



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

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October 21, 2011

The Honorable Spencer Bachus
Chairman
House Financial Services Committee
Washington, DC 20515

The Honorable Barney Frank
Ranking Member
House Financial Services Committee
Washington, DC 20515

The Honorable Scott Garrett
Chairman
Capital Markets and Government-
Sponsored Enterprises Subcommittee
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Capital Markets and Government-
Sponsored Enterprises Subcommittee
Washington, DC 20515

Dear Mr. Chairman:

On behalf of the North American Securities Administrators Association, I am writing to reiterate my strong concerns regarding Section 4 of H.R. 2930, the Entrepreneur Access to Capital Act, which would deregulate “crowdfunding” by removing basic federal and state registration filing requirements. By prohibiting state securities regulators from being notified and reviewing investment opportunities before they are offered to the public, this bill will weaken investor protection.

State securities administrators share the Committee’s goal of promoting small business capital formation and job-growth, including exploring the establishment of a framework that might facilitate the harnessing of investment capital online through techniques like crowdfunding. At the same time, NASAA believes it is vital that any such framework be crafted carefully and deliberately, as the potential for fraud in this area is real and potentially enormous. Moreover, NASAA ardently believes that the most appropriate venue for the consideration of these issues is at the state level. As crowdfunding centers on community investment, the oversight should be vested in the regulator with the most direct interest in protecting that community. State authority to continue to review and police these investments must be preserved.

On October 18, NASAA’s Board of Directors met in Washington and voted to establish a special Small Business Capital Formation Committee to examine and propose steps that may be taken collectively by state securities regulators to promote and facilitate the formation of small business capital. In view of the Financial Services Committee’s present interest in the concept of crowdfunding, I have directed that the Committee’s first order of business be the development of initiatives, including a model rule, which state securities regulators may adopt to responsibly encourage small business capital formation

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through crowdfunding in ways that directly protect both the businesses and the investors engaged in this segment of the market.

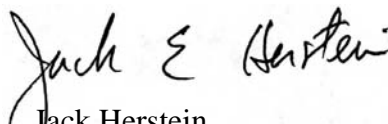
The Small Business Capital Formation Committee will convene for its first meeting next week, and by early next year, I expect it will report specific recommendations to the Board of Directors regarding crowdfunding and other small business capital formation initiatives. In the event the Committee determines that such an action is warranted, the Committee has the authority to propose a model-rule for crowdfunding and other related offerings.

As a matter of principle, NASAA firmly believes that Congress should refrain from preempting state law. Preempting state authority is a very serious step and not something that should ever be undertaken lightly or without careful consideration, including a thorough examination of all available alternatives. In the case of crowdfunding, state securities regulators are not only capable of acting, but indeed, are acting, and Congress should allow them the opportunity to continue to protect retail investors from the risks associated with smaller, speculative investments.

As NASAA's Small Business Capital Formation Committee explores the possibility of a model rule on the crowdfunding and related issues in the coming months, we look forward to working with you and your staff, as well as Congressman McHenry, to ensure that our efforts are complementary to the efforts of the Financial Services Committee. It is vital, however, that the Committee not take a rash and premature action by enacting a blanket federal preemption of state authority to protect their constituents by regulating crowd funding.

Thank you for your attention to this important matter. Please do not hesitate to contact me if I may be of any assistance.

Sincerely,



Jack Herstein
President