VERINVEST

January 17, 2014

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. S7-09-13 Proposed Crowdfunding Rules

Dear Ms. Murphy:

I am writing on behalf of Verinvest Corporation to congratulate the commission on its success in creating an impressive framework for what is to create a new era in our capital markets. There is no question that managing the expectations of the market participants within a statutory mandate is an immeasurably complex task. This moment in time will be regarded by future generations as historic; one which harnesses the power of the information age for the benefit of both issuers and investors. I am certainly hopeful that the proposed balance of oversight and new opportunity brings welcome growth and responsible innovation to our financial markets.

I would also like to submit to the commission our comments on certain of the proposed provisions of the rules on crowdfunding. Having read the complete proposal and many of the supporting interpretive publications, it is our understanding that the commission is leaning toward permitting investor "self-certification" of financial status in most, if not all aspects of Title III. In our view, and for the reasons set forth below, this could lead to disastrous consequences and reckless behavior by investors and issuers alike.

One of the most noteworthy provisions of Title II of the JOBS Act was the new requirement that issuers take "reasonable steps" to verify the accredited status of investors. This was an historic shift from the previous doctrine of self-certification: a prudent requirement when investors were intended to be well known by the issuers and their intermediaries. The very success of crowdfunding (open solicitation) is made possible and is gathering popularity because today's information and communication technologies, together with the adoption of technology-enabled social networks have built trust among people who have few if any traditional connections. It stands to reason then that the larger, even if less well-known, audience of potential investors should increase the likelihood of an issuer finding capital.

As you are aware, the "know your client" doctrine is a cornerstone of the financial advisory industry on every level. It imparts an iron-clad responsibility on issuers and intermediaries to determine suitability of an investment for a particular investor – financial suitability being just one component. Given no pre-

existing relationship with the investor, no evidence of financial means other than self-statement and an inherent conflict by both the issuer and the intermediary/platform in their desire to close the transaction, there is serious potential for widespread misuse and abuse of Title III, as proposed. With more than 450 crowdfunding platforms in the United States alone, it would seem impractical for regulators to rely solely on participants to monitor the expected level of activity.

Specific to the proposal made available for comment, there are several questions posed by the commission that highlight the "investor certification and monitoring" challenge. In summary:

- Question 7 poses the question of incorporating spousal income for purposes of calculating limits;
- Question 8 highlights the challenges of the issuer and intermediary in terms of monitoring an investor's limits, a Section 4A(a)(8) requirement;
- Question 158 seeks guidance on proposed limit monitoring;
- Question 159 considers the representations of the investor, i.e. self-certification;
- Question 160 suggests the possibility of a centralized database of investor limits; and,
- Question 161 addresses the idea that intermediaries might communicate with each other about investor limits.

It is clear that the commission is troubled by the idea that investors will be responsible for not only calculating their own investment limitations, but also for honestly and candidly investing across platforms within those boundaries. This concern is, I believe, well-placed. Considering the inherent expectations of novice investors with respect to early-stage investing, amid a flurry of media hype surrounding the founders' returns on several high-flying companies, it is reasonable to question the compliance and discipline of a starry-eyed investment crowd. Moreover, consider the role that self-certification of income played in the mortgage banking crisis of 2008. Clearly, the absence of income verification contributed significantly to the near collapse of the financial industry.

The commission acknowledges that a centralized database could be a solution to this problem (q. 160), but that none currently exists. We would respectfully submit to you that in fact, the infrastructure for just such a database is being created. Verinvest Corporation, and potentially other Crowdfunding Service Providers (CSPs), are building platforms that will provide financial certification for accredited investors under Title II of the JOBS Act and (in our case) will provide the same service for diligent issuers and intermediaries under Title III; even if not required by the final regulations. Within the safe harbor as defined in Title II, Verinvest provides a seamless, inexpensive, technology-enabled verification solution in a secure data environment that solves all of the challenges of monitoring investor qualification and compliance.

The broader financial markets have come to rely upon numerous service providers to facilitate fair and honest dealing in securities. Law firms, auditors, transfer agents, clearing firms, custodians and others have been appointed to a formal role in the administration of financial transactions – often in response to some form of abuse or crisis. These firms serve to mitigate risk that cannot be managed by regulation alone, and they bear responsibility in their oversight. A well-managed certification platform like Verinvest can provide certification and monitoring services, meeting both the letter and the intent of the rules; itself accepting regulation and inspection as a condition of regulatory necessity.

Requiring that a third-party perform a financial certification and provide a requisite audit trail will not impede the development of crowdfunding, except in those instances where investors do not meet the requirements and should be excluded. Investors as a whole are indeed better protected when their qualification is independently determined and administered – as are the issuers and intermediaries. Such a rule would provide additional valuable oversight to this nascent industry at a time when it is particularly vulnerable to potentially corrupt processes and practices. It is also consistent with the level of third-party involvement required of transactions in more-developed securities markets.

In this regard, and mindful of the unmentioned but equally important concerns regarding privacy, data protection and record-keeping, I petition the commission to strongly consider the argument in favor of requiring third-party investor certification and monitoring. Relying on self-certification or certification by conflicted intermediaries creates far too much potential for abuse, neglect and outright fraud – particularly in light of cost-effective, efficient solutions available in the private sector.

I would like to thank the commission for its careful consideration of this matter. Should you wish to discuss this topic in further detail, or explore the potential of Verinvest Corporation to serve in a formal capacity, I am available at your convenience. I may be reached at [redacted] or by email at [redacted].

Respectfully submitted,

David Benway
Chief Executive Officer
Verinvest Corporation