



June 17, 2020

Submission via email: rule-comments@sec.gov

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File Number S7-05-20

Dear Secretary Countryman,

I am pleased to provide these comments regarding the facilitation of capital formation and expanding investment opportunities by improving access to capital in private markets.

Honeycomb Portal is a Funding Portal specializing in debt offerings for Main Street small businesses to access fair debt financing from community-minded investors. We have deployed over \$1.5 million to Main Street small businesses, creating a scalable vehicle for capital formation for microbusinesses and a powerful tool for community wealth building. What's more, we were able to do this in communities often overlooked by traditional lenders. Approximately 50% of our campaigns are for woman-owned businesses, nearly one in three to minority-owned businesses, and more than half of issuers on Honeycomb Portal are located in low to moderate income communities.

Through our experience speaking with thousands of business owners and hosting nearly a hundred Regulation Crowdfunding campaigns, we are confident that the Commission's proposed changes will improve access to capital for small businesses, particularly those most often neglected by other financial services providers.

But while these proposed changes are a major step in the right direction, further modifications will be needed to make crowdfunding a more universal source of capital for businesses and a more approachable asset class for investors. In particular, creating a micro-offering tier open to non-accredited investors will be crucial to making investment crowdfunding a viable tool for Main Street businesses.

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General Solicitation and Offering Communications

28. Should we, as proposed, amend Regulation Crowdfunding to permit testing-the-waters for a Regulation Crowdfunding offering, similar to the current testing-the-waters provision of Regulation A?

Yes, “testing-the-waters” should be permitted under Regulation Crowdfunding and would lead to increased capital formation and greater investment opportunities for investors.

Under the current system, issuers must incur significant upfront costs (both time and expense) prior to launching their Reg CF offering without knowing much about investor demand or the likelihood of their offering’s success. Permitting issuers to test-the-waters and solicit feedback from their community would allow issuers to better understand the feasibility of their offering and ultimately offer terms that are more appealing to their potential investors.

31. Should we allow for oral communications about the offering outside of the funding portal’s platform channels, as proposed? If so, what would be the benefits of allowing more communications?

Yes, oral communications should be permitted outside of funding portal’s official channels as proposed.

Many small businesses seeking to raise funds will rely on their personal and regional community networks where oral communication is the most natural form of communication. Requiring these communications to occur through funding portal channels imposes an artificial barrier on the flow of information between the issuer/investor and discourages investment activity.

32. Should we expand the types of information considered to be the terms of the offering for purposes of Rule 204? For example, should we amend the definition of “terms of the offering” to include information about the planned use of proceeds of the offering or about the issuer’s progress toward meeting its funding target?

Rule 204 of Regulation Crowdfunding requires issuers to limit their speech and disclosure when discussing aspects of their business in conjunction with the “terms” of their offering and refer potential investors to a funding portal to review specific information about an offering. This Rule is harmful to the goal of promoting capital formation and expanding access to investment opportunities.

Issuers and investors alike find the limitations of Rule 204 confusing and frustrating to follow, which leads to a lack of communication and transparency. Under this Rule, issuers are required to walk a delicate line when discussing their business with potential investors and since most issuers are not legal experts, they simply choose to remain quiet about their offering rather than risk the possibility of a Rule 204 compliance violation. Counterintuitive to the intent of the Rule, issuers effectively withhold relevant, material information about their offering from investors. This undoubtedly harms the ability of the issuer to market their offering and diminishes the likelihood the offering will successfully raise its target amount.

Relatedly, investors have expressed frustration when directed to a third-party funding portal rather than being able to ask the issuer directly about investment opportunities. In practice, the Rule leads to awkward social interactions where the issuer must stop the conversation with the investor if they ask about related terms of the offering and direct them to the funding portal. This action stifles trust, transparency, and investors’ ability to understand potential investments in Reg CF.

We recommend that the Commission eliminate Rule 204 - doing so would have the dual benefit of increasing issuer access to capital while simultaneously improving investor protections and access to information.

23. Would the proposed changes positively impact access to capital by counterbalancing social network effects for underrepresented founders, such as women, minorities, and entrepreneurs in rural areas?

Eliminating the prohibition on general solicitation would greatly improve access to capital for underrepresented entrepreneurs such as women, minorities, and entrepreneurs in rural areas.

By loosening communication restrictions, issuers will be able to more effectively reach their potential investors and better leverage their community partners.

Investment and Offering Limitations

62. Should we remove investment limits for accredited investors in Regulation Crowdfunding offerings as proposed? If so, should we require verification of accredited investor status, as suggested by several commenters? Should the limits be modified in some other way?

Yes, investment limits should be removed for accredited investors as proposed. Accredited investors should be able to self-verify their accredited status with a funding portal.

64. The 2017 and 2018 Small Business Forums - Should we consider creating a “micro-offering” tier of Regulation Crowdfunding consistent with these recommendations? If so, should that micro-offering exemption be limited to offerings of debt securities conducted through an intermediary, but with no specific disclosure requirements? Would an aggregate offering limit be appropriate, such as \$250,000, as recommended by the 2017 and 2018 Small Business Forums? Should such a micro-offering be available to non-accredited investors? If so, should there be a limit on the number of non-accredited investors that may participate?

113. What would be the costs and benefits of the alternative of waiving certain disclosure requirements (e.g., review and/or audit of financial statements, progress updates, and periodic reports) for issuers in the smallest Regulation Crowdfunding offerings (e.g., up to \$1 million)?

Allowing for “micro-offerings” for debt instruments under \$250,000 is imperative to unlocking Regulation Crowdfunding’s potential to create a meaningful level of capital formation for small businesses. This enhancement would significantly improve access to capital and expand investment opportunities, particularly for small businesses in underrepresented communities where traditional sources of capital are too often out of reach. Reducing the accounting, legal, filing and marketing costs associated with launching a Reg CF would lower the barriers to entry and promote capital formation at a local level.

Specifically, the following requirements should be waived for debt instruments raising under \$250,000:

- Notarized Form ID
- Reviewed financial statements
- Annual Reports

These waivers will significantly reduce the expense of running micro-campaigns with limited downside to investor protection.

Micro-offerings should be available to both accredited and non-accredited investors. This is especially important for businesses in chronically underinvested communities where scarcer access to accredited investors will prevent capital formation where it is needed most.

112. What would be the costs and benefits of the alternative of scaling up financial statement thresholds in Regulation Crowdfunding in proportion to the proposed change in the offering limit (from \$107,000, \$535,000, and \$1.07 million to \$500,000, \$2.5 million, and \$5 million, respectively)?

The current financial statement thresholds and disclosure requirements impose additional costs on issuers without providing material benefit to investors - particularly for small businesses raising under \$250,000. These costs are often in excess of several thousand dollars, a significant portion of the proceeds of the fundraise.

Officer-verified financial statements are sufficient for offerings up to \$535,000. As an example, the SBA requires credit participants of similar size to submit officer-verified financial statementsⁱ, rather than “reviewed” financials.

Scaling up financial statement thresholds would materially lower the costs associated with funding and will accelerate the adoption of Reg CF and local capital formation.

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We thank the Securities & Exchange Commission for soliciting comment about these very important issues and appreciate your efforts to expand access to capital and financially empower communities. We are grateful for the opportunity to share our views and would be willing to answer any additional questions the Commission might have.

Sincerely,

A handwritten signature in black ink, appearing to read 'CBilger', with a long horizontal flourish extending to the right.

Christian Bilger
Chief Operating Officer
Honeycomb Credit Inc.

ⁱ 13 CFR § 124.602(c)