

FundersClub and AngelList: Recent No-Action Letters in the Online Funding Platform Space

by Bettina Eckerle

Earlier this spring, the SEC issued no-action letters to two venture capital/angel online funding platforms, FundersClub and AngelList. The letters suggest that the business models employed by these two companies—running a platform that connects investors with investment opportunities—would, in and of itself, not require broker-dealer registration as long as there is no transaction-based compensation involved.

For those unfamiliar with no-action letters, they may be submitted to the SEC to determine whether a particular product, service, or practice would constitute a violation of federal securities law. The response from the SEC generally states whether or not SEC staff would recommend that the agency take enforcement action based on the facts and representations described in the request.

It is important to highlight that no-action relief is limited to the requester and the specific facts and circumstances set forth in the request.

In this case, AngelList and FundersClub outlined their business structures. FundersClub seeks to operate an online venture capital platform involving pre-screened start-ups seeking accredited investors, while AngelList seeks to do the same using an angel capital platform. The letters are available [here](#) (AngelList) and [here](#) (FundersClub) for the specifics.

Here's what we can take away from the no-action letters:

- Both internet-based platforms will be exclusively available to accredited investors. Thus, it does not open the door to the general population.
- All investments will be offered and sold in compliance with Rule 506 of Regulation D.
- Neither company receives transaction-based compensation such as commissions or fees. Instead they received a carried interest.

So while the SEC's decision is certainly a win for funding platforms, it is by no means a sweeping change in policy. Companies trying to rely on the relief should be extra careful when designing the structure for the compensation they receive for their services.

As always, if you have questions or comments, please call, [e-mail](#) or tweet me [@NYBusinessLaws](#).

Eckerle Law offers legal advice in a variety of transactional and regulatory matters and serves companies' plenary business law needs. Its founder, Bettina Eckerle, is a veteran of Debevoise & Plimpton and Wachtell, Lipton, Rosen & Katz. She also served as the General Counsel of two companies en route to IPO. Please visit the [Eckerle Law website](#) for more details.