Dear Faith,

The more I reflect on it the more concerned I am that the requirement to publicly report executive compensation, large shareholder identity, and financial statements may keep most potential issuers from using the crowdfunding statute.

First, please understand that every crowdfunding supporter I know is completely on board with the idea of mandatory disclosure to investors and shareholders, as am I. The problem is making the disclosure available to the general public when the company is still privately held. Required disclosure of financial information and a business summary could significantly disadvantage a small company that will be competing with other private companies that aren't required to disclose their financial information and business summary. In fact, if the issuer is not publicly traded, the <u>only</u> people who would have any interest in the issuer's financials, other than shareholders and the Department, would be competitors. The knowledge that potential competitors will have access to their disclosure will seriously decrease candor of management in the operations summary, contrary to the purpose of the provision and to the detriment of the shareholders.

There is also a privacy issue. Once a founder in a small company realizes that by doing a small crowdfunding offering they may be required to disclose their personal compensation to the public for years afterward, they will be loath to do a crowdfunding round under the Washington jobs act of 2014. Same with significant (20%) investors. They won't want to have their ownership made publicly available. Keep in mind that this disclosure requirement endures as long as the crowdfunded shares are outstanding. In the normal case this would be until there is a liquidity event or at least a major restructuring. This provision alone (the one requiring disclosure of 20% investors) could prevent a company that did an early crowdfunding round from closing a later Series B round with a large investor who did not want the investment to be made public.

I can't see any reason why shareholders, if they have access to the information privately, would want the information to be shared with the public. That type of disclosure harms rather than benefits shareholders in a privately held company. My guess is that once founders understand all of the implications of the public disclosure requirements, they won't choose to use the crowdfunding statute.

Based on the comments after the Rulemaking Hearing, it appears that the DFI staff feel bound by the language of the statute to require disclosure to the general public. Here is the key language:

> ". . . . the issuer shall provide a quarterly report *to the issuer's shareholders and the director* by making such report *publicly* accessible, free of charge, at the issuer's internet web site address within forty-five days of the end of each fiscal quarter" [emphasis added]

Note that the statute does not say "provide to the public". It says "provide to "shareholders and the director". A perfectly reasonably interpretation is that the intent of the statute was to make the information available on the public facing website to the director and shareholders, but not necessarily to the general public. I.e., available through a link that requires a password. Other supporters of the crowdfunding statute have indicated that that is what they have understood the reporting obligation to mean all along.

It seems that the issue could be resolved by an interpretive clarification that "publicly accessible" means available to shareholders (but not necessarily the public at large) for free on the issuer's publicly facing website. Please give consideration to this interpretation. I really feel that it may make a significant difference as to how many issuers utilize the crowdfunding statue.

Sincerely yours,

Carter

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