March 12, 2018

Dear Representative,

On behalf of Americans for Financial Reform, we are writing to urge you to vote in opposition to H.R. 4263, the "Regulation A+ Improvement Act," which is being considered on the House floor this week.[1] This legislation would increase by 50 percent—from $50 million to $75 million per year—the annual exemption threshold under Regulation A+ for companies to sell initial public offerings while being exempt from registration and disclosure requirements.

This is an unwarranted increase in the threshold. Most fundamentally, Congress should not be undermining public securities markets by expanding the ability of larger companies to make offerings while being exempt from core disclosure and investor protection requirements. Private offerings were designed to permit early stage capital raising from sophisticated investors by small companies, but the current cap of $50 million per year in private capital raising already permits fairly large companies to take advantage of this route. Additionally, the Securities and Exchange Commission (SEC) already has regulatory authority to increase the current threshold, which they examine on a biannual basis.

The record of offerings using the Regulation A+ exemption also shows that they are harmful to investors. A recent Wall Street Journal article documents that initial public offerings made using the Regulation A+ exemption show much worse performance than conventional offerings.[2] Seven of the eight companies with Regulation A+ offerings in 2017 are down 42 percent from their offer prices, as compared to conventional offerings made during the same period, which are up 22 percent from offer prices. This is to be expected given that Regulation A+ permits companies to avoid requirements such as disclosure that were designed to protect investors. If it expanded such exemptions, Congress would facilitate increased harm to investors.

Members should also take notice that with the blockchain and cryptocurrency fever, SEC filing and disclosure exemptions like Regulation A+, are becoming a popular avenue for initial coin offerings (ICOs).[3] According to the Wall Street Journal, an MIT study estimates that up to $317 million of the money raised through ICOs has been lost to fraud or scams.[4] The SEC has already

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[1] Americans for Financial Reform is an unprecedented coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups. A list of coalition members is available at http://ourfinancialsecurity.org/about/our-coalition/

[2] Driebusch, Corrie and Juliet Chung, "IPO Shortcuts Put Burden on Investors to Identify Risk", *Wall Street Journal*, February 6, 2018. http://on.wsj.com/2p4n8kf

[3] Rod Turner, "Entrepreneurs: The Keys To Making Your ICO Securities Compliant Using Regulation A+," *Forbes*, October 17, 2017. http://bit.ly/2FE2Gx6; "Securities Exemptions for ICOs", Steemit Crypto-News, Accessed March 12, 2018. http://bit.ly/2ImvqMr

[4] Jean Eaglesham and Paul Vigna, "Cryptocurrency Firms Targeted in SEC Probe," *The Wall Street Journal*, February 28, 2018. Available at: http://on.wsj.com/2HQfYIa.

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issued an alert for investors to be on the lookout for red flags in crypto-companies that prefer this type of funding instead of a full registration with the SEC.[5] In the middle of this SEC crackdown on fraudulent ICOs, H.R. 4263 would potentially expose a larger number of investors—including non-accredited, unsophisticated investors—to shady companies, Ponzi schemes, and exit scams.

The widespread use of private offerings reduces transparency and investor protections in capital markets. Raising capital under Regulation A+ should be used as an on-ramp to a true public offering and not as an end in itself for larger issuers. Increasing the annual threshold for exempted Regulation A+ offerings goes in the opposite direction.

For those reasons we urge you to reject H.R. 4263.

Thank you for your attention to this matter. For more information please contact AFR's Policy Director, Marcus Stanley, at marcus@ourfinancialsecurity.org or 202-466-3672.

Sincerely,

Americans for Financial Reform

[5] U.S. Securities and Exchange Commission, "Investor Bulletin: Initial Coin Offerings," Investor Alerts and Bulletins, July 25, 2017. Available at: http://bit.ly/2v5xHDZ.