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Statement at Open Meeting Regarding Crowdfunding

Commissioner Michael S. Piwowar

Washington, D.C.

Oct. 23, 2013

Thank you, Chair White.

Eighty years ago, Congress enacted the Securities Act, ushering in a new era in securities regulation. The law's fundamental premise was that if a company sought to sell its securities publicly, then it must file a registration statement with the government and deliver a prospectus containing statutorily required information to prospective investors. Since that time, however, the manner and tools by which investors make investment decisions have changed dramatically. Information about a company that would be so costly for an individual to obtain in 1933 can now be gathered easily by anyone around the world via the Internet. And, further, the ability to communicate across the Internet allows persons to collectively express their opinions on any number of subjects, whether reviewing a product, a service provider, a movie, or a restaurant.

It was in this environment – in 2012 – that Congress passed the Jumpstart Our Business Startups (“JOBS”) Act with overwhelming bipartisan support. The JOBS Act requires the Commission to think of capital formation and investor protection in fundamentally different ways than we have in the past. The crowdfunding provision of the JOBS Act forces us to think outside of our historical securities regulation box and to create a different paradigm than the one we have used for the past eight decades.

Crowdfunding is a creative alternative approach to financing a startup enterprise and it is one that has attracted a lot of attention. At the JOBS Act signing ceremony, President Obama remarked “Because of this bill, start-ups and small business will now have access to a big, new pool of potential investors – namely, the American people. For the first time, ordinary Americans will be able to go online and invest in entrepreneurs that they believe in.”^[1] Earlier this year, at the South by Southwest Festival, there were several panels on crowdfunding, with one of them characterizing it as no less than “The Global Fight to Democratize Access to Capital.”

Still, the worthy goals of crowdfunding do not alter the fact that this new mechanism for raising capital presents a number of challenges. The JOBS Act not only requires the Commission to develop a completely new regulatory framework that promotes capital formation for startup companies, but also to implement this innovative framework in a way that protects investors from fraud.

Despite these challenges, crowdfunding presents a number of opportunities. Small businesses – the engines of innovation, economic growth, and job creation – will have the opportunity to access capital from sources that have been previously unavailable. All investors – not just the so-called “accredited investors” – will have the opportunity to invest in entrepreneurs and their ideas at an earlier stage than ever before. The concept of the “wisdom of the crowd,” which has proven to be useful in other areas, will now be unleashed to allocate capital to more productive uses.

I have no doubt that the Commission is up to the challenge of developing a successful “outside of the box” crowdfunding regulatory framework that is consistent with our core mission. I want to thank the staff for their hard work on this proposal. This has been a particularly tremendous joint effort by the Division of Corporation Finance and the Division of Trading and Markets, with significant assistance by our economists in the Division of Economic and Risk Analysis and our lawyers in the Office of the General Counsel. The proposal is faithful to the statute and I believe that it addresses a number of additional investor protection concerns without unnecessarily harming capital formation.

As a result, I support putting today's novel framework out as a proposal for public comment. I look forward to unleashing the “wisdom of the crowd” on our

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crowdfunding rule proposal to tell us what we got right, what we got wrong, and how we can improve it.

Thank you again and I have no questions.

[1] See <http://www.whitehouse.gov/the-press-office/2012/04/05/remarks-president-jobs-act-bill-signing>

Last modified: Oct. 23, 2013

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