

Annemarie Tierney, EVP –Legal and Regulatory, General Counsel
SecondMarket Holdings, Inc.

Annemarie Tierney is EVP – Legal and Regulatory, General Counsel of SecondMarket, the largest secondary market dedicated to creating liquidity for alternative investments, including private company stock. SecondMarket has conducted billions of dollars in transactions across all of its asset classes.

SecondMarket was honored by the World Economic Forum as a 2011 Technology Pioneer. Also in 2011, SecondMarket was recognized by *Fast Company* as one the “Ten Most Innovative Companies in Finance.” In 2010, the company was recognized by AlwaysOn Media as the overall winner of the “Global 250” list of the top private companies in the world. In addition, SecondMarket was named one of the “Top Fifty Tech Startups You Should Know” by *BusinessWeek*.

Ms. Tierney joined SecondMarket Holdings, Inc. in 2010 as General Counsel and Corporate Secretary, with responsibility for the firm’s legal and broker dealer compliance functions. From 2008 to 2010, Ms. Tierney served as General Counsel and Corporate Secretary to NYFIX, Inc., a Nasdaq-listed public company, with responsibility for a wide range of corporate and legal issues, including compliance with SEC rules and regulations, compliance with listing requirements, corporate governance matters, preparation of Securities Exchange Act of 1934 periodic reports, proxy statements and disclosure documents, as well as broker-dealer compliance matters. From 2002 to 2008, Ms. Tierney was Assistant General Counsel in the Office of the General Counsel of NYSE Euronext, where she had primary responsibility for NYSE Euronext’s SEC and AMF reporting function. Ms. Tierney also acted as counsel to the NYSE Global Listings Group, with particular responsibility for corporate governance and quantitative listing standards. From 1996 to 2002, Ms. Tierney was a Senior Associate in the corporate finance group at Skadden, Arps, Slate, Meagher & Flom LLP, London and New York. From 1990 to 1996, Ms. Tierney served as Special Counsel in the Office of International Corporate Finance in the Division of Corporation Finance at the U.S. Securities and Exchange Commission, with responsibility for a wide range of rulemaking and interpretative issues.

Ms. Tierney earned her JD at the Columbus School of Law at the Catholic University of America, and her BS (Finance) and BA (International Relations) at the University of Delaware, and holds a Series 7 license.

Ms. Tierney is a frequent speaker on the topic of providing liquidity for private company shareholders, including presenting on the topic at the SEC’s 2013 Government – Business Forum on Small Business Capital Formation and NASAA’s 2013 Annual Conference.



Written Testimony

of

Annemarie Tierney

Executive Vice President – Legal and Regulatory, General Counsel

SecondMarket Holdings, Inc.

to the

Committee on Financial Services,

Subcommittee on Capital Markets and Government Sponsored Enterprises

U.S. House of Representatives

“Legislative Proposals to Facilitate Small Business Capital Formation and Job
Creation, Part II”

MAY 1, 2014

Good afternoon Chairman Garrett, Ranking Member Maloney, and Members of the Committee. My name is Annemarie Tierney. I am the Executive Vice President – Legal and Regulatory, General Counsel of SecondMarket. I am grateful for the opportunity to testify this morning regarding these important subjects that pose significant challenges to our country. The issues raised in my testimony directly impact startup growth, job creation and American global competitiveness.

First, I'd like to describe SecondMarket and the important role that SecondMarket plays in facilitating the growth of private companies. Next, I will describe the regulatory barriers that currently pose challenges to private companies seeking to raise capital and to provide liquidity for their shareholders. Finally, I will suggest passage of the legislation that is the subject of today's hearing, particularly the bills that address these regulatory barriers, while also maintaining a high level of investor protection.

My Background and SecondMarket's History

I was born and raised in New Jersey, attended college at the University of Delaware, where I received degrees in Finance and International Relations, and law school at the Columbus School of Law at the Catholic University of America, where I focused on securities law. After graduating law school in 1990, I started my career as an attorney in the Division of Corporation Finance at the Securities and Exchange Commission. I subsequently spent six years as a senior associate with the law firm of Skadden, Arps, Slate, Meagher and Flom, LLP in their London and New York offices, followed by six years as Assistant General Counsel at NYSE Euronext. Just prior to joining SecondMarket, I was the General Counsel of NYFIX, Inc., a Nasdaq-listed registered broker dealer. I joined SecondMarket in 2010.

SecondMarket was founded in New York City in late 2004, and we opened for business as a registered broker dealer in 2005 focused on trading restricted securities of public companies. Since launching the first asset class in 2005, our business has refocused to provide markets for fixed income securities (*e.g.*, auction-rate securities, mortgage-backed, etc.), private company stock and bitcoin. These asset classes have unique characteristics, meet distinct objectives and attract different investors. However, they share the common thread that they are illiquid, alternative investments that benefit from a centralized marketplace.

Our technology has also substantially evolved as we have invested millions of dollars into our online platform, which provides a central market and greater efficiency, an improved user experience, and a streamlined sales process for transactions in these asset classes. Moreover, SecondMarket now employs over 50 people in New York City, and we are hiring new employees every month. I should also note that SecondMarket is a FINRA registered broker-dealer.

Over the years, SecondMarket has emerged as an innovative solution provider. We have helped retirees obtain liquidity when their auction-rate securities (which were often marketed as a cash equivalent) turned out to be long-term, illiquid investments. We were part of the sales team that worked in conjunction with Deutsche Bank to help the U.S. Treasury Department sell TARP warrants. And we've helped dozens of private companies raise capital and also provide liquidity for their shareholders, many of whom reinvested their money into other startups.

SecondMarket is the leading provider of services to facilitate transactions in private company stock. Our original approach with respect to this market was to match buyers and sellers of private company stock in privately negotiated block trades or through a competitive Dutch auction format. We completed these types of trades in over 60 different companies, including

Facebook and Twitter. To provide a sense of our trading volume, in 2008, when we entered the private company secondary liquidity market, we completed \$30 million in private company secondary transactions; in 2010, we completed \$524 million in private secondary transactions; and in 2012, we completed \$312 million in private secondary transactions. In 2011, we pivoted our private company secondary business to provide shareholder liquidity solely in the context of company-sponsored and/or supported liquidity programs, working closely with private companies to facilitate orderly sales of stock by their existing shareholders. Although we also provide support for private companies raising primary capital, I'd like to focus today on our insights regarding the challenges faced by private company shareholders seeking liquidity for their shares and how these challenges negatively impact private companies.

Need for Private Company Secondary Liquidity

Based on our considerable experience with private company shareholder transactions described below, I strongly support Section (5) of the proposed legislation referred to as “A bill to amend the securities laws to improve the small company capital formation provisions, and for other purposes” to adopt Section 4(a)(7) of the Securities Act of 1933 and to make securities sold pursuant to that exemption covered securities for purposes of Section 18 of the Securities Act of 1933. In my view, this legislation merely codifies a long-standing legal framework applicable to resales of private securities by shareholders who cannot meet the requirements of Rule 144 as described below. In addition, I would note that all of the securities eligible to be resold under Section 4(a)(7) are securities that were originally issued in transactions that were themselves exempt from registration, such as Rule 506(b), Rule 506(c) and Rule 701 (which exempts from registration issuances of securities to employees under certain equity compensation plans), and

preempted from state law registration. It seems sensible to put these securities on equivalent legal footing in both the primary and secondary sale context for the reasons outlined below.

Rationale for Codifying Existing Legal Practice

The average time a company remains private has essentially doubled in recent years. Based in part on the provisions of the Jumpstart Our Business Startups (JOBS) Act of 2012, a private company now has the ability to defer an IPO and Securities Exchange Act of 1934 reporting and remain private longer than it might have done in the past. Moreover, the profile of companies going public has changed dramatically. Today, only the very largest companies are undertaking IPOs, and receiving the sales and equity research support needed to succeed as public companies.

It may be commonly understood that venture-backed companies fuel job growth in this country,¹ but most people do not appreciate the staggering extent to which this statement is true. In its 2010 study entitled *The Importance of Startups in Job Creation and Job Destruction*, the Kauffman Foundation noted that startups create an average of three million new jobs annually and the most new net jobs in the United States.² The study bluntly states: “Put simply...without startups, there would be no net job growth in the U.S. economy.”³

Thus, it is essential that the regulatory framework responds to this dynamic and creates an environment in which startups can flourish. Every member of Congress is concerned about job

¹ Venture-backed companies in the United States account for approximately 12 million jobs, or 11% of total private sector employment. *Venture Impact: The Economic Importance of Venture Backed Companies to the US Economy*, National Venture Capital Journal and IHS Global Insight, 2011.

²*The Importance of Startups in Job Creation and Job Destruction*, Kauffman Foundation Research Series: Firm Formation and Economic Growth, July 2010. Significantly, the study notes that even during poor economic conditions, “job creation at startups remains stable while net job losses at existing firms are highly sensitive to the business cycle.”

³ *Id.*

creation. It is the foremost concern of President Obama and of virtually all Americans. Policymakers need to understand that any serious job creation effort must address the concerns of entrepreneurs. The Kauffman study concludes by noting that “States and cities with job creation policies aimed at luring larger, older employers can’t help but fail, not just because they are zero-sum, but because they are not based on realistic models of employment growth. Job growth is driven, essentially entirely, by startup firms that develop organically...effective policy to promote employment growth must include a central consideration for startup firms.”⁴

I’d like to explain why facilitating shareholder liquidity is so important to the overall success of private companies. We were first approached about facilitating sales of private company stock in late 2007. A former Facebook employee contacted us and asked if we could help him sell his stock. He had read that we facilitated transactions in restricted stock of public companies. Since Facebook was not a public company, the stock had never been registered for public sale and Facebook did not have any IPO plans. We facilitated the transaction but then spent nearly a year conducting diligence to assess the viability of the market. Once we understood that companies were remaining private much longer than they had in the past, and that systemic changes in the public markets had made it increasingly difficult for companies to go public, we were convinced that we could help provide liquidity opportunities for private companies.

The SecondMarket approach is premised on the notion that there is not a “one-size-fits-all” model for private companies. Each company has its own goals and objectives when creating a liquidity program for shareholders. Some companies value flexibility, while others are more concerned with valuation. In the context of the liquidity services that we provide, companies

⁴ *Id.*

control the parameters regarding how and when liquidity is provided to their shareholders, including identifying and approving the potential buyers, establishing the number of shares eligible to be sold, and setting the frequency of transactions. Most of the transactions that we facilitate today take the form of private company share buybacks or third party tender offers. In the context of these transactions, we act as depository, paying and information agent, handling all of the administrative aspects of the transactions, from capitalization table management, to online access to the transaction data room, to electronic execution of deal documents, and fund flows.⁵

As a result of our experience, SecondMarket has become an important part of the capital formation process. By helping a company provide a liquidity opportunity for its early stage investors, former and current employees, and other shareholders, we operate as a bridge either to an IPO for a company that eventually wants to go public, or as an alternative liquidity opportunity for a company that wishes to remain private. Importantly, we have found that private companies find it much easier to raise primary capital when prospective shareholders understand that interim liquidity will be available to them, particularly in the case of private companies that wish to remain private and defer their IPOs.

We have also found that private companies are better able to attract and retain talented employees if those employees have the ability to monetize at least part of their equity compensation via a centralized liquidity event held on an annual or semi-annual basis. The pay structure at startup companies generally relies heavily on stock-based compensation in the form

⁵ When a company uses SecondMarket to conduct a liquidity program, we require the company to provide robust disclosures to eligible buyers and sellers, which generally include audited financial statements and company risk factors. Companies are increasingly comfortable with the requirements of our market as they recognize that the information they provide is only available to the companies' selected buyers and sellers in a secure, online data room administered by SecondMarket.

of options representing common shares that vest over several years. The options provide an economic incentive that allows employees to realize the financial upside of contributing to a successful startup. Startup companies prefer to give equity in lieu of cash compensation because startups generally need to conserve capital in order to grow the business, so making equity compensation more attractive to prospective employees will facilitate job creation and startup growth.

Options granted as part of a private employee's compensation package typically vest over a four year period and expire (a) a specified number of years after grant (*e.g.*, five to seven years after grant date) or (b) at a point in time after the employee leaves the company (*e.g.*, 60 or 90 days after employment ends). Exercise of employee options, however, requires that the employee pay the option exercise price at the time of exercise and also triggers an income tax event for employees resident in states that impose an income tax.

A minority of private company options are exercisable on a cashless basis, meaning that the employee forfeits options in an amount equal to the cost of the exercise price and any applicable taxes in order to exercise the remainder. Most options, however, require that the employee go out of pocket to pay the applicable exercise costs, which can be significant. The significant consequence of this requirement for rank and file employees cannot be understated. Most employees cannot fund these exercise costs; they must structure an exercise and immediate sale of common shares in order to cover these costs. Under the current legal framework, it is very difficult, if not impossible, for employees to navigate the federal and state requirements applicable to the exercise of their options and resell of the common shares on their own, and engaging legal counsel to do the analysis on their behalf can be cost prohibitive. As a result, a

substantial amount of private company employees' options may not be exercised and, thus, expires, resulting in the forfeiture of economic value and loss of potential income.

Challenges Presented Under Current Legal Framework for Private Company Shareholder Liquidity

As a general matter, in order for a private company shareholder to sell his shares, the shareholder must engage his own legal counsel and pay them to provide an opinion confirming that the shares were sold pursuant to valid federal and state exemptions from registration. The legal opinion is delivered to the company's transfer agent, along with a transfer fee that may be as high as \$7,500, in order for the sale to be finalized. To the extent that the shareholder is not an affiliate of the private company and can demonstrate that he has held the shares being sold for at least 12 months, the opinion letter will be based on an analysis of the seller's compliance with the conditions of the Rule 144 safe harbor promulgated under Section 4(a)(1) of the Securities Act of 1933, which provides a federal, state preempted, exemption for the resale transaction.

The challenge comes into play, however, where the shareholder cannot rely on Rule 144 because they are an affiliate of the company, as is the case for officers, directors and control persons, or where the shareholder has not held the shares to be sold for the requisite 12 month period, as in the case of a private company employee who holds options, but not the common stock underlying the options. In either case, the shareholder needs to identify both a federal and state exemption from registration for the resale transaction since the transaction is not preempted from state blue sky laws.

On the federal level, no specific statutory safe harbor exists for these types of resale transactions. Instead, a legal construct referred to as Rule 4(a)(1 ½) has developed as a result of case law and

legal analysis over the past 60 years.⁶ The basic requirement of Rule 4(a)(1 ½) is that the transaction satisfy certain elements of both Section 4(a)(1), the non-issuer exemption, and 4(a)(2), the issuer exemption, such as that there is no public offering and that all buyers are accredited investors. While the SEC has never acted to codify the Rule 4(a)(1 ½) construct, it has acknowledged the validity of the exemptive theory in an interpretive release⁷ and in several no-action letters, the latest of which was issued in 1972. The SEC has declined, however, to provide any additional clarification on the requirements necessary to satisfy the construct. Unfortunately, the SEC Staff even declined to consider a no-action letter request that we submitted two years ago in the context of the exercise of employee options and the immediate sale of the underlying common shares in order to cover the option exercise costs. Despite the lack of formal guidance, the legal bar is generally comfortable providing legal opinions that affirm that these transactions are exempt from SEC registration under a Rule 4(a)(1 ½) analysis (assuming the essential conditions for a private placement have been met) and multiple law firms do so for hundreds of private company secondary share transactions each year.

The most significant disadvantage of the lack of a specific federal safe harbor for these transactions is that each transaction must also satisfy the blue sky laws of the state of residence of every potential accredited investor buyer. The difficulties imposed by this obligation are clearly understood when you consider our efforts to provide liquidity for shareholders of private community bank shares. Starting in 2011, SecondMarket attempted to create an efficient secondary market for private community banks across the country. Many of these were private bank holding companies, subject to the same level of bank regulation as bank institutions whose

⁶ See *The Section "4(1 ½)" Phenomenon: Private Resales of "Restricted" Securities*, 34 Business Law 1961 (1978-1979).

⁷ Securities Act Release 6188, footnote 178, 45 Federal Register 8962, February 1, 1980.

securities issuances are exempt under Section 3(a)(2) of the Securities Act of 1933. These community banks, however, were initially structured as bank holding companies to take advantage of the ability to issue trust preferred securities which counted toward their Tier 1 regulatory capital requirements, an advantage that was eliminated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. As a result of being organized in holding company form, primary and secondary securities transactions in community bank shares are subject to the same requirements and restrictions of the Securities Act of 1933 as any other private company.

The community banks that we worked with throughout 2011 and 2012 were generally focused on providing liquidity to their existing shareholders in a forum where individual accredited investors, rather than institutions, would buy their shares. The banks saw a tremendous benefit in attracting new shareholders who were members of their communities or surrounding areas and expressed the belief that providing regular secondary share liquidity events would make it easier for them to raise primary capital and, subsequently, lend more money to local businesses. Most of the banks' shareholders are account holders or employees, including officers and directors, so allowing those shareholders the opportunity to monetize even a portion of their shareholdings on an annual or semi-annual basis would also inject additional capital into the community in the form of discretionary income, capital gains taxes and additional income taxes.

Before launching our community bank initiative, we conducted an in-depth analysis of the various private company selling shareholder transaction exemptions provided by all 50 states. We found that state regulations relating to these transactions are generally inconsistent, which made it very difficult to establish a nationwide approach to implementing liquidity programs for shareholders looking to sell their shares. Since private company secondary transactions have the

potential to generate significant income and capital gains tax revenues at the state level, the lack of clarity as to the availability of these exemptions across the states may limit a shareholder from transacting in a particular state, resulting in lost revenue for that state.

Our nationwide analysis demonstrated that most states provide for one or more variations of four non-issuer transaction exemptions. The specific requirements of these exemptions, however, vary significantly across the states, creating confusion and increasing the costs associated with obtaining liquidity in situations where the shareholder in a single liquidity program seeks to sell shares to accredited investors located in more than one state.

The variability of the requirements relating to each exemption also make it extremely difficult, if not impossible, for an intermediary, such as a broker-dealer, to assist a private company in locating buyers to provide liquidity for its shareholders. For example, forty-four states provide an exemption for transactions effected through a broker-dealer resulting from an unsolicited offer from a buyer interested in purchasing private company shares from an existing shareholder. In the case of this exemption, individual states impose a wide variety of limitations and restrictions on the use of the exemption. For example, some states require that a purchaser acknowledge or confirm in writing that the bid for the security was unsolicited. In addition, some states limit the use of this exemption by affiliates of an issuer.

The following chart represents the patchwork of state blue sky laws applicable to the unsolicited broker transaction exemption as of January 2012. There were similar inconsistencies across the other three non-issuer transactions – the manual exemption, the institutional exemption and the isolated non-issuer exemption – that make it virtually impossible for a private company shareholder to resell his shares without significant and costly assistance from legal counsel.

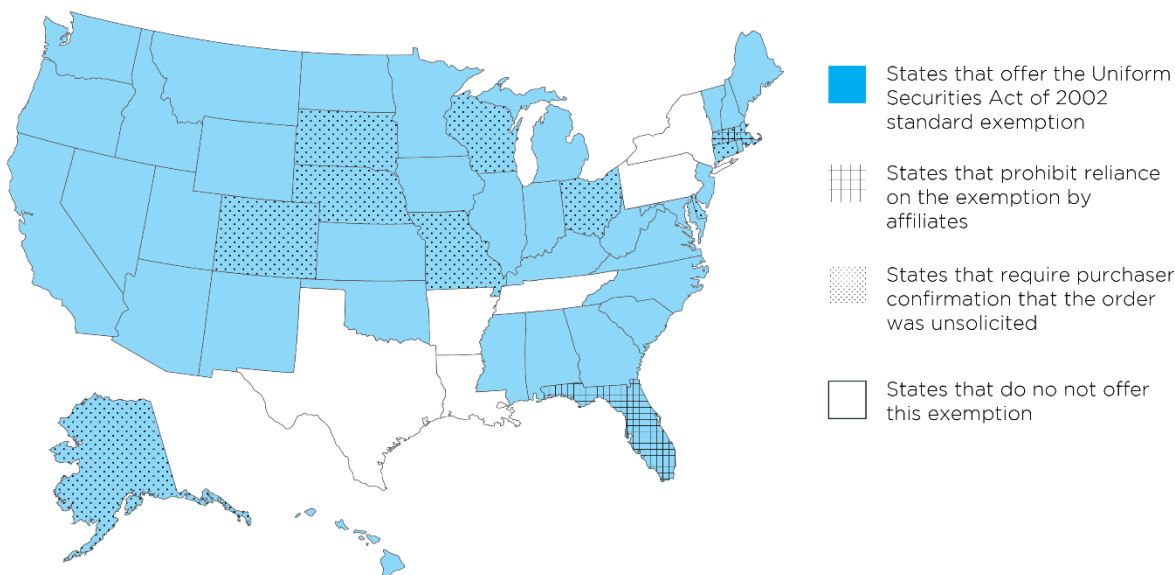
Unsolicited Broker Transactions

44 STATES
have adopted the Uniform Securities Act of 2002 standard form of exemption.

2 STATES
prohibit reliance on the exemption by affiliates.

12 STATES
require purchaser confirmation that order was unsolicited.

6 STATES
do not offer this exemption.



To make matters even more difficult, this exemption generally prohibits broker-dealers from soliciting customers that were previously known to the broker-dealer, an approach that is inconsistent with FINRA rules and regulations and the guidelines applicable to primary offers made under Rule 506(b) of Regulation D. State regulations that require that bids be unsolicited unnecessarily restrict the ability of broker-dealers to identify potential accredited investor buyers for private company shareholders even among a broker’s existing client base.⁸ As a result,

⁸ In 2012, we submitted an interpretative request to the State of California Department of Corporations requesting guidance on whether a process by which potential buyers logged onto the SecondMarket platform, successfully completed our background check and accreditation processes, indicated that they were interested in being contacted regarding private company secondary share buying opportunities, and further indicated that they were interested in a specific industry, such as community banks, or in shares of companies located in the State of California would be sufficient steps on the buyer’s part to enable us to contact that potential buyer regarding a specific opportunity without constituting a “solicitation”. The State took the position that, even in this instance, any action on our part to notify a SecondMarket member that a specific company’s shares were available for sale would constitute a solicitation and, therefore, not satisfy the requirements of the exemption that the bid be unsolicited.

shareholders and broker-dealer intermediaries acting on their behalf have greater difficulty finding liquidity for their shares.

In light of the state law limitations on our ability to efficiently locate potential buyers for the shares of private community banks across multiple jurisdictions, even within our membership base of over 25,000 accredited investors, we ultimately ceased our efforts to create efficient liquidity events for community banks.

In 2013, I participated in the SEC's Government - Business Forum on Small Business Capital Formation on a panel entitled "Crystal ball: Now that you raised the money, what's next for the company and the markets?" I discussed the difficulties inherent in the patchwork of state laws applicable to private company shareholder transactions and highlighted the need for codification of a federal, state preempted exemption for private company shareholder transactions that do not satisfy the conditions of Rule 144. In addition, the Forum's participants recommended adoption of the same exemption to the SEC as part of the plenary session recommendations.⁹

Conclusion on Proposed Section 4(a)(7)

In light of the specifics provide above, I strongly support Section (5) of the proposed legislation referred to as "A bill to amend the securities laws to improve the small company capital formation provisions, and for other purposes" to adopt Section 4(a)(7) and to make securities sold pursuant to that exemption covered securities for purposes of Section 18 of the Securities Act of 1933.

⁹ Final report pending.

Proposed Regulation D Legislation

I would also like to comment on the draft legislation referred to as “To direct the Securities and Exchange Commission to revise its proposed amendments to Regulation D, Form D and Rule 156” regarding the SEC’s proposed amendments to Regulation D. While I support the underlying goals of minimizing investor fraud and enabling the SEC to evaluate market practices in Rule 506 offerings, I strongly believe that many of the SEC’s proposed changes are unworkable for startups raising capital in today’s electronic world.

Consider the reality of how most startup businesses actually raise capital. Early and mid-stage startup private companies are under constant pressure to raise capital in order to grow and expand their businesses. Capital is generally sought by the company’s CEO on a continuous basis. The company seldom prepares a formal private placement memorandum, but, instead, uses an investor deck as a tool to explain the company to potential investors. SecondMarket works with many of these early and mid-stage startups, providing transaction management services such as potential investor onboarding, accreditation verification, data room entry, electronic document execution and fund transfer. As a general rule, these transactions do not follow the traditional “investment bank supported” capital raising model more suited to the proposed amendments.

With respect to the specific provisions of the draft legislation that I view as necessary to preserve a functional capital raising environment for startup businesses, I have the following comments.

Section 1(1) - Advance Filing of Form D

The SEC’s proposed rules would require that an “Advance Form D” be filed by the issuer with the SEC no later than 15 days before the commencement of general solicitation. Under current

rules, issuers must file a Form D within 15 days following the commencement of an offering. Requiring a filing in advance of an offering will effectively impose a 15-day cooling off period for offerings by startups seeking capital on a continuous basis and is quite simply inconsistent with the intent of the original JOBS Act.

Many startups will be unaware of the legal technicalities and may unintentionally run afoul of the proposed rules. The continuous offerings of startup businesses often lack a clear “commencement date” that can be relied upon to mark the start of the proposed 15-day filing period. This creates confusion for issuers trying to determine when the Advance Form D filing requirement would be triggered.

In the release outlining the proposed rules, the SEC specifically notes that it “does not anticipate that the staff will review each Advance Form D as it is being made.”¹⁰ An advanced filing will unduly burden issuers and provide limited additive benefit to the SEC on top of the benefit already gained from Form Ds timely filed under the current regime. There is significant potential negative impact that a perceived “failed offering” could have on a startup’s ability to raise capital in the future. Requiring an issuer who abandons an offering and does not actually raise capital under Rule 506(c) to file a form is overly burdensome when weighed against the potential negative implications for the issuer, and there is no true public policy served by requiring it to provide advance notice to the market that it is seeking to do so.

The Advance Form D filing requirement also has significant implications for state law compliance. While the SEC’s rules require that current Form D be filed with the SEC, state laws also require that the Form D be filed in every state where securities have been sold. Satisfying

¹⁰ SEC Release No. 33-9416; 34-69960; IC-30595; File No. S7-06-13.

the current state notice filing requirement already exposes issuers and broker-dealers to a myriad of differing filing requirements and varied state filing fees due to the current lack of uniformity in the Form D filing process across the states. Adoption of the Advance Form D requirements could trigger states to amend their rules to also require issuers to file the Advance Form D in every state where an issuer might sell securities. This would make compliance with the proposed amendment even more unworkable, costly and burdensome for issuers.

I strongly believe that the imposition of the requirement to file an Advance Form D will deter a wide range of private issuers from relying on Rule 506(c), and significantly diminish a central focus of the JOBS Act. Therefore, I support Section 1(1) of the proposed legislation.

Section 1(2) – Failure to file Form D

The proposed amendment to Rule 507 to disqualify an issuer who failed to comply with the Form D filing requirements within the past five years from relying on Rule 506 for any new offering for a one year period is clearly contrary to the intent of the JOBS Act and punitively disproportionate to the impact that such failure would have on investors and the market. There is absolutely no basis for an amendment that would penalize an issuer for the failure to properly file the Form D by imposing a one-year ban from reliance on the exemption for future offerings.

Such a ban would serve as a death knell for many startups and other issuers that inadvertently fail to comply with highly technical legal filing requirements due to a lack of sophistication or lack of access to legal counsel. Investors participating in a Rule 506 offering will be accredited investors and will have access to all of the information that they consider necessary to make an investment decision. Investors will surely suffer no harm if the issuer fails to properly file a Form D (or possibly multiple variations of Form D). The SEC rightly noted in its proposing

release that not every issuer chooses to file a Form D under the current rules, a fact that does not reflect a pattern of problematic practices around Rule 506 offerings under the current rules.

Section 1(2) of the proposed legislation will eliminate this overly burdensome penalty.

Section 1(6) – Submission of Written General Solicitation Materials

Rule 510T of Regulation D would require that an issuer conducting a 506(c) offering submit to the SEC general solicitation materials prepared and used in connection with the offering in advance of the use of such materials. This would impose a significant expense and burden on issuers. As I mentioned previously, many issuers that will utilize Rule 506(c) are startups in need of constant capital infusions. The lack of a clear commencement date for the offering will cause confusion for compliance with this proposed rule. Many private companies raising capital are run by individuals who have no knowledge of the securities laws and lack the resources to retain capable external counsel on an ongoing basis. Thus, these companies will try to navigate complicated obligations on their own.

The absence of a definition of “written general solicitation materials” will cause widespread confusion and noncompliance. Startups seeking capital will likely utilize social media as a means to solicit investor interest, a communication format that does not allow for long and complicated legal legends. Notwithstanding that it is difficult to know which communications would be subject to the disclosure requirement, many private issuers will be intimidated by an obligation to provide every written communication used in investor communications in the context of a Rule 506(c) offering to the SEC. As a matter of clarification, in no case should these materials be made available to the public via the SEC submission process should the

proposed rule be adopted. There is no conceivable public interest that would be served by such disclosure and it would significantly deter reliance on Rule 506(c).

As a result, of all of the Commission's proposed changes to Regulation D, proposed Rule 510T would likely prove the greatest deterrent to an issuer considering whether to raise capital under Rule 506(c). Accordingly, I support Section (6) to require the submission of materials in a single filing after the closing of an offering but would also request that the SEC be directed to provide workable, rational guidance on what types of materials would be considered "general solicitation materials."

Conclusion

In summary, I want to thank Chairman Garrett, Ranking Member Maloney, and the members of the Committee for the opportunity to participate in this important Hearing.

Thank you.