For investment crowdfunding campaigns, being able to test the waters to figure out whether the cost of running a full-fledged campaign can be especially valuable! We also very strongly advocate for the allowance of pooled investment funds to be eligible for issuance through Reg CF authorized platforms, and we believe that opportunities to use special purpose vehicles ought to be expanded as well.

3. **We were very happy to see the SEC extend temporary relief to expedite raises to meet the demands brought on by disruptions caused by COVID**, and we definitely support the continuation of the increased cap that triggers the need for financial statements to be reviewed by a CPA. Along those lines, we wonder what other costly barriers could be reduced for small offerings. Should a complete Form C be required up front for small raises? Might it be possible to allow small raises to use the relatively simple documentation that banks, the SBA, etc, use? Such a uniform documentation process could be very helpful and greatly expedite the process for busy entrepreneurs who are often filling out documentation for bank loans, SBA loans, etc. As for the temporary relief measure that disallowed investors to rescind their commitments, we think that one should probably not be extended.

Thank you for including our perspective in the ongoing reform process. We appreciate your clear commitment to developing a better, more inclusive capital market; and we value your open-minded and collaborative approach to developing a regulatory framework that will support healthy local economies moving forward!

Sincerely,

Ken Linge
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