



Alan Hall, Contributor

Speaker, author, investor and catalyst for entrepreneurial growth.

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JOBS Act Hearings Prepare the U.S. for Expanded Crowdfunding Market

Last month I spoke to the leaders of [RocketHub](#), a popular crowdfunding platform, about the efforts they and others supported by the Crowdfunding Professional Association ([CfPA](#)) are making to advance the rules and safeguards for expanding Crowdfunding to equity crowdfunding for businesses with the implementation of the JOBS Act in 2013.

While the actual implementation of JOBS is months away, this week's Congressional hearings are critical to the creation of SEC guidelines and standards around the aspects of crowdfunding the JOBS Act will soon usher in.

On Tuesday (June 26, 2011) The Congressional Committee on Oversight and Government Reform held a hearing on the SEC's efforts to implement the JOBS Act. Rep. Patrick McHenry (R-NC) chaired the hearing. RocketHub's Co-Founder and CFO Alon Hillel-Tuch, who I interviewed in a two-part column series last month, testified on the potential the "crowdfunding for equity" model holds for start-ups, job growth, and the US economy. For anyone interested in the full hearing, you can view the C-SPAN coverage via the following link [here](#).



Mr. Alon Hillel-Tuch testifies to the SEC regarding the crowdfunding aspects of the JOBS Act in Congress on June 26.

In summary, Alon Hillel-Tuch made the following points:

1. Crowdfunding democratizes fundraising.

"Traditional sources of capital have strict guidelines regarding the nature of the businesses they support, and exclude a wide range of domestic

businesses,” said Alon. “Crowdfunding is especially important for women and minority owned businesses that may not have access to traditional funding sources. Crowdfunding drives down the cost of raising capital and allows companies to leverage their natural investor base.”

2. Crowdfunding will lead to job growth.

On this point Alon said, “As shown in the July 2010 Kaufman Foundation report, startups are the job creation engine in the American economy. Without startups there is no net job growth. Access to capital for small business is a challenge; small businesses have relied on financing from community members, as well as credit card debt, loans, and angel investors. Debt structures often come at a high cost and burden to entrepreneurs, who may lack regular cash flow, during the growth stages of their companies.”

3. Crowdfunding empowers investors.

The JOBS Act enables small investors to provide support to capital seeking entrepreneurs,” Alon said. “Crowdfunding portals and regulators are able to drive standardized and understandable terms across offerings. This allows crowdfunding investors to become educated and aware of the offering terms and risks. Investors in crowdfunding offerings are able to clearly see the terms and success of an offering, and are able to directly communicate with the issuer and other investors.”

In summary, the expanded rules for crowdfunding are critical as they provide investors and entrepreneurs with a “new kind of smart money.”

While Angels and VCs can offer advice on how to run and scale a business, as a budding entrepreneur or business enthusiast, your existing and prospective customer base can offer you exciting new avenues for grass roots marketing, and can provide valuable feedback on your products (before you manufacture and ship the product. Imagine that! Those of you who’ve followed my columns recognize what an important aspect of entrepreneurship this is.) In addition to helping to shape the product, the large base of evangelists the crowdfunding model creates can be highly valuable to a company at an early stage, or at any phase of new product category that can spur innovation and periods of high growth.

And, of course, the access to additional funding—and excellent customer feedback—allows businesses to grow, and to create additional jobs. To Alon and RocketHub as well as the CfPA, congratulations on this week’s hearings—well done.

I will be writing more about all varieties of funding for a prospective entrepreneur in upcoming columns as well as in my next eBook, due out in the Fall.

This article is available online at:

<http://www.forbes.com/sites/alanhall/2012/06/28/hearings-on-jobs-prepare-the-u-s-for-expanded-crowdfunding-accelerating-startup-activity-creation-of-jobs/>