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CrowdFund Investing: Emphasis Turning to Implementation and Entrepreneurs

I had the chance to catch up this week with **Alon Hillel-Tuch**, the Founder and CFO of Crowdfunding platform **RocketHub** (www.RocketHub.com), in [New York](#). As we near the JOBS Act's legalization of CrowdFund [Investing](#)(CFI) in 2013, allowing loan and equity funding to occur through crowdfunding platforms, much is left to be done and many questions remain.

RocketHub has been working heavily with the **SEC**, [FINRA](#) (the Financial Industry Regulatory Agency), the Whitehouse Jobs Counsel, and has participated in conferences together with [CFIRA](#) members (CrowdFund Investing Regulatory Advocates) .

Most recently, the RocketHub team issued a second whitepaper to Congress, Senators, the Jobs Counsel, and the SEC that as of Wednesday (11/14) is available to investors and consumers as well. Unlike prior advocate efforts that have focused heavily on the regulation of CFI, and on the prevention of fraud, the new paper,

Implementation of Crowdfunding focuses on the successful process and execution of debt and equity investments through this new realm.

As to how the process is moving, here's what Alon had to say:

"I believe the JOBS Act's intent is to revitalize the US economy, encourage job creation, and foster domestic innovation. The low barrier to entry of existing crowdfunding platforms, such as RocketHub, has encouraged many individuals to attempt crowdfunding campaigns, without risking the negative financial impact of an unsuccessful raise. This concept is critical to the JOBS Act, and it is clearly important that any regulation proposed acknowledges the nature of crowdfunding, and its unique role in the US economy."

I very much agree with Alon's position: "The JOBS Act is the next step



Alon Hillel-Tuch, of RocketHub, meeting with the SEC

towards democratizing fund raising. I adamantly believe social funding is going to dominate the online space for the next five years.”

What is RocketHub’s role in this process currently?

“RocketHub has been receiving a lot of requests to comment on the act from an implementation perspective. We are uniquely qualified, as one of the largest global platforms, to offer information about trends and user behavior. As a result we were asked to testify in Congress about our intent to offer equity-based crowdfunding.”



Testifying in Congress about Crowdfund Investing concerns

What about the remaining concerns about fraud?

“In honesty, and in the spirit of being pragmatic, I believe the risk of loss due to under performance of a legitimate start-up or small business far outweighs the likelihood of loss to investors due to fraud or omission.”

“While some commentators have called for additional anti-fraud protections, I believe that generally, these will only add to the upfront expense of crowdfunding and will not provide sufficient benefits. It is critical the industry recognizes that the costs of these measures would largely be borne by legitimate issuers, not by the few disreputable individuals the regulation is trying to exclude.”

Does the new whitepaper cover this?

“The whitepaper stresses that portals must be able to uniquely identify each investor, and establish an appropriate account for each investor at a low-cost. Otherwise, too much of the investor’s or issuer’s funds will go towards administration and legal compliance. This is exactly what we are looking to avoid.”



Brian Meece, Vladimir Vukicevic, Jed Cohen and Alon Hillel-Tuch, RocketHub

“We cover this in the paper, but we need to remember that portals play a critical role in the equity crowdfunding eco-system. As most crowdfunding issuers will have little experience with securities sales, it will benefit the issuers and the investors if the Portal assists the issuer with securities mechanics. We believe portals can comply with JOBS Act regulation while assisting issuers in allocating and transferring their securities to investors.”

What do you see as the biggest remaining issue?

“Most critical is RocketHub’s recommendation that the SEC launches a pilot program. We recognize that the SEC is responsible for regulating an emerging market. As such, there is limited information available to generate effective regulatory policies. While RocketHub and others have made their data freely

available to the SEC's economist department, I believe there are further steps needed to test the infrastructure, security, and cost of full compliance through the proposed framework.”

“A pilot program would initiate equity crowdfunding, including the data collection and filing process, on a small scale to get feedback on whether the regulation is likely to work as expected in a ‘real world’ situation. RocketHub believes that by administering crowdfunded offerings by a small group of issuers to the retail-investor public, the SEC will effectively simulate the offering process including security registration, offering logistics, and identity verification.”

“This would give the SEC an opportunity to make revisions to their regulatory framework to ensure that the right data is collected and the data collection methods will work, that the securities registrations procedures work, and investors and more importantly, I believe, that issuers are protected. Furthermore, the pilot program would provide FINRA with necessary data for their own regulatory programs. I will go so far as to say that RocketHub believes that without this testing, the SEC runs the risk of writing out an inefficient and potentially ineffective regulatory framework.”

“We strongly believe that a pilot program will allow both the SEC and FINRA to identify topics that require additional regulation before the floodgates open to numerous Portals, many of whom are first-time entrants into the crowdfunding space and have yet to gain first-hand experience as a platform or Portal.”

Should RocketHub be the site for this testing?

“RocketHub would be ideally suited, as we have the infrastructure in place, the size, the scope, and we are ready to go. That said, pilot testing should not happen on one portal alone. It should involve several, and the decision of who those participants should be is a choice the SEC should consider carefully.”

Alon, thank you – and I very much appreciate the chance to obtain and share this additional information.

For readers—if you'd like a copy of this paper, you can obtain a full copy from www.RocketHub.com or from their [blog](#), or you can reach me via this column or my personal website, www.AlanEHall.com, and I would be happy to email a copy to you. I will continue to follow and report on the coming events in this critical space.

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