August 20, 2018

William Beatty, Faith Anderson, Christopher Staley and Mark Stewart
NASAA
750 First Street, NE Suite 1140
Washington, DC 20002

Re: Comments on proposed model rules to facilitate secondary trading

Dear Mr. Beatty, Ms. Anderson, Mr. Staley and Mr. Stewart:

We appreciate the opportunity to comment on the two proposed model rules that would facilitate secondary trading in securities of issuers about which there is certain publicly available information about the issuer (the “Proposal”).

SeedInvest operates a leading, online investment platform which serves over 200,000 investors and entrepreneurs across the country. In addition, over the past six and a half years we have interacted with numerous members of the North American Securities Administrators Association (“NASAA”), the Securities and Exchange Commission (the “SEC”) and Financial Industry Regulatory Authority (“FINRA”) over the implementation of the JOBS Act. SeedInvest was among the first platforms to facilitate offerings under Tier 2 of Regulation A (“Reg A”) and to date has enabled 10 companies to raise over $40 million from over 20,000 investors through Reg A.

Reg A has the potential to help high-growth, job-creating companies efficiently raise growth capital. Furthermore, Reg A has the potential to provide ordinary people with access to investment opportunities which have historically been reserved for just the wealthiest 2% of the country. However, liquidity remains the single biggest bottleneck to Reg A truly realizing its full potential.

**Background**

The JOBS Act was signed into law in 2012 to improve access to capital and as a result, drive new job creation. In order to improve access to capital, a primary objective of the JOBS Act was to boost the number of public companies in the U.S. However, as illustrated in the graph below from The U.S Department of The Treasury (“Treasury”) report, *A Financial System That Creates Economic Opportunities*, the number of public companies has not increased since the passage of The JOBS Act.
Steep costs and disclosure requirements are likely key reasons for the sharp decline in the number of publicly-listed companies (especially smaller companies) over the past 20 years. Reg A was meant to address this problem given that costs and disclosure requirements are more appropriate for smaller companies looking to raise a limited amount. But the number of companies that have leveraged Reg A to raise capital has been underwhelming relative to the sizeable potential. One likely cause of this is the friction caused by current state securities laws which go above and beyond federal laws and often prohibit secondary transactions without registration at the state level.

**Recommendation**

**First Proposed Model Rule: Recognition of Current Information Sources for Purposes of the Manual Exemption**

We support this proposed rule with suggested modifications. We echo the quote in the Proposal, that the “manual exemption is of ancient vintage” and believe it is no longer practical as currently written. The disclosure requirements on OTC Markets Group (“OTC”) are more fulsome and broadly accessible than those required by the manual exemption. However, we suggest expanding the proposed rule. Other Alternative Trading Systems which maintain similar disclosure standards as the OTC should also be included in the manual exemption. Fitch Investors Service, Mergent’s Investor Service and OTC are still an insufficient number of data sources to fulfill investors’ evolving needs in today’s capital markets.

**Second Proposed Model Rule: Secondary Trading Exemption for Securities of Regulation A – Tier 2 Issuers**

We commend NASAA for proactively taking steps to facilitate secondary trading under Reg A for issuers which are current with ongoing reporting obligations. We agree with the proposed
model rule (and outlined options) to provide Reg A issuers with a transactional exemption from state registration with two caveats:

1) Given that Reg A issuers are already subject to the SEC qualification process, financial audit requirements, ongoing reporting, and compulsory public disclosures through the SEC’s Electronic Data Gathering and Retrieval (EDGAR) system, they should not need to comply with additional requirements. Therefore, we suggest that NASAA remove the requirement that securities are outstanding for 90 days prior to trading.

2) Section 2(E)(iii) of the manual exemption and Section 2(E)(ii) of Option 2 of the Proposal should also include a carveout for issuers that have raised more than $2 million in a recent Reg A offering. Currently the rules only provide for issuers which had more than $2 million of assets in a recent audit. This would exclude issuers which raised a significant amount of capital under Reg A but have been in business for less than three years and had less than $2 million of assets before the Reg A. For example, an issuer which just raised $50 million under Reg A would not meet the test in the Proposal if it were two years old and had less than $2 million of assets prior to the Reg A.

Therefore, we recommend that these two sections clarify that issuers may have either:
   a. Had at least $2 million of total assets in an audited balance sheet within 18 months, or
   b. Raised at least $2 million in a Reg A offering within the past 12 months.

Conclusion

We would like to once again thanks NASAA for taking these critical steps to improve the capital markets. The proposed rules are important steps towards creating a vibrant secondary market for Reg A securities which should improve access to capital in the United States. We also note that both the SEC’s Advisory Committee on Small and Emerging Companies and Treasury have also publicly supported these changes. Therefore, we hope that NASAA moves swiftly to implement these recommendations while also considering our suggested improvements.

We look forward to continuing an active dialogue with NASAA and we welcome the opportunity to provide additional details.

Respectfully,

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