September 30, 2019

Submitted via: https://www.sec.gov/cgi-bin/ruling-comments

Re: Concept Release on Harmonization of Securities Offering Exemptions

We thank the SEC for the opportunity to offer feedback, comments, and facts about what we have experienced as funding portal and daily user of Regulation Crowdfunding. We believe that Regulation Crowdfunding has been a net positive for both small businesses seeking to raise capital and investors looking to invest in their local communities. However, we do believe there are certain areas where the Reg CF offering framework can be improved to further its success and provide additional investor protections.

While we realize many of our recommendations would require changes to statutory restrictions and therefore fixes may not be feasible under current regulations, we believe it is important to convey the real-life, "grassroots" feedback we are receiving from Reg CF issuers and investors alike and provide candid feedback on how Reg CF and other exempt offerings might be improved in the future for the benefit of all stakeholder groups.

As a funding portal, it is our mission to improve Reg CF and other exempt offerings regulations so as to improve access to capital for small businesses while also improving investor protection and investment transparency. Our recommendations should be considered under this lens.

The Capital Raising Exemptions within the Framework	Whether there should be any changes to improve, harmonize, or streamline any of the capital raising exemptions, specifically: the private placement exemption and Rule 506 of Regulation D, Regulation A, Rule 504 of Regulation D, the intrastate offering exemptions, and Regulation Crowdfunding.

1) Simplify Reg CF filing requirements.

Create simple, how-to guides in layman's terms on what it means to crowdsource debt or equity and what is allowed and what isn't. As currently written, nuanced details and administrative complexity are difficult to understand, even for financial and compliance experts. This disproportionately impacts small businesses with limited financial resources to retain counsel on issues of securities law.

2) Ease filing requirements for smaller campaigns (sub $250k offerings).

a. Create a standardized Form-C "lite" for campaigns under $250k.

b. Remove notary requirement for CIK completion and/or allow portals to file CIK on behalf of business.

c. For offerings with under 500 investors and less than $250k, remove requirement to file Form Cs annually and only require that Form be filed at issuance (currently waived after 1 year w/ less than 300 investors).

Create different filing requirements for debt and equity offerings
Currently, debt and equity offerings require the same filing, resulting in extraneous or non-applicable disclosures. For example, questions #14 – 23 of the Form C supplementary section are relevant to equity instruments, not applicable to debt-type.

3) Harmonize (or eliminate) state notice filing requirements.

In addition to filing with the SEC, some states require additional "notice filings". Under current state notice filing regimes, Reg CF issuers must comply with a multitude of various state notice filing requirements and must monitor in real-time their offerings' compliance with state-specific rules. These notice filings impose additional direct and indirect costs on issuers and funding portals with virtually no benefit to investor protection.

Notice filings directly lead to increased costs for issuers and funding portals: monitoring, compliance, printing, handling, and postage fees, for example. It is doubtful that these increased costs lead to any benefits or improved investor/issuer outcomes. All Reg CF filings will be available centrally and publicly through the SEC. Requiring that issuers comply with additional state notice filing provides added cost to issuers and funding portals with no added benefits to investors.

4) Prohibit or cap state notice filing fees.

On top of costly "notice filings", select states levy additional direct costs on Reg CF issuers through "notice filing fees", which must be submitted in coordination with the notice filing. Notice filing fees are direct costs imposed on Reg CF issuers and funding portals by states' Divisions of Securities (or similar office) for the act of accepting a paper-copy of a Form C electronically that has been previously filed with the SEC.

State notice filing fees are a regressive and unnecessarily burden small business intending to raise capital through Reg CF. In all cases, the fees offer no benefit to investors and represent deadweight loss to the Reg CF issuer and funding portal.

State notice filings discourage use of Reg CF as a means of capital formation in states which impose them while offering no benefit to investors or additional oversight of the offering. Even more worrying, some states reserve the right to impose additional fees and penalties if notice filings and fees are not paid by their arbitrary deadlines. Small businesses must incur direct and indirect costs to meet the requirements and deadlines of state securities regulators.

Notice filings disproportionately target and effect small businesses, especially in rural and low-to-moderate income communities, where access to securities counsel is limited and/or prohibitively expensive.

Paradoxically, these notice filing fees encourage small businesses to take out more money than may be necessary as doing so lowers their cost of capital. Taking out more money than may be necessary, especially for debt products, increases risk for investors and reduces capital efficiency. Prohibiting states from filing notice filing fees would remove this disincentive and offer greater investor protection.

Below are some examples of state notice filing fees which represent a direct cost on Reg CF issuers:

> Ohio - $200 to raise between $10,000 - $100,000. That's a 2% fee for an Issuer raising $10,000, before funds are even received by the issuer.
>
> Maryland - $400. 4% fee within 15 days of first sale for $10,000 offering. Sharp deadlines with stiff penalties for late notice filings requires additional (unnecessary) compliance and legal costs.

4) Eliminate 21 day minimum offering period.

There are several reasons to eliminate the 21 day minimum offering period, including: the potential for improved investor returns, improved investor choice and product selection, and reduced costs for issuers and investors.

Some offering types may require a shorter offering period. Ex. high interest debt-refinancing, working capital, or purchase order financing where quick availability of funds is critical. Requiring that offerings remain open for a minimum of 21 days means that Reg CF can never be effectively utilized for these types of legitimate business financing.

Allowing investors and issuers the choice to participate in offerings less than 21 days would lead to expanded product choice, improved liquidity, and improved investor and income outcomes.

5) Allow for investor communications beyond funding portal's channels

Most investment through Reg CF offerings occurs between issuers and investors that have a pre-existing relationship or are geographically proximate to one another. Requiring investors to complete due diligence of the issuer and the investment through a funding portal (with whom they likely have no prior relationship) and the funding portal's communication channels is unreasonable, unrealistic, and potentially harmful to both issuer and investor.

For example, a Reg CF investor is oftentimes a customer, patron, neighbor, or acquaintance of the Reg CF issuer. As such, the investor often learns of the investment opportunity through external (non-FP channels) and only engages with the funding portal to complete their investment, educate themselves about Reg CF, and subsequently service their investment through its term. The preference for issuers and investors alike would be to communicate through channels natural to them and not through a funding portal. Requiring that communications related to the investment occur through funding portals imposes additional burdens on issuers and investors and stifles disclosure and communication regarding the investment. Communication through funding portal channels can offer no or very limited additional investor protections but incurs substantial communication friction between investor and issuer.

Funding Portals should serve to educate the investor community about the rules and risks of Reg CF and should not be expected to serve as the required medium by which individual investors must perform the entirety of their due diligence. Investors should be encouraged to pursue multiple channels of investment due diligence (completely separate from a funding portal), including onsite inspection of the issuer's business and personal interview of the issuer's management. The issuer should be expected to be fully transparent about their offering at all times and should not have to rely solely on a funding portal for investor outreach and disclosure.

Investor Limitations	Whether the limitations on who can invest in certain exempt offerings, or the amount they can invest, provide an appropriate level of investor protection (i.e., whether the current levels of investor protection are insufficient, appropriate, or excessive) or pose an undue obstacle to capital formation or investor access to investment opportunities, including a discussion of the persons and companies that fall within the "accredited investor" definition.

In our opinion, the investor limitations (as a function of income or net worth) pose an undue obstacle to capital formation and investor access. We reach this conclusion for the following reasons:

1) The investment cap calculation is very confusing.

The rolling investment cap calculation is mathematically complex and difficult to understand even for sophisticated investors, as such it is difficult for investors to confidently calculate their annual income and net worth prior to making an investment.

2) Reg CF Investors feel restricted by the cap.

Based on investor feedback we have received through interviews and surveys, investors generally feel restricted by the investment cap and, in some cases, would choose to invest more but are prevented from doing so by the cap.

a. Some investors have expressed frustration that a cap is imposed at all – as no other financial asset class is restricted in such a way. They have expressed that they feel resentful that their ability to make financial decisions for themselves is restricted.

b. Sub-Optimal Portfolio Construction. Some investors view regional Reg CF opportunities as a segment of a well-diversified investment portfolio. As with any diversified portfolio, investors must assign exposure weights to each asset class as a function of their own personal financial goals and investment horizon. Capping their exposure to Reg CF as a function of their income/net worth limits an investor's ability to construct a weighted portfolio that is optimal for their investment goals.

3) Investors want to invest more, but cannot.

The investment cap restricts certain kinds of high income or high net worth individuals, who have the funds available, view Reg CF as a means to grow their wealth and community, but are restricted by the cap. Specifically,

a. Individuals with high income but low net worth. Ex. Recently graduated doctors, pharmacists, attorneys, or MBAs who may have very high incomes but low net worth due to student loans.

b. Individuals with low income but high net worth. Ex. Retirees who live on a moderate, fixed income but have a very high net worth and want to invest in their local economy.

4) The Cap Discourages Accredited Investors from Investing.
Accredited investors may avoid Reg CF as an asset-class entirely because they wish to invest in excess of $107,000.

Capping investment for accredited investors at $107,000 limits their potential for financial return within a given year. For accredited investors motivated by financial return, the costs of investing in Reg CF offerings with the capped upside, may sideline investment.

5) The Investment Cap is Expensive and Administratively Complex.
The investment cap adds substantial complexity and material administrative and compliance costs. Funding portals, issuers, and investors alike must all bear varied direct and indirect costs in order to invest in Reg CF offerings while complying with this limitation.

Suggested changes:

1) Change the cap to consider Income OR Net Worth for larger investments, not both.
2) Remove the cap for accredited and institutional investors

The Exempt Offering Framework	Whether the Commission's exempt offering framework, as a whole, is consistent, accessible, and effective for both companies and investors or whether the Commission should consider changes to simplify, improve, or harmonize the exempt offering framework

1) Ease the public solicitation requirements for Reg CF issuers. Reg CF Issuers are currently constrained by Rule 204 which limits their ability to communicate terms of their Reg CF deal in addition to other non-term information about their business.

The requirement directly increases compliance and legal costs for issuers and limits their ability to market their campaign. The complexity and limitations of the disclosure rules, while well-intended, serve to harm investor-issuer communication and reduce investment disclosure and transparency. Investors subsequently are less informed about the opportunity both in terms of access (less likely to hear about it) and in terms of content (they can't be fully informed about the investment).

Issuers and investors alike struggle to fully grasp the complicated communication rules and issuers and funding portals often err on the side of providing less information about live Reg CF offerings (rather than greater transparency) in order to steer clear from violation of this rule.

Allow for Expanded Factual Public Statements
The goal of Reg CF should be to increase investor access to information and transparency of the security being offered/sold.

When launching a Reg CF offering, issuers are tasked with informing the public about the availability of their offering while simultaneously conveying certain (but not all) facts about the investment opportunity. For several reasons, it is advantageous for an issuer to promote their offering through third-party sources (ie local news, media, community groups, etc.), however, when making public notices about their offering, issuers must walk a very careful line when promoting their business campaign and in so doing are necessarily exposed to risks outside of their control.

For example, a small business owner talks to a local paper about their business. The business owner must be very careful to not disclose any of the terms involved in their campaign (not an easy task for a non-expert) during their discussion. Even if they are very careful and don't violate any disclosure rules, a resourceful reporter could do additional research, learn the terms of the deal from the public FP offering page, and complete the article. If the issuer were to share the article, the issuer would be in violation of Rule 204 and deemed a "Bad Actor".

This is particularly problematic for capital formation at a local level, especially for small businesses looking to raise $250K or less and those who rely on their personal and regional networks to inform the public about their offering.

Small businesses looking to raise $250K should be allowed to rely on trusted local media outlets to relay factual information about their campaign to potential investors within their community. Allowing issuers to "share" or promote a third party communication that mentions terms and non-terms should be permitted if the information is factual. Doing so would increase investor access to information and improve awareness about Reg CF.

Allow disclosure of "Security Type" term in all formats.
Reg CF issuers are prohibited from mentioning terms (target amount, price, security type, target date) in unison with additional non-term information (per Rule 204).

This rule has the disadvantage of requiring issuers to withhold information from investors and third party sources in relation to their Reg CF offering. As mentioned, most Reg CF investments occur between issuers and potential investors that have a pre-existing relationship.

Particularly, the prohibition on "security type" limits issuer speech in a way that is harmful to investors. For example, stating that an offering is "debt" is fundamental to an investors' understanding of what they may be investing in, but if investors ask an issuer directly (and have previously asked for other non-term information about the offering) the issuer is prohibited from confirming the offering's terms.

Issuers must use synonyms or "weasel words" to compliantly market their offering to interested investors in this scenario. For example, an issuer could not say "this is a loan, by which I expect to pay you back your principal plus interest" (not compliant) but instead would have to say "this is an investment with upside" in order to maintain compliance. Clearly the former statement is more descriptive and transparent about the facts of the offering and thus should be considered a benefit to investors. Limiting speech to exclude terms of an offering is extremely difficult for Reg CF issuers (whom

are not experts on securities law) to master, while simultaneously limiting investors' access to information.

2) Public Disclosure.

Make ongoing reporting obligations (such as Form C-AR) available to existing note holders (not general public).

Issuers have expressed their willingness to share their annual performance with those who have invested in their offering but are reluctant to share their ongoing results with the public.

3) Reporting Costs.

Eliminating requirement for CPA-reviewed or audited financial statements for Reg CF offerings. This is especially critical for small issuances under $250,000.

a) Most small business financials statements are prepared by Certified Public Accountant but not "reviewed" or "audited" which carry additional costs.

b) Most banks do not require reviewed or audited financials for small business loans, including Small Business Administration guaranteed loans which are often for millions of dollars.

c) Audited financials are not required in other exempt offerings, including offerings where larger sums of money may be raised.

The standard of reviewed or audited financials for certain Reg CF imposes tremendous costs on small businesses looking to raise capital and only extremely limited additional protection for investors.

4) **Form ID Notarization.**

Remove notarization requirement from Form ID filing.

Allow funding portals to verify identity of Issuer (rather than notary) would improve access and costs for small business. Rural issuers are particularly negatively affected by proximity and access to notaries.

5) Testing the Waters.

Allow for limited "testing of the waters" before filing a Reg CF offering.

Allows businesses to assess support and project feasibility before costly Reg CF filing. Testing the waters will lead to increased offering success.

The below response is submitted on behalf of Pittsburgh-area, angel investor Ed Engler. As Ed has significant experience with investing and is highly knowlegable on Reg CF, we asked him to provide his feedback. Please not that the below comments are Ed Engler's alone and do not represent the opinions of Honeycomb Credit or its management.

Pooled Investment Funds	Whether the Commission should take steps to facilitate capital formation in exempt offerings through pooled investment funds, including interval funds and other closed-end funds, and whether retail investors should be allowed greater exposure to growth-stage companies through pooled investment funds in light of the potential advantages and risks of investing through such funds.

Written response from Ed Engler:

It seems dicey to start. If you take today's pooled funds (e.g. any/all institutional investors charging 2&20) and layer it on top of crowdfunding, it would be terrible. Crowdfunding has a few value elements such as lower costs to borrowers, higher returns to investors and perhaps most importantly, building community. Professional fund managers reduce the first two and almost destroy the third one. As we have talked about, the community element is among the most important for many reasons. As soon as you layer in a professional fund manager, the costs go up (returns get depressed), social connections are broken and motivations diverge. It's also just a land grab by Wall St. banks desperate not to get disrupted by the peer-to-peer model. So long as the peers go through one of their funds, it's not peer-to-peer.

The age-old arguments will be that fund managers can "pick deals" and offer diversification across deals. I think the first has been proven wrong and the second can be provided by the platforms automatically. I don't see the costs and risks of institutional asset capture as worth it.

- Ed Engler, *Managing Partner, Pittsburgh Equity Partners*

Email: [redacted]