



ASSOCIATION
OF ONLINE
INVESTMENT
PLATFORMS

July 6, 2022

Honorable Patrick McHenry
2004 Rayburn HOB
Washington, DC 20515

Re: Jumpstart our Business Startups Act of 2022

Dear Congressman McHenry

Thank you for being a continued advocate of expanding access to capital and investment opportunities in the United States. In response to the recently proposed Jumpstart our Business Startups Act of 2022 (“JOBS Act 4.0”), the Association of Online Investment Platforms (“AOIP”) is providing to you our official policy positions, which sets forth specific endorsements of, and suggestions to, update and modify various elements of existing private securities offering exemptions and related matters addressed in the JOBS Act 4.0 bill.

Please note these suggestions have been prepared based on actual, extensive experiences of some of the leading online investment platforms in the US that have successfully utilized existing private securities offering exemptions and deeply understand the difficulties and challenges associated with the current exemptions. We sincerely believe that codifying any of these suggestions would greatly facilitate broader adoption of private securities offering exemptions for the benefit of small businesses and everyday investors.

The AOIP would be happy to meet with you and your staff to provide further comments on these and related matters, or if helpful, provide additional analysis on these issues.

Thank you for your consideration of the AOIP policy positions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Y Lee'.

Youngro Lee, President, AOIP
CEO & Co-Founder, NextSeed
EVP, Republic

cc:

Hon. Sherrod Brown
Hon. Pat Toomey
Hon. Ron Wyden
Hon. Mike Crapo
Hon. Maxine Waters
Hon. Nydia M. Velázquez
Hon. Blaine Luetkemeyer
Hon. Jim Himes
Hon. Bryan Steil
Hon. Don Beyer
Hon. Mike Lee
Bill Clark, CEO/Founder, MicroVentures
Ryan Feit, CEO/Co-Founder, SeedInvest
Kendrick Nguyen, CEO/Co-Founder, Republic

Enclosure



Association of Online Investment Platforms (www.aoiplatforms.org)
Policy Position Paper – JOBS ACT 4.0

July 6, 2022

The United States of America is a nation built by small businesses, which remain the bedrock of our economy today. New securities laws established pursuant to the JOBS Act of 2012 (JOBS Act), which were supplemented and expanded by the Security and Exchange Commission’s Harmonization Release of 2020, continue to have tremendous potential to bring access to capital to innovative small businesses across the U.S., while providing diverse investment opportunities to everyday Americans who have historically been prevented from investing in private companies. Continuing to develop these rules as the industry matures and discovers avenues to further foster capital formation will compel these laws to realize their full potential; transforming our economy by enabling the growth of sustainable capital formation activities for small businesses and startups.

The Association of Online Investment Platforms (AOIP) was established in 2018 by a group of online investment platforms with extensive experience utilizing exemptions under the JOBS Act in order to support and augment the innovation economy. Our mission is to build a sustainable online investment industry that democratizes finance for everyone. We believe that this mission can be fulfilled only if each of the three constituent parties find value in this industry; otherwise, this new finance industry will fail even before it had a chance to be utilized widely:

1. Promising small businesses and startups should be able to efficiently access the capital they need from interested investors, whether debt, equity or other securities instruments, to execute on their strategic goals.
2. All investors should be able to gain access to quality investments that they would otherwise be unable to legally participate in and there should be avenues to see liquidity in those holdings.
3. Registered platforms that seek to operate the right way should be able to generate sufficient revenue to sustain their business and receive proper support from regulators.

We aim to further this mission by advocating to improve access to capital for small businesses and early stage companies, facilitate access to quality alternative investments for all investors, and to ensure sustainability for the platforms that seek to perform the vital market services of connecting businesses and investors in the right way. An innovation-driven economy that creates job and boosts wealth for entrepreneurs and investors is only achievable with a robust startup and small business ecosystem.

The AOIP hopes that policymakers could strive to make the very best deals accessible to smaller investors and not just the wealthy who have easier routes to investing in private companies. This goal is a bi-partisan mission that seeks to create wealth and success for all while addressing the needs of underserved constituencies. Specifically, and with respect to the JOBS Act 4.0, the AOIP wishes to share the following thoughts with members of Congress and their staffs to expedite the adoption of necessary rules to achieve the aforementioned goals. We have listed the below section of the JOBS Act 4.0 in numerical order.

- **Section 107: S.3097 - The Main Street Growth Act.** The AOIP believes the Main Street Growth Act focus solely on national securities exchanges is too restrictive as it limits the ability of “Venture Securities” to trade on other venues such as alternative trading systems (ATSS), where many securities that would qualify as “Venture Securities” currently trade. While the AOIP is in favor of the creation of “Venture Exchanges”, a proposal that only allows registered exchanges to utilize the system, would restrict numerous venture-stage companies that already utilize un-registered but otherwise exempt markets (i.e., ATSS) that support small company trading, possibly excluding hundreds of companies from accessing additional liquidity. Further, the current proposal’s exclusion of Unlisted Trading Privileges (UTP) to “Venture Securities” being traded on a “Venture Exchange” should be struck as it will prevent such securities from trading on other platforms and in other forums. UTP promotes fair and efficient market trading by allowing listed issuers, brokers and investors to choose the forum(s) best suited for their needs in the moment.

- **Sec 201: S.3503 - Expanding Access to Capital for Rural Job Creators Act.** The AOIP is in favor of requiring the SEC Small Business Advocate to consider access to capital in rural areas. The AOIP's members have made a concerted effort to provide platforms for businesses based outside of the coasts and metropolitan areas to raise capital, and more information on what those businesses need and want would provide more insight into this mission.
- **Sec. 202: S.3976 - Expanding American Entrepreneurship Act.** The AOIP is in favor of amending Section 3(c)(1) of the Investment Company Act of 1940 (15 U.S.C. 80a-3(c)(1)) by increasing the permitted size of angel funds ("Ventura Capital Funds") that can only compliantly have fewer than 250 beneficial owners to fewer than 500 beneficial owners, and from a capital commitment limit of \$10 million to \$50 million. The AOIP believes this amendment will expand access to angel capital to small and medium-sized companies and improve investment opportunities for smaller dollar investors. Specifically, by allowing the aggregation of Venture Capital Funds, rather than requiring individual Venture Capital Funds to be formed for smaller series of investment opportunities, the cost of capital will be decreased, providing an avenue for more capital deployment and less costs to be borne by the supporting investors.
- **Sec. 203: S.3914 - Developing and Empowering our Aspiring Leaders Act of 2022.** The AOIP is in favor of allowing Venture Capital Funds (as defined above) to acquire eligible portfolio investments through the secondary market (indirectly) instead of directly as this will help investors diversify their portfolios and provide means of liquidity for early backers of private ventures – encouraging further investments in this area.
- **Sec 204: S.3939 - Small Entrepreneurs' Empowerment and Development (SEED) Act of 2022.** The AOIP is in favor of a micro-offering safe-harbor for specific offerings of up to \$500,000 but is **not** in favor of allowing a micro-offering safe harbor, as proposed, that would exempt specific offerings of up to \$500,000 from *any* state and federal securities registration requirements. The securities laws are necessary protections for all investors and a micro-offering exemption could be easily abused. Instead, the AOIP proposes that a micro-offering exemption be worked into the existing Regulation Crowdfunding scheme by not requiring reviewed financial statements for any offering or series of offerings under \$535,000 in any 365 day period. This would provide investors the benefit of the disclosures required by Regulation Crowdfunding, allow intermediaries to weed out bad actors and reduce a major friction with raising capital under this offering exemption currently and provide an expedited and more efficient route to capital formation for micro-offerings and their issuers.
- **Sec. 303: S.3931 - Gig Worker Equity Compensation Act.** The AOIP is generally in favor of exempting from SEC registration securities offerings made to "gig workers" for compensatory purposes *provided* this is done via amendment to Rule 701 of the Securities Act of 1933 and specifically requires that the gig worker, who is a user of the issuer's service, act in a clearly defined fashion that is akin to an employee or advisor, even if not contractually engaged in such manner.
- **Sec. 305: S.3967 - Improving Crowdfunding Opportunities Act.** The AOIP is strongly in favor of this provision which would improve the crowdfunding statute by pre-empting state securities law registration for secondary transactions and reducing unnecessary and costly regulations on crowdfunding portals (state securities law registration is already preempted for primary transactions). The AOIP would also like to advocate for the cap on offerings under Regulation Crowdfunding to be raised to \$10,000,000 in any 365 day period, as has previously been proposed by the AOIP.
- **Sec. 307: S.3966 - Facilitating Main Street Offerings Act.** The AOIP is strongly in favor of preempting state securities law registration for secondary transactions for Regulation A Tier 2 securities (state securities law registration is already preempted for primary transactions). The AOIP believes this should be extended to the costly notice filing requirements many states impose on Regulation A Tier 2 securities issuers. Further the AOIP recommends providing state level preemption from the definition of "broker" and "dealer" to any issuer of Regulation A Tier 2 securities as six states currently require an issuer to register with the state or hire an in-state broker or dealer, at great expense, to make offers, despite having received federal permission, creating a patchwork system.
- **Sec. 403: S.3716 - Tracking Bad Actors Act of 2022.** The AOIP is strongly in favor of requiring the SEC to create a public database of persons (bad actors) subject to criminal, civil, and administrative actions relating to financial services to make it easier to protect average investors from financial fraud. Intermediaries, such as members of the AOIP, have a duty to search for these persons; making that process easier would reduce operating costs and provide greater certainty to intermediaries and investors as to the qualifications (i.e., the lack of disqualification or previous bad acts) of issuers and their control persons.