Comments on Harmonization of Securities Offering Exemptions: "Investor Limitations"

MarketPlus Capital Company very likely was the first US "FinTech" firm, having offered privately in 1991 an investment security that enabled an investor to be leveraged long or inverse to the closing price of the S&P 500 Stock Index. Investors made their selections using a computer-based interactive voice response system, the most modern technology at that time.

Investors that use registered investment advisers to manage investments on a discretionary basis and pursuant to a fiduciary duty should qualify as accredited investors.

We strongly endorse the Investment Adviser Association's June 2016 proposal that the Commission amend the definition of accredited investor to include investors whose relevant investments are made by the SEC-registered investment advisers (RIA) they retain, as fiduciaries, to manage their investments on a discretionary basis.

The Commission's definition of an "accredited investor," was expanded to include:

> "... a person [who has], *or the company or private fund offering the securities reasonably believes that this person has* [emphasis added], sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of the prospective investment."

Under this definition, we believe that an investor who has a qualified RIA evaluating "the merits and risks of" an investment qualifies as an accredited investor. If that investor had the same "knowledge and experience in financial ... matters" that their RIA has, they most certainly would qualify.

We agree wholeheartedly with the IAA's assertion that: "The current standards disregard this fact, and in doing so unduly restrict investment opportunities for the large number of investors who have engaged investment advisers to determine whether opportunities are in their best interest."

Our innovative internet-based financial instrument, a Zero-Coupon Indexed Note (an "iNote©"), was developed specifically for accredited investors and clients of RIAs. As shown in the attached description, an iNote enables an investor or their RIA to specify the exact indexed component they want, including being leveraged directly or inversely.

Because of an iNote's unique design, it does not have the index tracking issues inherent in leveraged and inverse ETFs – about which the SEC has warned investors. Moreover, as described in the attached, it makes other significant advantages available to investors.

Because many clients of RIAs are not accredited investors, we have had to endure a costly and lengthy (now approaching over 10 years) SEC registration process.

The Commission's adopting IAA's accredited investor proposal will save future FinTech startups from having to unnecessarily register a new financial product designed for RIAs and remove what is now an obstacle to investor access to new investment opportunities.

Respectfully submitted,

Robert R. Champion, President
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MarketPlus

About "iNotes"

MarketPlus Capital Company ("MCC") and *Easy*AUM are working together to launch an innovative, internet-based security called "iNotes." iNotes are *Zero-Coupon Indexed Notes due March 1, 2030*. MCC first filed for SEC registration of an iNotes predecessor in 1994, making it very likely the first US "FinTech" company.

An iNote combines a computer-generated indexed note with a powerful cloud-based platform, "MarketPlus," that provides investors with an efficient and cost-effective way to implement investment-management and asset-allocation strategies consistent with the tenets of modern portfolio theory:

- Diversify among asset categories.
- Diversify within each asset category.
- Realize a return commensurate with the risk taken.

MCC developed iNotes for clients of registered investment advisors (RIAs) and for institutional and accredited investors. Unlike buying a traditional indexed note, with an iNote an investor or its RIA uses the internet to describe the *exact indexed note* they want.

They do this by using MarketPlus to specify the percentages of the value of an iNote that they want indexed to the "total return" on a hypothetical investment among over 50 domestic and international futures contracts that include US and international stock indexes, government debt instruments, precious metals, energy and other commodities, currencies, and currency indexes.

The "total return" includes the percent futures price change plus the 91-day Treasury Bill (T-bill) daily return on the end-of-day iNote value.

Each individual indexing to a futures price can be "direct" or "inverse" with leveraging in 5% increments up to 300%. The portion of any iNote balance that is not indexed to one or more futures prices is indexed to "cash," which accrues income at the T-bill rate.

As a result of this modern-day innovation, iNotes enable investors to buy the *exact* indexed note they want without having to settle for what is available – assuming they can even find something close to what they want. Furthermore, iNotes provide investors – both active and passive – with significant performance advantages over other asset allocation vehicles. Specifically:

- iNotes do not have the abysmal index-tracking issues innate in leveraged and inverse exchanged-traded funds (ETFs), so much so that the SEC has warned investors against using them. iNote leveraged and inversely indexed positions *track perfectly.*
- iNotes do not have the underperformance problem of ETFs linked to a futures price that is in "contango," such as illustrated by the USO ETF.
- iNotes even produce value in a passive asset allocation strategy that cannot rely on using inverse or leveraged ETFs or futures contracts; leveraged indexed positions create no "unrelated business taxable income" (UBTI).

iNote investors can exchange their iNote into a differently indexed one at any hour or half-hour during a trading day, including during extended-hours trading and when non-US futures exchanges are open. MarketPlus runs 24/7 with *same-day settlement*. Moreover, investors can, *at any time*, make additional investments into or redeem some or all of their iNote's balance with funds wired within two business days.

At the end of each US trading day, the aggregate value of all outstanding iNotes is more than 100% supported by cash and T-bills held by a corporate trustee solely for the benefit of all iNote holders. *Under no circumstances can MCC require an investor to make additional payments beyond their initial investment.*

An initial investment buys an iNote indexed 100% to "Cash," which earns the daily T-bill rate. There is no fee for this iNote, thus 100% of the purchase price is working for investors.

MCC charges a 0.02% *round-trip fee* whenever an investor exchanges an iNote for a differently indexed one, a 1.25% annualized fee on the notional amounts that the investor has indexed, and their advisor's management "trail fee," if any. No fee is charged on cash allocations.

An investor's performance is unaffected by the MCC's internal transaction and operating costs and is solely a function of an investor's or their advisor's individual asset allocation decisions. Further, *investors do not acquire any direct or undivided interest in any futures contract to which they index their iNote nor in any of the securities or other assets in which MCC holds invested funds.* To realize the value of their iNote, investors must rely on MCC's hedging strategy and on its "credit support arrangement," which is described in MCC's prospectus.

In sum, iNotes enable investors to manage their money in accordance with modern portfolio theory and rebalance or modify their asset allocations and risk exposures virtually whenever they want. Its key benefits – especially for RIAs include:

- One-step broad asset diversification with precise risk/return exposure and half-hourly iNote exchange availability.
- Exact tracking of the underlying futures price with no slippage.
- Maximum loss limited to the amount invested.
- Always being able to assume and maintain a bearish position, whereas sometime brokers may deny or call in a similar ETF short position.
- Investors earns full interest on "short proceeds."
- Attractive leveraging costs equal to the 3-month LIBOR + 1.25%.
- "If/Then" automated iNote exchange functionality.
- 100% tax deduction of adviser fees including the ability to pay an RIA a "trailing fee" – neither of which is possible using ETFs.
- Tax-exempt investors implementing a leveraged position earn their return free of UBTI.
- Complete trading confidentiality; large traders maintain anonymity and trading confidentiality.

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All in all, iNotes have many significant advantages compared to mutual funds, ETFs, and exchange traded notes. They compete quite effectively and profitably in this growing market. Indeed, for RIAs, iNotes are "the next big thing."