



# 2023 Capital Call

What's happening with capital raising from startup to small cap

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WELCOME



# Roadmap

- What are the challenges for small businesses and their investors in raising capital?
- What is the data showing?
- What are our recommendations to address the challenges?
- Questions and Answers





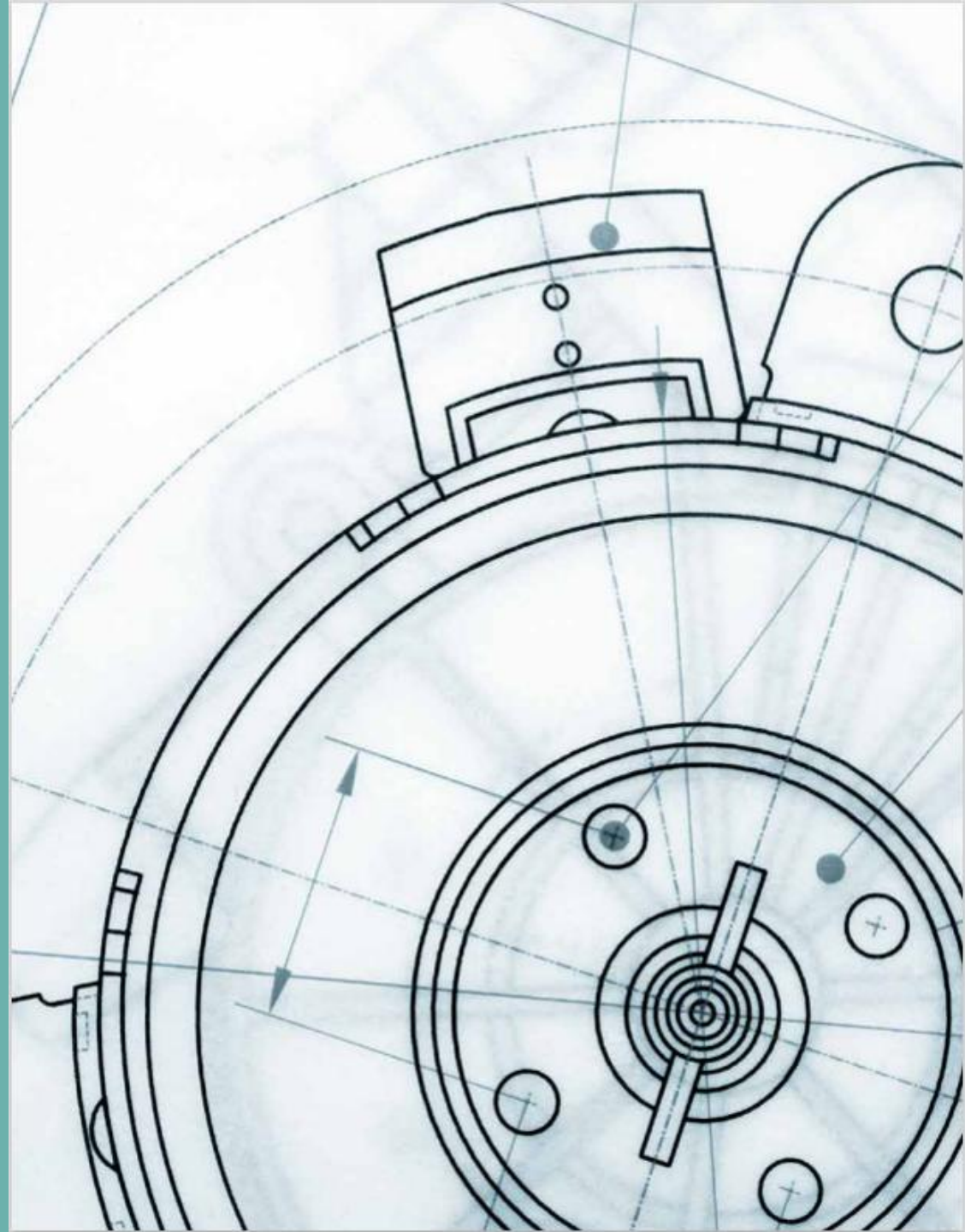


# CHALLENGES AND RECOMMENDATIONS



# CHALLENGE ONE

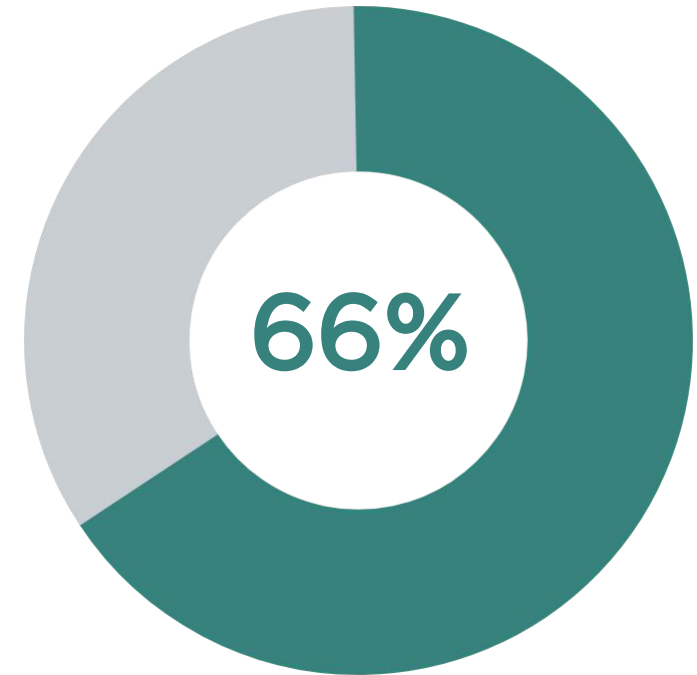
Small businesses are key to our economy but often struggle to access the capital they need to succeed.





Small businesses are critical to job growth.

Small businesses  
have accounted for **66%** of  
employment growth  
over the past 25 years.



Source: 2022 Annual Report p. 22; Daniel Wilmoth, Ph.D, “Small Business Facts. Small Business Job Creation,” U.S. Small Business Administration Office of Advocacy (Apr. 2022).





# Small businesses are critical to job growth.



**61.7 million Americans**  
are employed by a small business  
(46.4% of U.S. employees).

Source: 2022 Annual Report p. 22; Daniel Wilmoth, Ph.D, “Small Business Facts. Small Business Job Creation,” U.S. Small Business Administration Office of Advocacy (Apr. 2022).





Many entrepreneurs and smaller businesses need support to access essential capital.



**73%** of owners are looking for support in preparing to apply for and using business financing.

Source: 2022 Annual Report p. 23; Hello Alice, “Capital Access Temp Check” (Apr. 2022).







Entrepreneurs report challenges accessing capital.



**Access to capital** was the **number one barrier** to company survival.



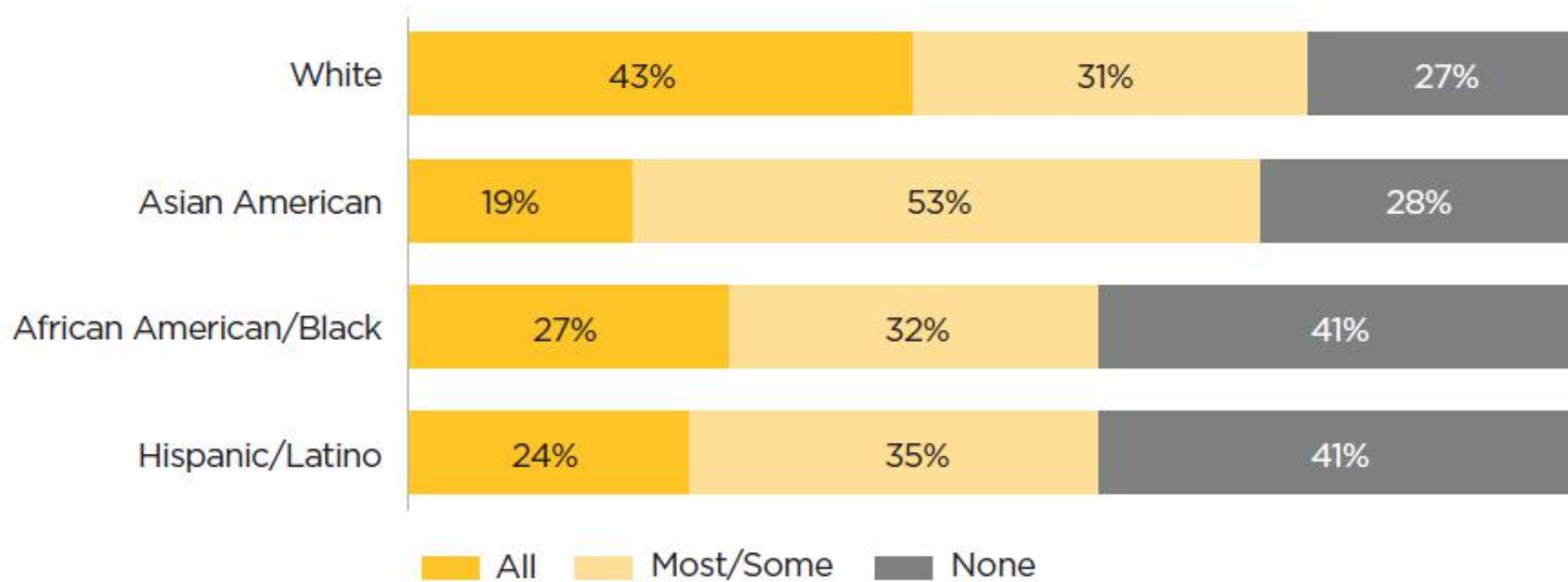
**75%** of entrepreneurs have experienced **challenges** in **obtaining capital**.

Source: Source: 2022 Annual Report p. 23; Nasdaq Entrepreneurial Center, “Pay Ownership Valuation (POV) Research Findings,” (2022); Small Business Majority, “Survey: Small Businesses Optimistic About the Future, Despite Concerns about Inflation and Barriers to Capital” (Oct. 13, 2022).





# Underrepresented entrepreneurs face an uneven playing field raising capital.



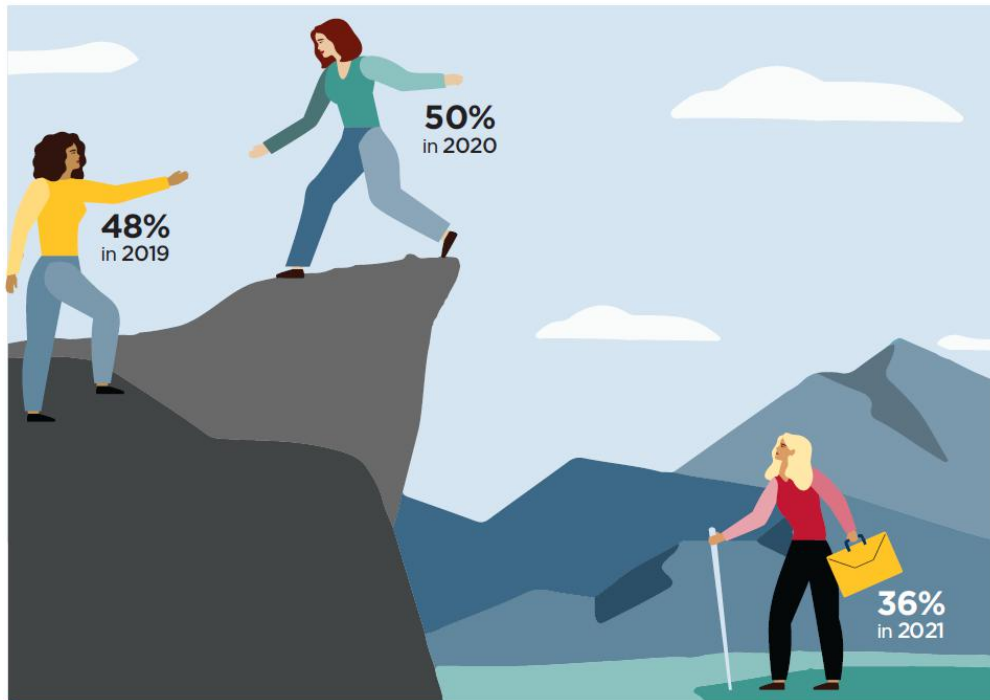
Source: 2022 Annual Report p. 55; Federal Reserve Banks, “Small Business Credit Survey: 2022 Report on Firms Owned by People of Color” (June 29, 2022).







Underrepresented entrepreneurs face an uneven playing field raising capital.



Only **36%** of women in 2021 felt **supported** by the entrepreneurial community, down from 50% in 2020.

Source: 2022 Annual Report p. 46; January Ventures, “2021 Early Stage Founder Sentiment Report” (2021).



# RECOMMENDATION

Entrepreneurs and their investors need **accessible tools** and **educational resources** to navigate complex securities laws.





# Outreach & Engagement

In 2022 we hosted or participated in:



**32** **EVENTS**  
**1/3 in person**



# Outreach & Engagement

In 2022 our outreach focused on issues like:



- unique obstacles faced by women and minority entrepreneurs
- challenges and opportunities of raising capital outside of traditional hubs
- how to increase diversity among capital allocators





# Educational Resources

**24K+** VISITS to the  
CAPITAL RAISING HUB



**119K+** views of our EDUCATIONAL TOOLS  
and SMALL BUSINESS RESOURCES



# RECOMMENDATION

We will continue to engage with diverse audiences of small businesses, investors, and other thought leaders in the market to promote, improve, and expand our educational resources.

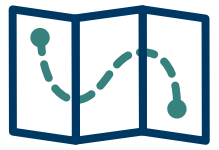




# CHALLENGE TWO

Raising capital is challenging and access to capital is limited, particularly for underrepresented founders.



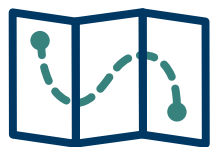


# Raising capital is challenging.

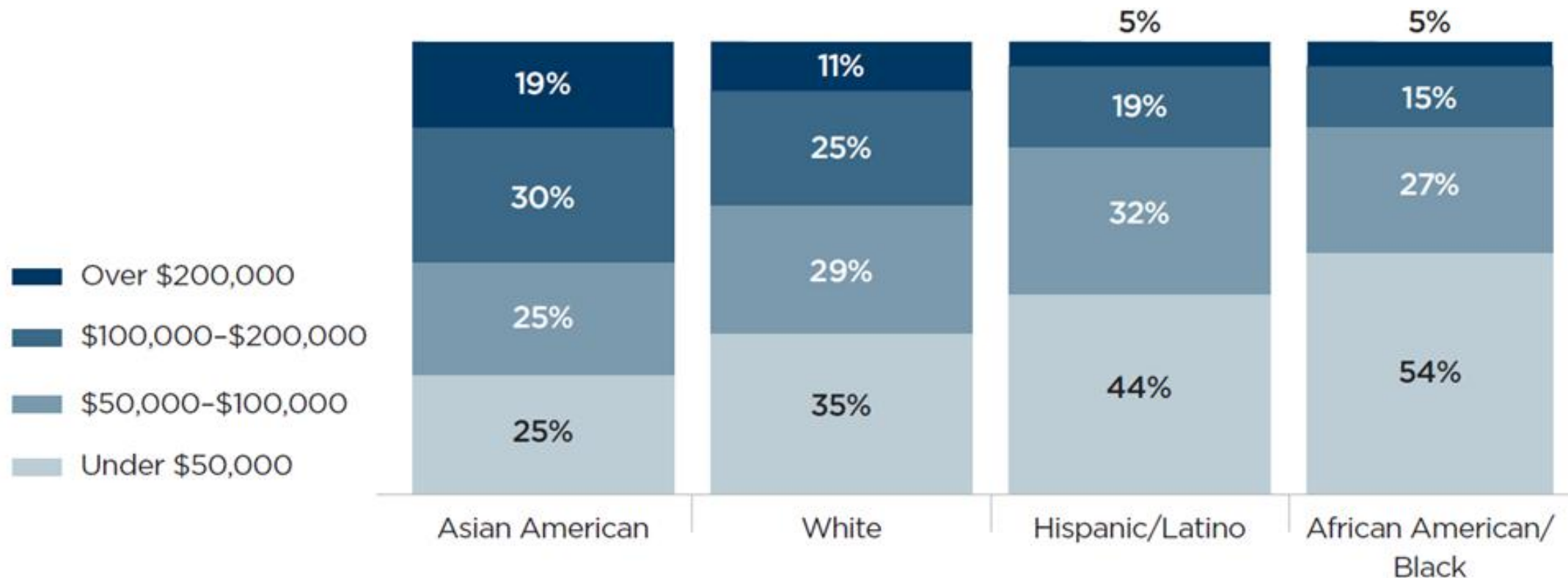


Source: 2022 Annual Report p. 33; Will Gornall and Ilya A. Strebulae, “The Economic Impact of Venture Capital: Evidence from Public Companies” (June 2021).



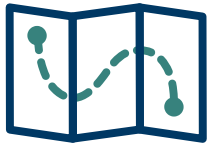


# Disparities in income distribution add additional hurdles for minority founders.

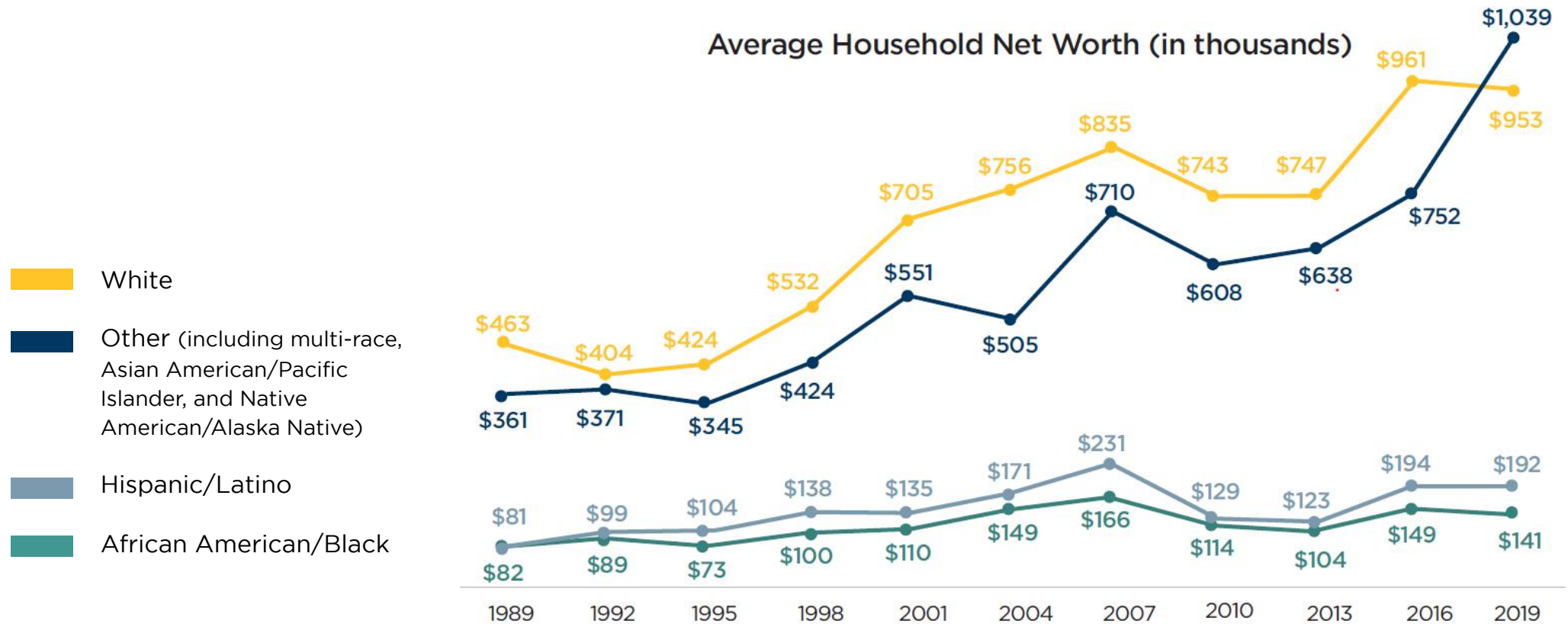


Source: 2022 Annual Report p. 54; Kristen E. Broady, Ph.D and Cynthia Hester, Ph.D, “Reducing the Racial Financial Health Gap: The Opportunity for Responsible Fintech,” PayPal (Sept. 30, 2021).





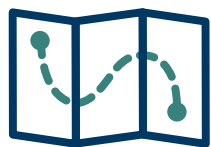
# Inequalities across demographic groups affect the starting line for many entrepreneurs.



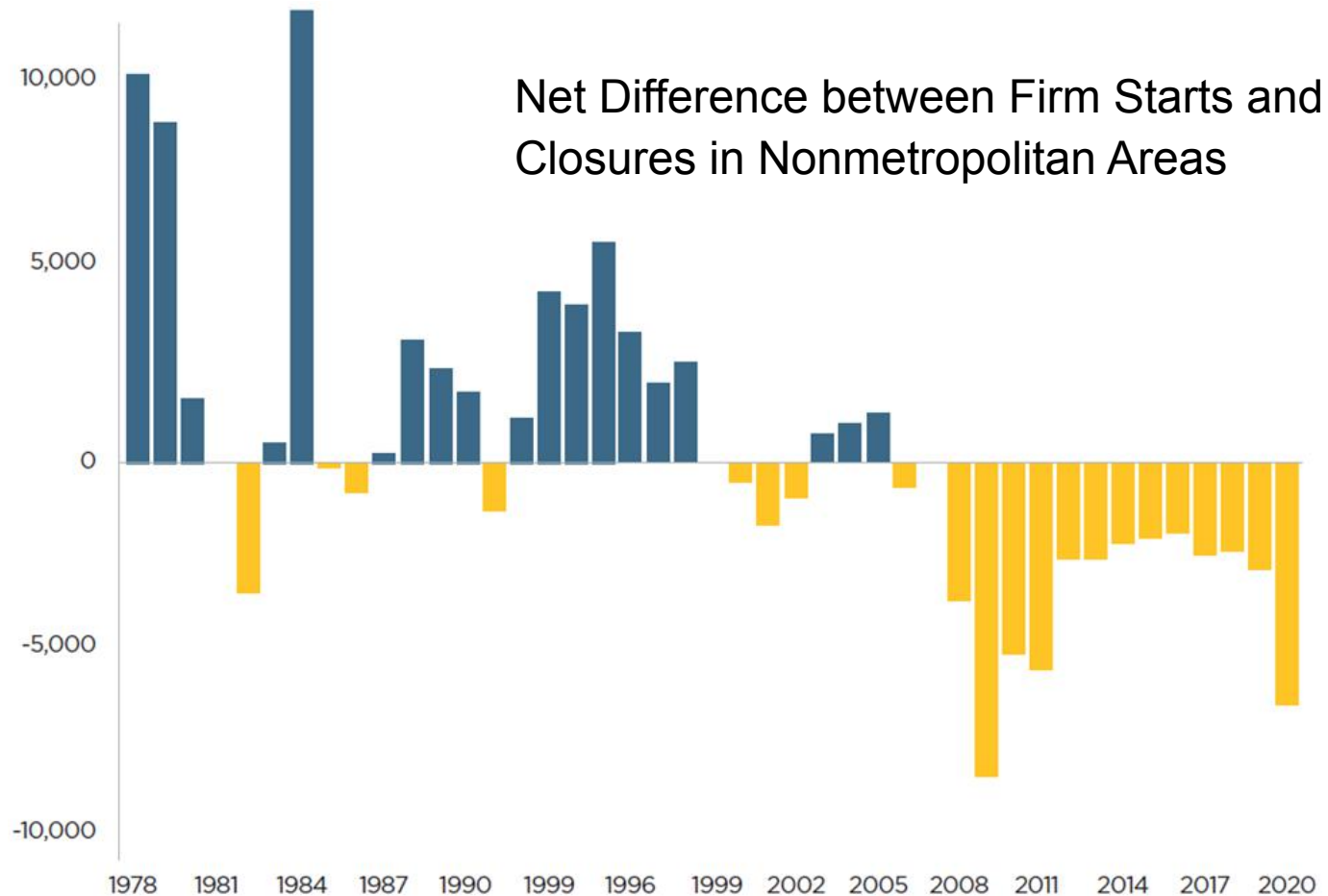
Source: 2022 Annual Report p. 54; Aditya Aladangady and Akila Forde, “Wealth Inequality and the Racial Wealth Gap,” Board of Governors of the Federal Reserve (Oct. 22, 2021).





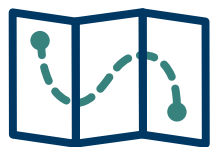


# Rural businesses face unique challenges.

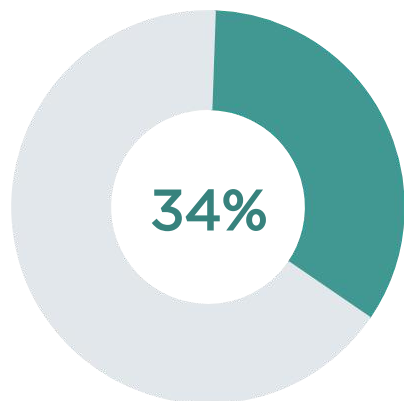


Source: 2022 Annual Report p. 64; U.S. Census, "2020 Business Dynamics Statistics Datasets."

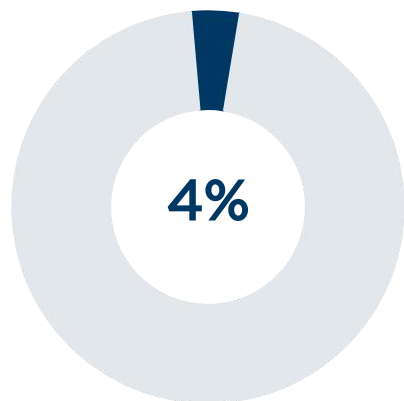




# Women and minorities remain underrepresented among angel investors.



**of angel investors in 2021 were women**  
(an increase from 30% in 2020)



**of angel investors in 2021 were minorities**  
(a decrease from 5% in 2020 and 7% in 2019).

Source: 2022 Annual Report p. 52; Jeffrey Sohl, “The Angel Market in 2021: Metrics Indicate Strong Market,” Center for Venture Research (May 20, 2022).

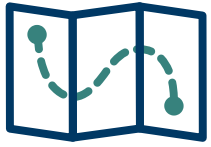


# RECOMMENDATION

Consider impact of any change that would increase the barrier to entry for qualifying as an **accredited investor** and expand the definition to include more qualified professionals.

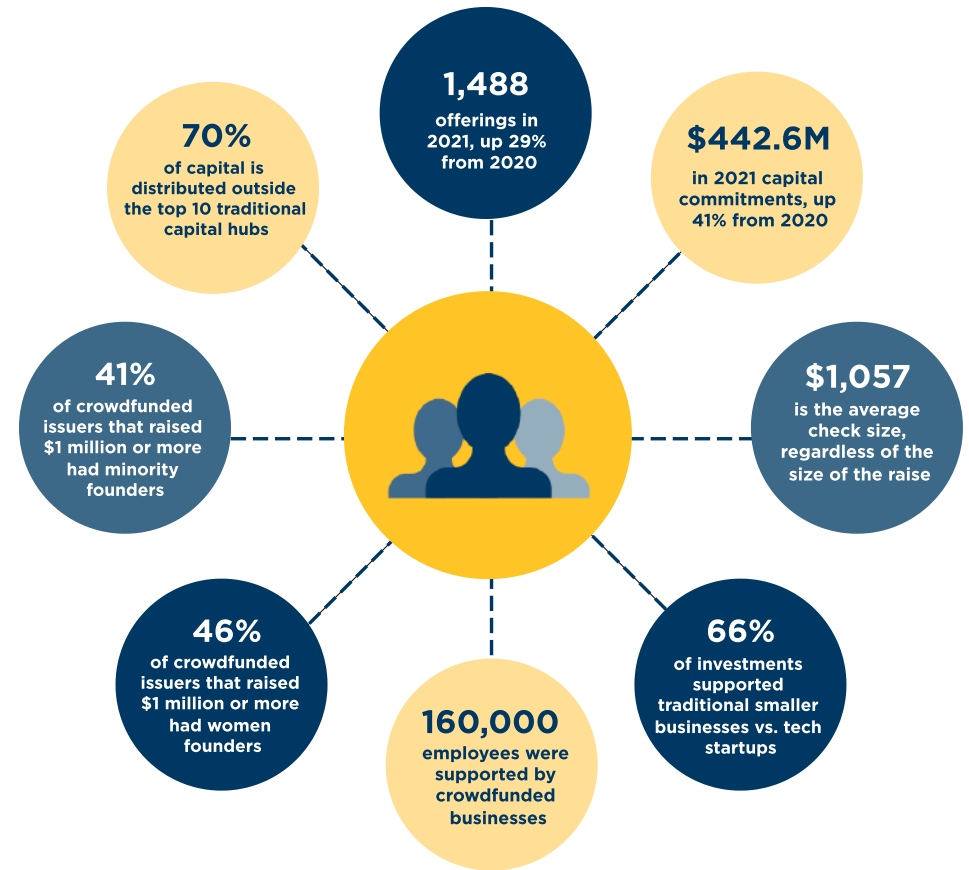






# Underrepresented founders are often overlooked by traditional funding sources.

## Crowdfunding has shown progress.



Source: 2022 Annual Report p. 18; Crowdfund Capital Advisors, “Investment Crowdfunding. Democratizing Access to Capital. 2021 Annual Report (Feb. 2022).

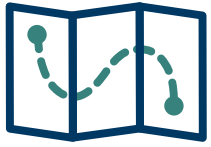


# RECOMMENDATION

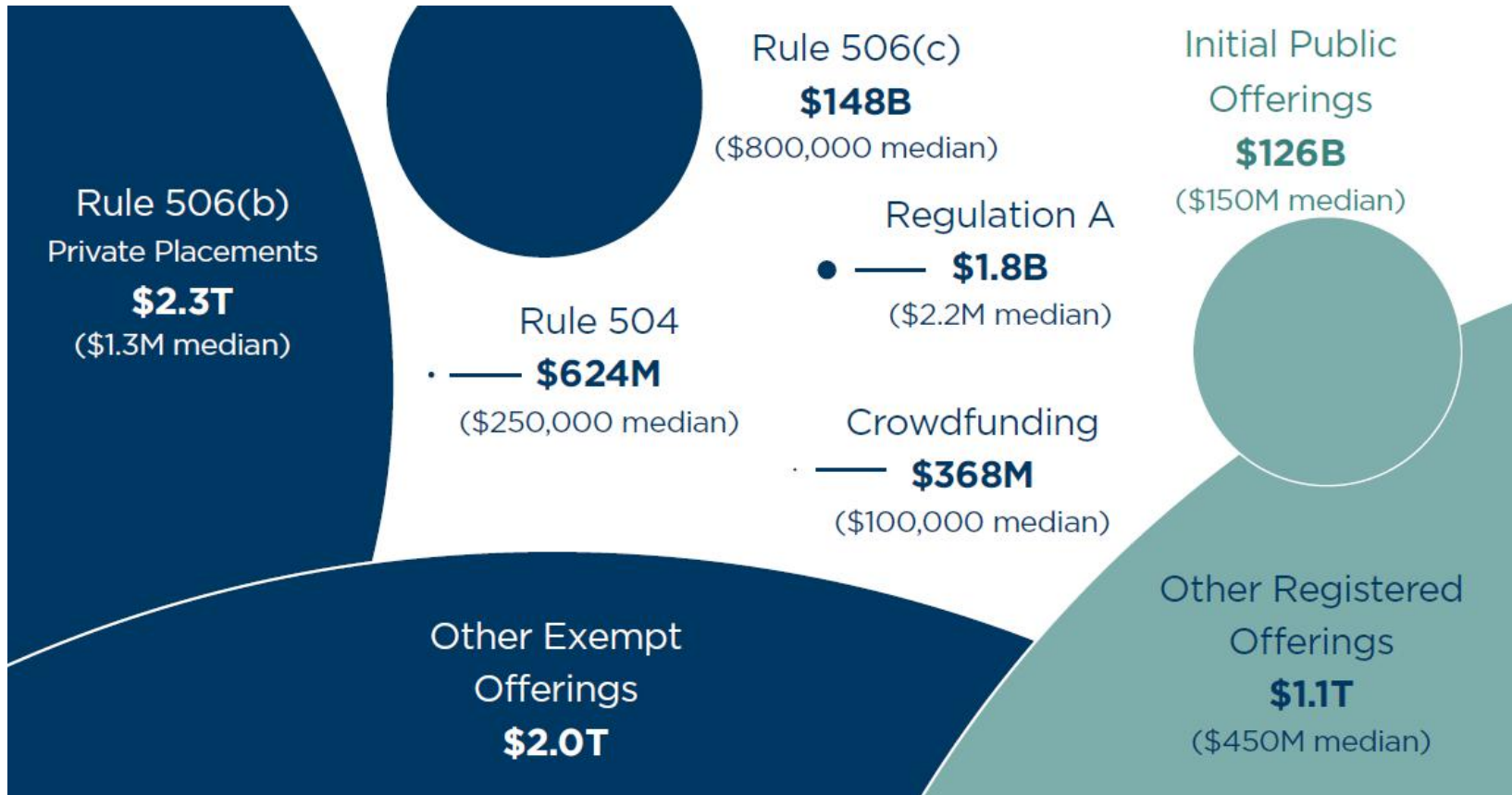
Revise **Regulation Crowdfunding** to:

- increase the offering size threshold that permits issuers to provide certified financial statements and income tax return information; and
- amend the Securities Act to modify the provision that prohibits investment companies from using Regulation Crowdfunding.





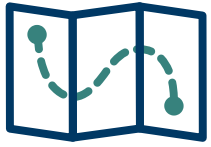
# Regulation D is the most commonly used pathway for companies to raise capital.



Source: 2022 Annual Report p. 13.

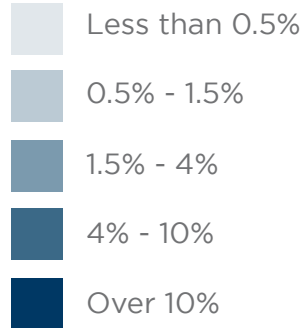




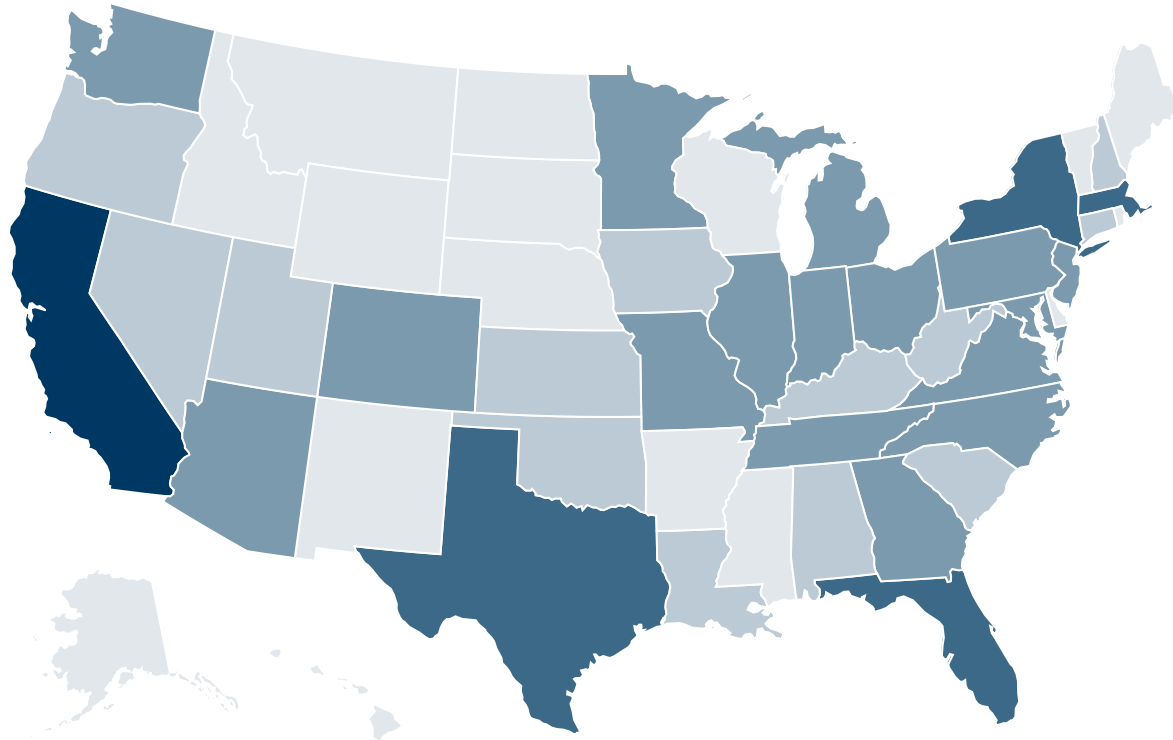


# Startups across the country are funded by sophisticated investors, many of which rely on Rule 506(b).

While still somewhat focused in traditional hubs, VC-backed companies support jobs across the country.



Estimated VC job distribution in 2021



Source: 2022 Annual Report p. 31; PitchBook-NVCA, “Venture Monitor Q2 2022” (July 13, 2022).



# RECOMMENDATION

When considering changes to **Regulation D**, we urge the Commission not to make the Form D notice and associated requirements more burdensome, particularly for small businesses.



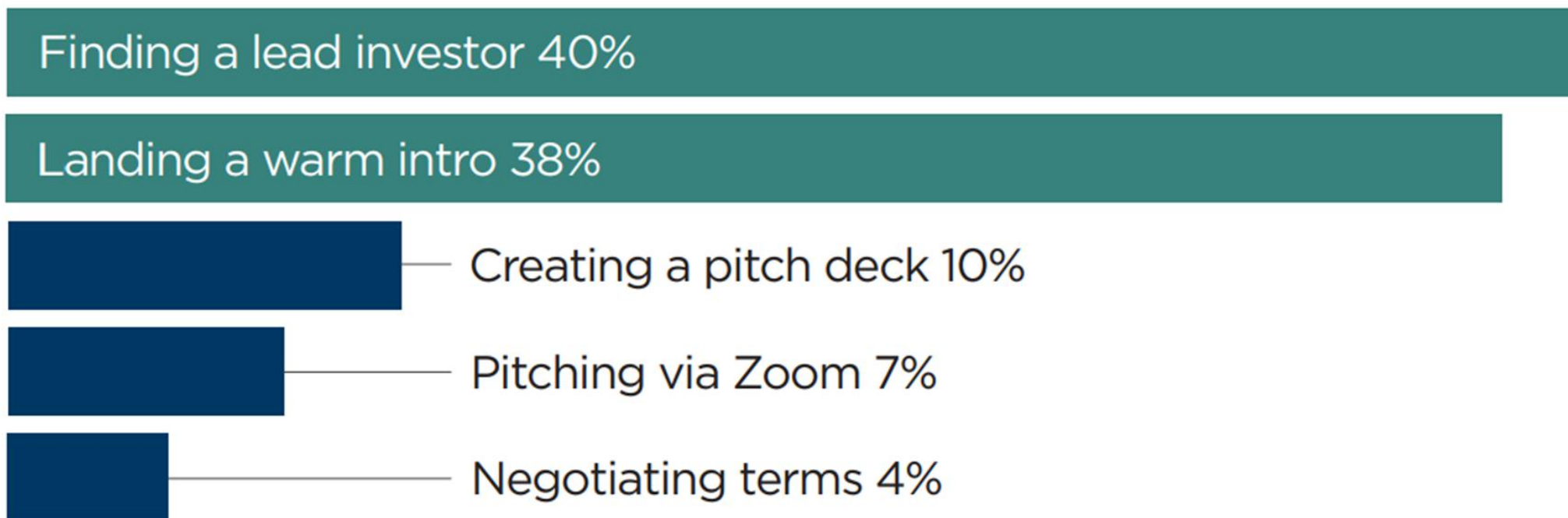
# CHALLENGE THREE

How can entrepreneurs connect with early-stage investors?





# Connecting with potential investors remains the biggest challenge for startups.



Source: 2022 Annual Report p. 23; January Ventures, “2021 Early Stage Founder Sentiment Report” (2021).







Connecting with investors is increasingly critical in a competitive, investor-friendly market.

**Investors**  
**23%**  
↓  
Less time engaging  
with pitch decks

**Founders**  
**30%**  
↑  
More pitch decks  
sent per week

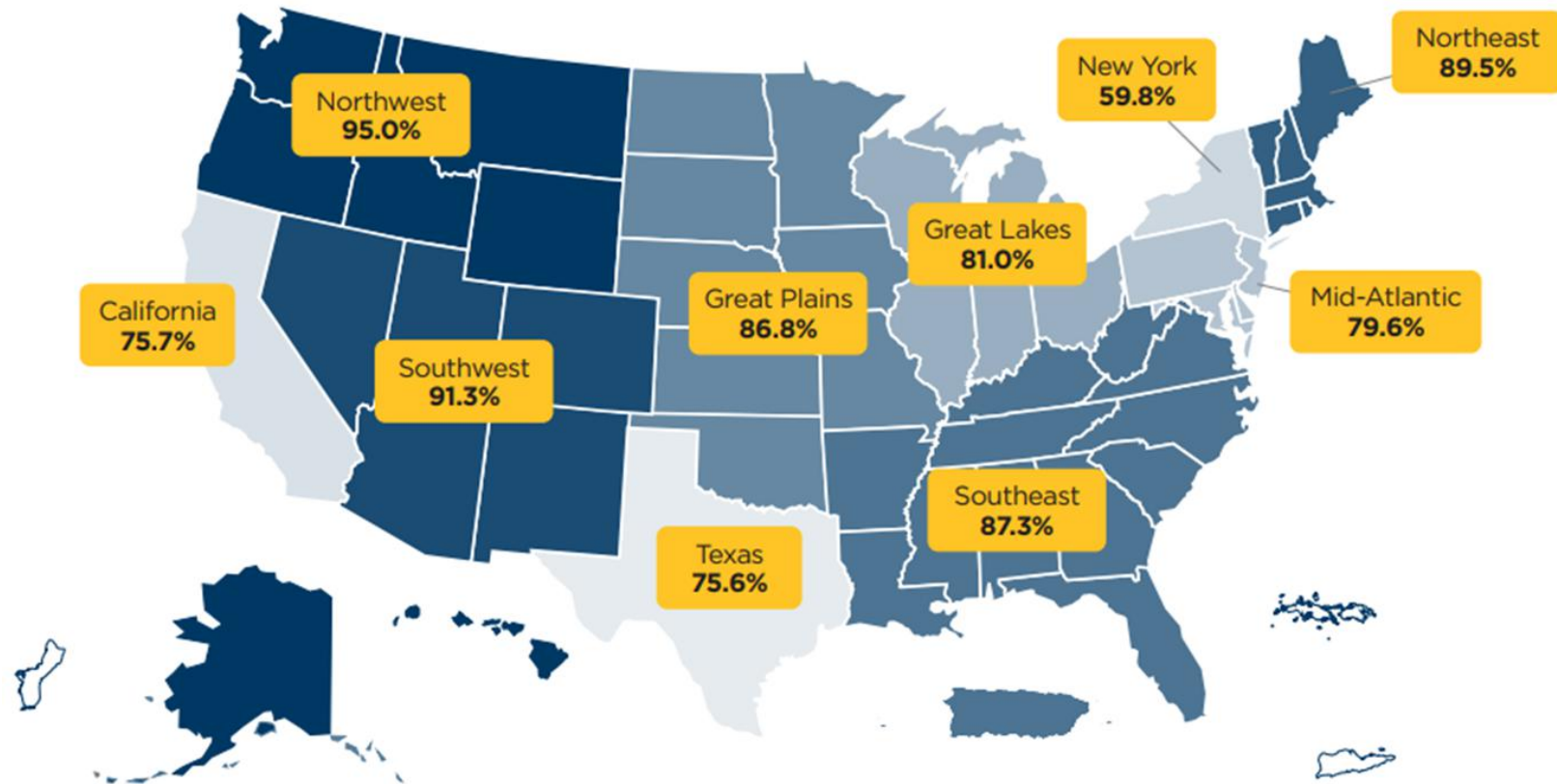
Source: 2022 Annual Report p. 28; Dropbox DocuSend, “The Pre-Seed Round in 2021-22. Adapting the Pitch Deck for a New Market.”





# Angel and seed investing remains localized.

## Percentage of Angel Investments within their Region



Source: 2022 Annual Report p. 30; Angel Resource Institute, "HALO Report. Annual Report on Angel Investments" (2021).



# RECOMMENDATION

**Connecting** founders with savvy investors is essential to capital raising.



# RECOMMENDATION

We are supportive of calls for clarity about the legal obligations of **finders** and recommend that Congress or the Commission provide additional regulatory clarity for finders to protect investors and the companies those investors are seeking to support.



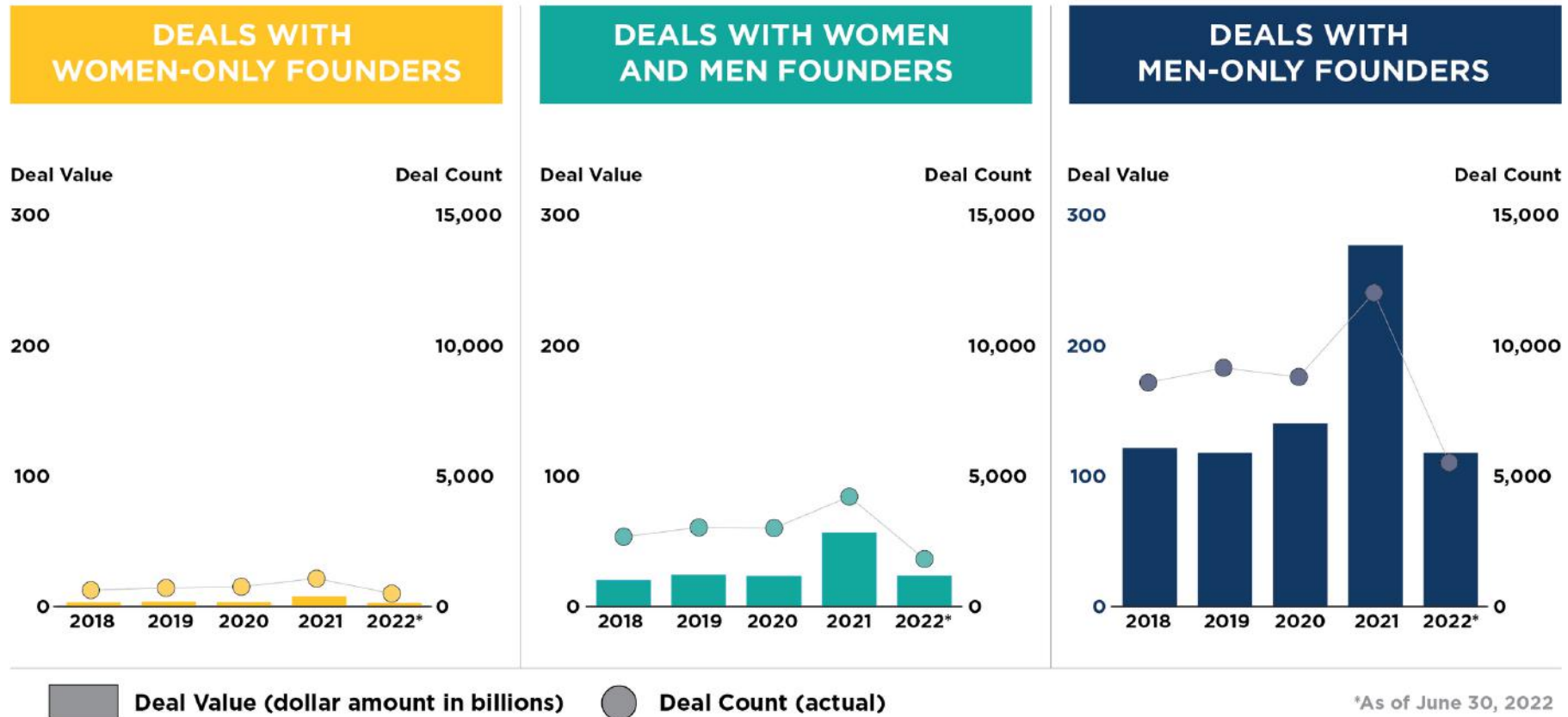


A person in a business suit is pointing at a tablet screen. The image is a blue-tinted photograph showing a person's hand and arm pointing at a tablet. The background is blurred, suggesting an office or meeting environment.

# CHALLENGE FOUR

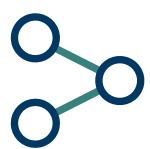
Investors are allocating less capital to emerging fund managers, which results in less funding to underrepresented entrepreneurs.

# Women founders continue to receive less VC funding.

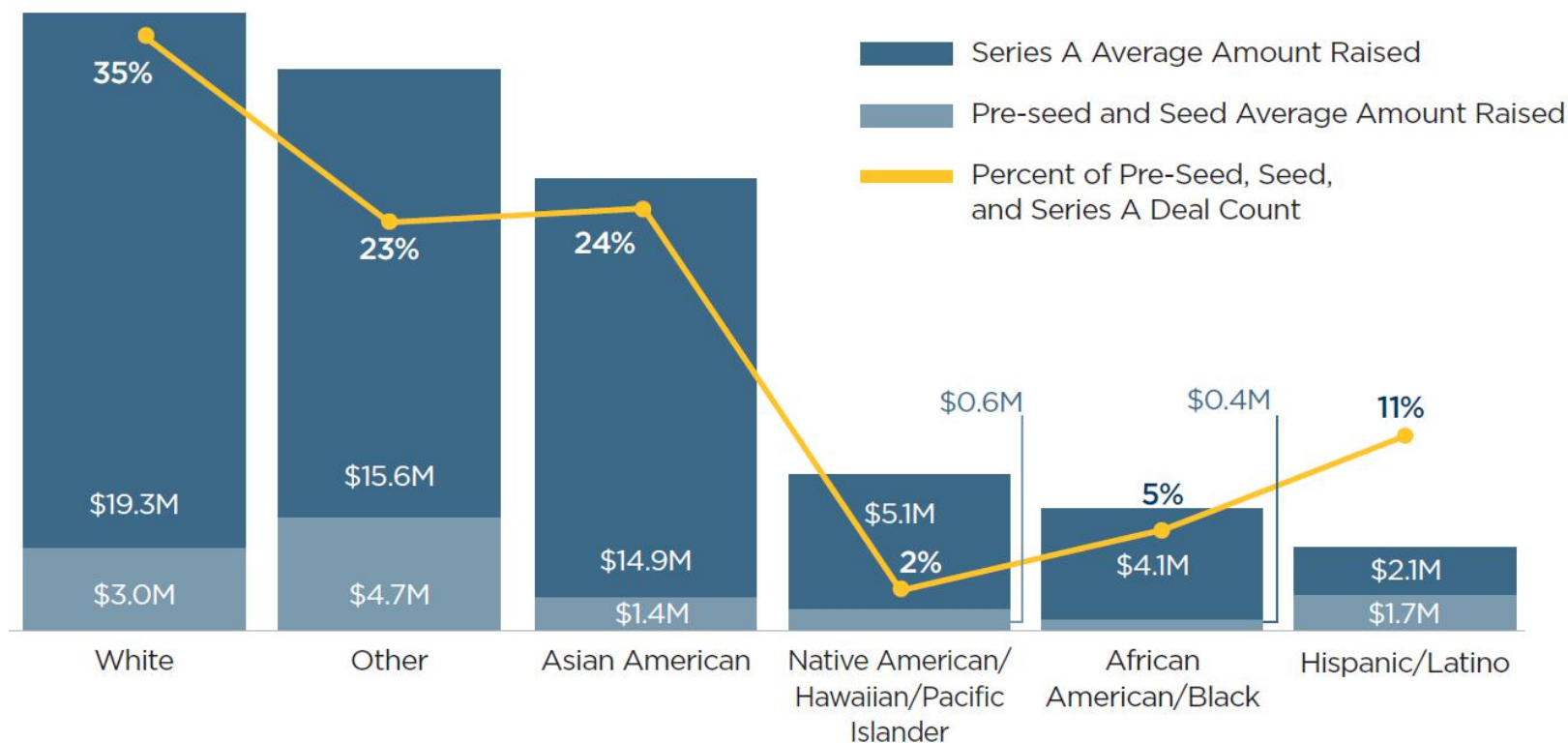


Source: 2022 Annual Report p. 47; PitchBook-NVCA, "Venture Monitor Q2 2022" (July 13, 2022).





# Underrepresentation persists in the funding of minority founders.



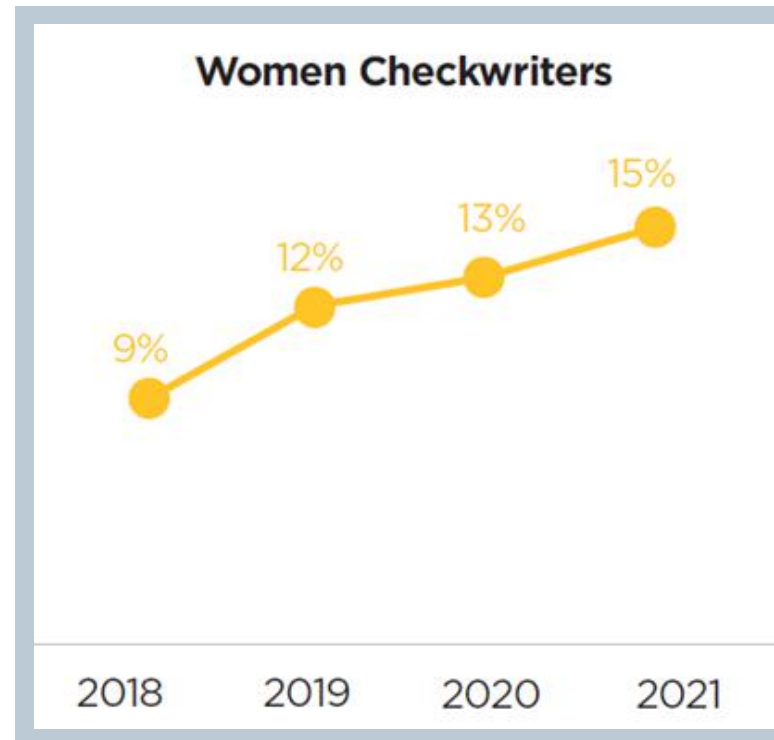
Source: 2022 Annual Report p. 58; Yoon Sun Hur, "Analysis of Capital Access for Entrepreneurs of Color," Nasdaq Entrepreneurial Center Venture Equity Project (2022).

2023 Capital Call





# Women remain underrepresented among VC checkwriters.



Source: 2022 Annual Report p. 53; All Raise, “All Raise x Crunchbase VC Checkwriter Dashboard.”

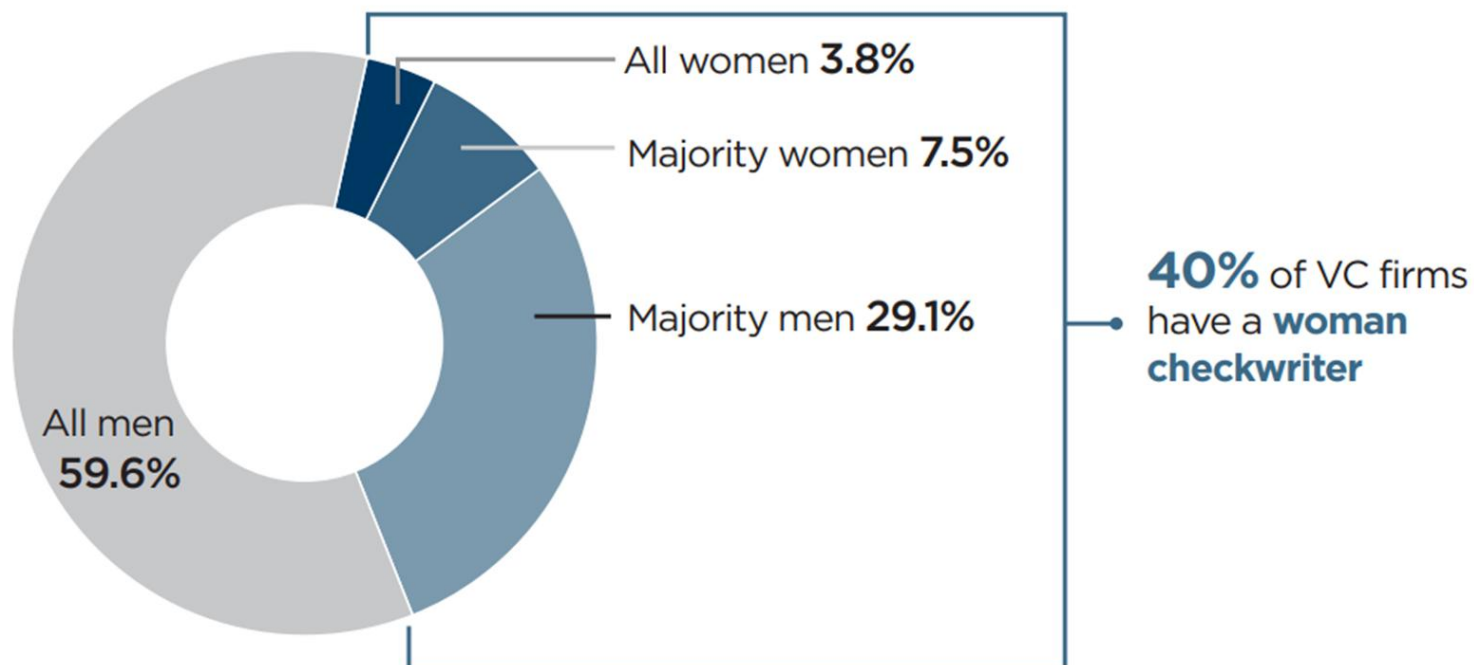






# Women remain underrepresented among VC checkwriters.

**Breakdown of Checkwriters at VC Firms**



Source: 2022 Annual Report p. 53; All Raise, "All Raise x Crunchbase VC Checkwriter Dashboard."





# Women-led funds facilitate greater funding of diverse founders.



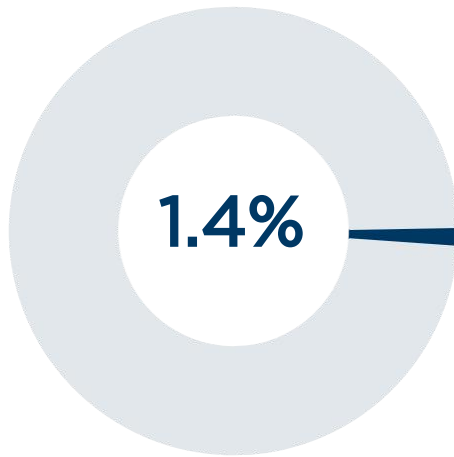
Women VC partners were **3x more likely to invest** in startups with **women CEOs** and often yielded superior returns.

Source: 2022 Annual Report p. 53; Imani Augustus, “Women Wanted: The Equity Gap in Venture Capital,” Alliance for Entrepreneurial Equity (Mar. 22, 2022).





Minority-owned funds remain vastly underrepresented, but are more likely to fund minority founders.



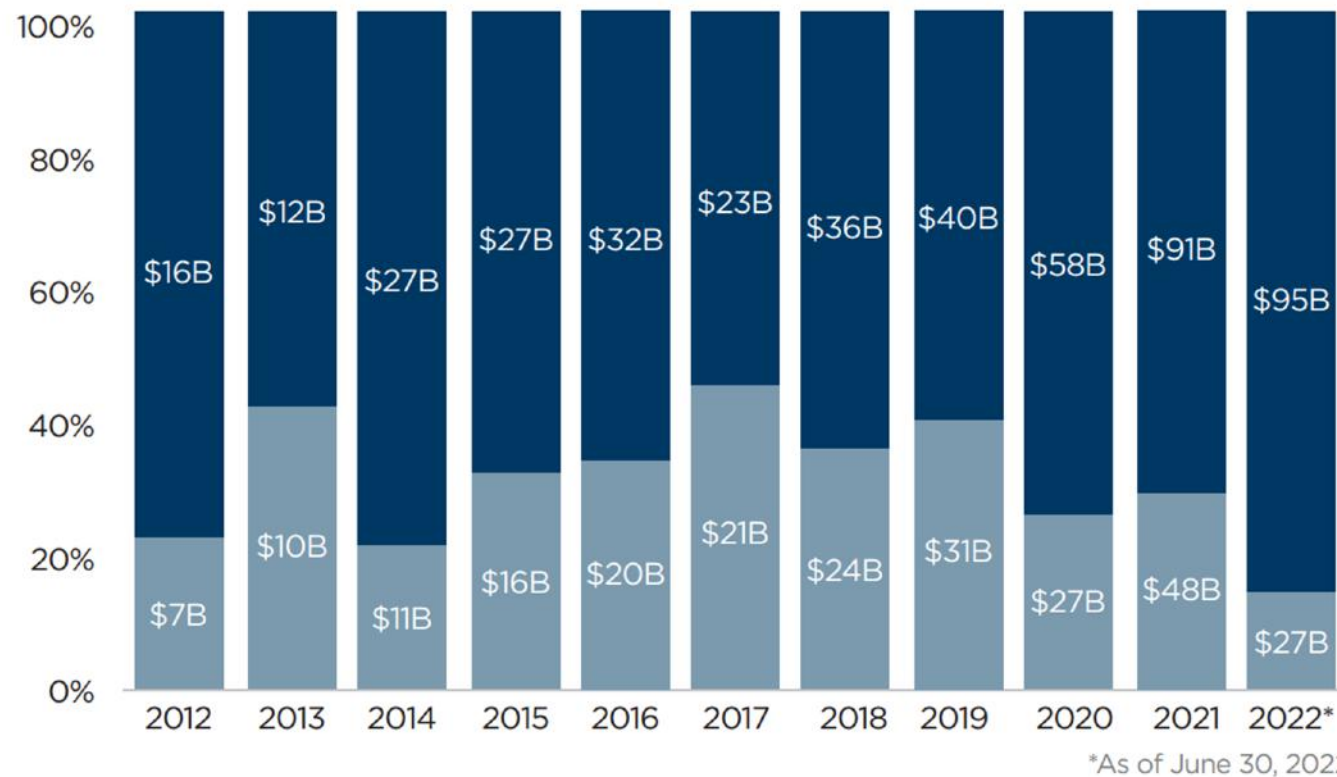
of the total AUM are in **minority-owned funds**, but they are **3x to 4x** more likely to **fund minority entrepreneurs**.

Source: 2022 Annual Report p. 60; Johan Cassel et al., “Racial Diversity in Private Capital Fundraising,” National Bureau of Economic Research (Sept. 2022).





# Emerging managers' share of capital declined to a new decade low.



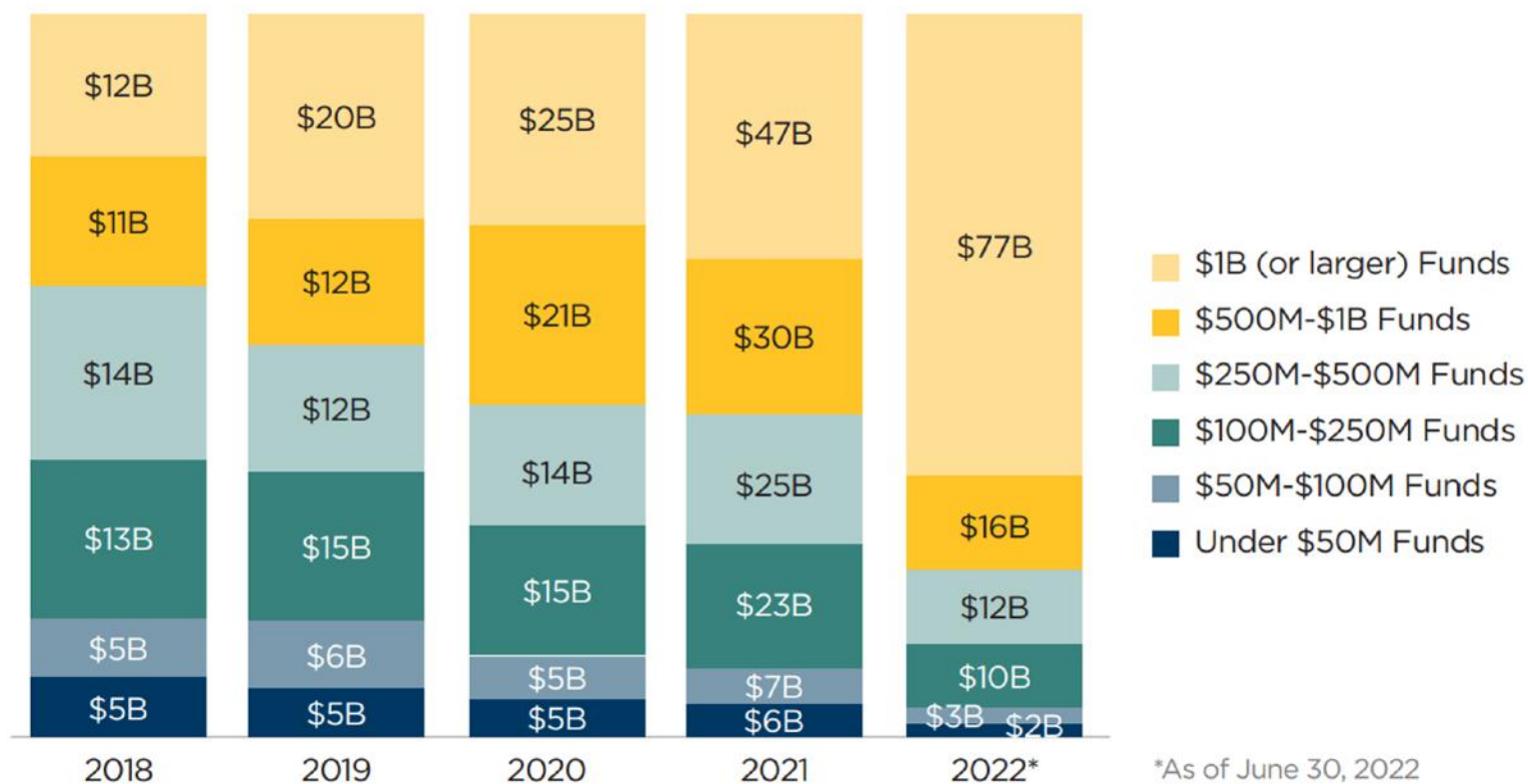
Source: 2022 Annual Report p. 35; PitchBook-NVCA, "Venture Monitor Q2 2022" (July 13, 2022).







# Investors are allocating capital to billion dollar funds at increasing rates.

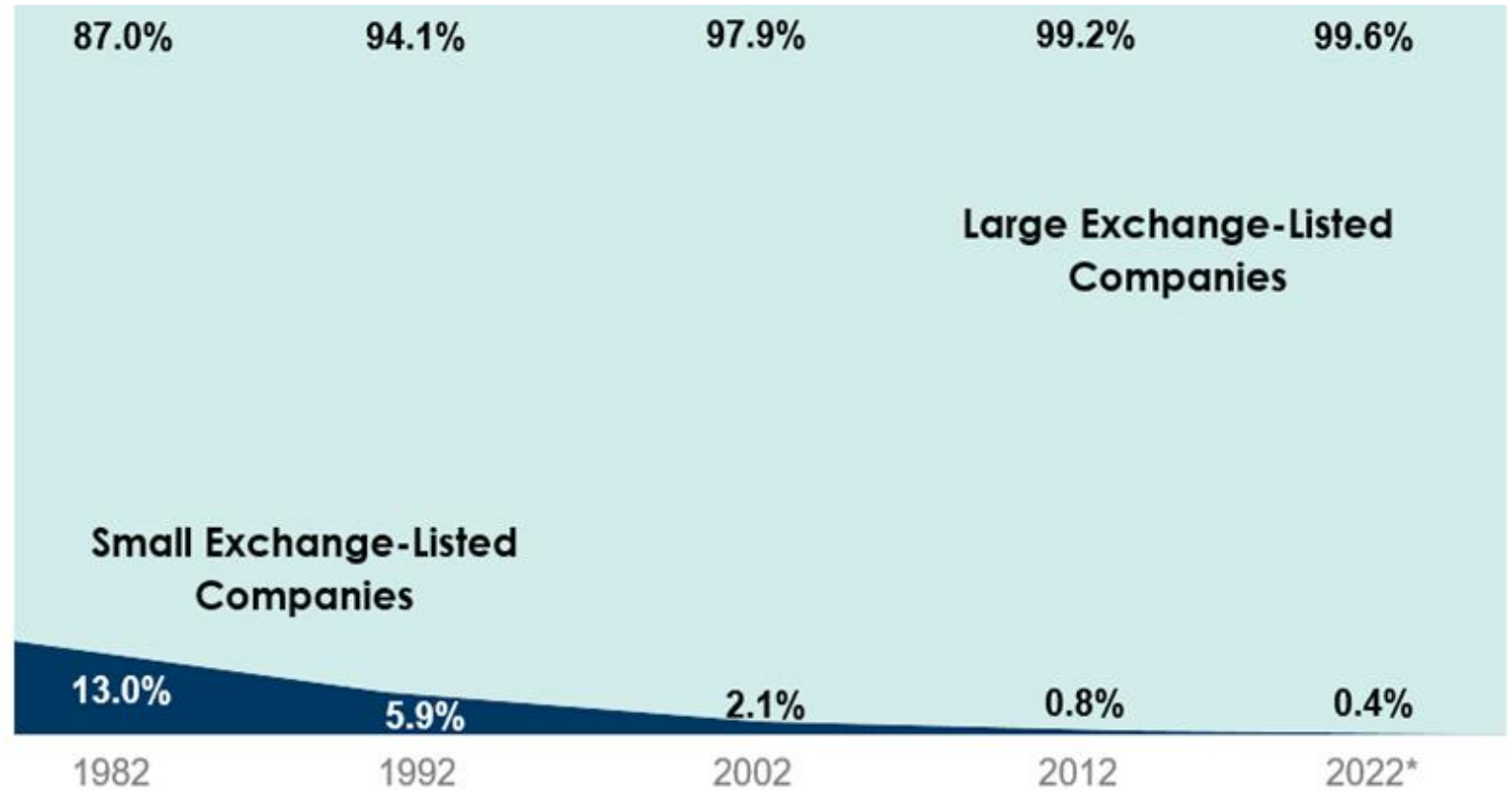


Source: 2022 Annual Report p. 35; PitchBook-NVCA, "Venture Monitor Q2 2022" (July 13, 2022).



# └─ How have exchange-listed companies

## Market Capitalization of Exchange-listed Companies



Source: 2022 Annual Report p. 40.



# RECOMMENDATION

Emerging fund managers play a key role in small business capital formation and need support.



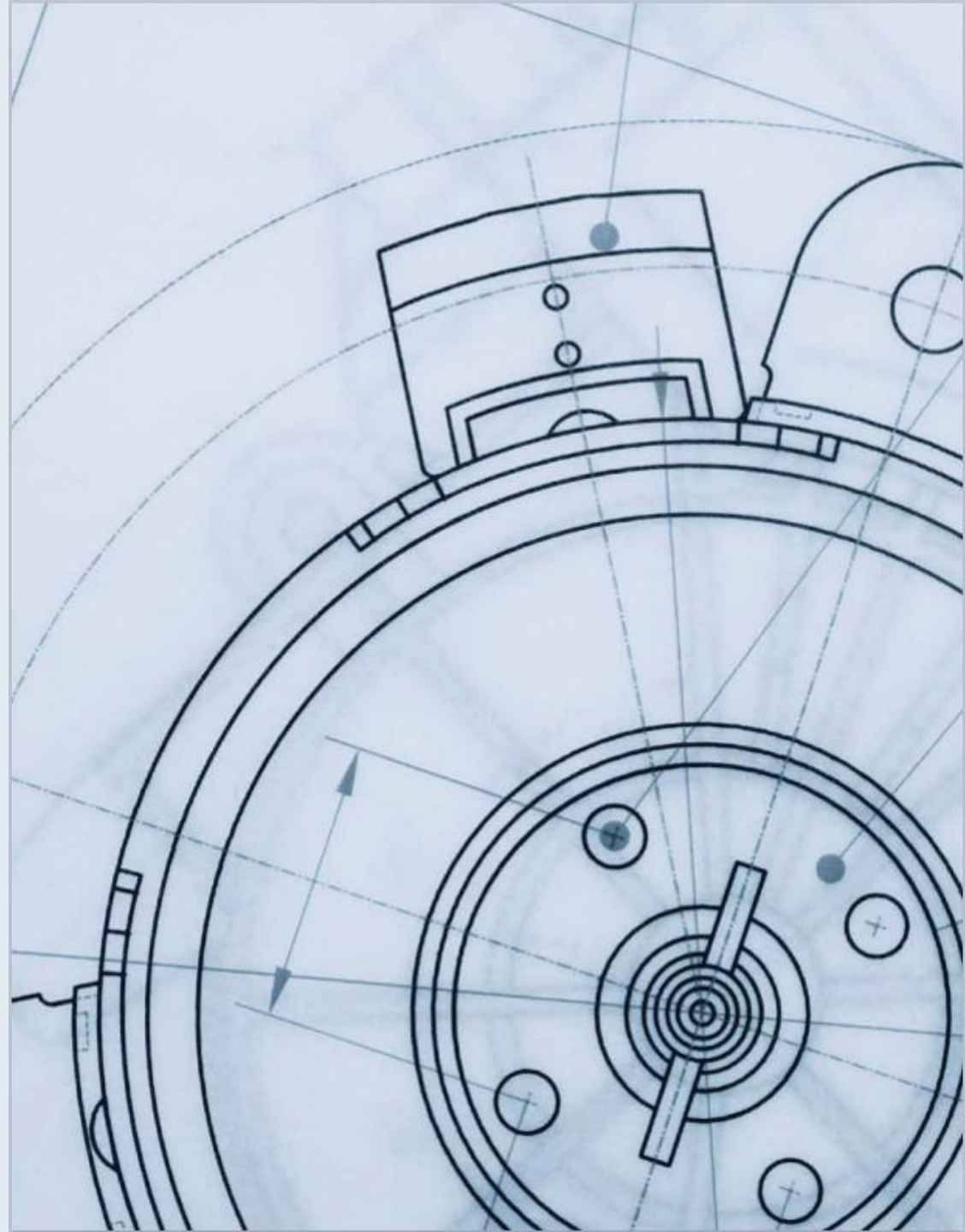
# RECOMMENDATION

- Amend the “**venture capital fund**” definition under Advisers Act Rule 203(l)-1 to treat VC investments in other VC funds to be “qualifying investments.”
- Increase the current 100 beneficial owners limit for funds that rely on Section **3(c)(1)** of the Investment Company Act.
- Increase the investor limit and expand the \$10 million maximum size of the “**qualifying venture capital fund**” under Section 3(c)(1).



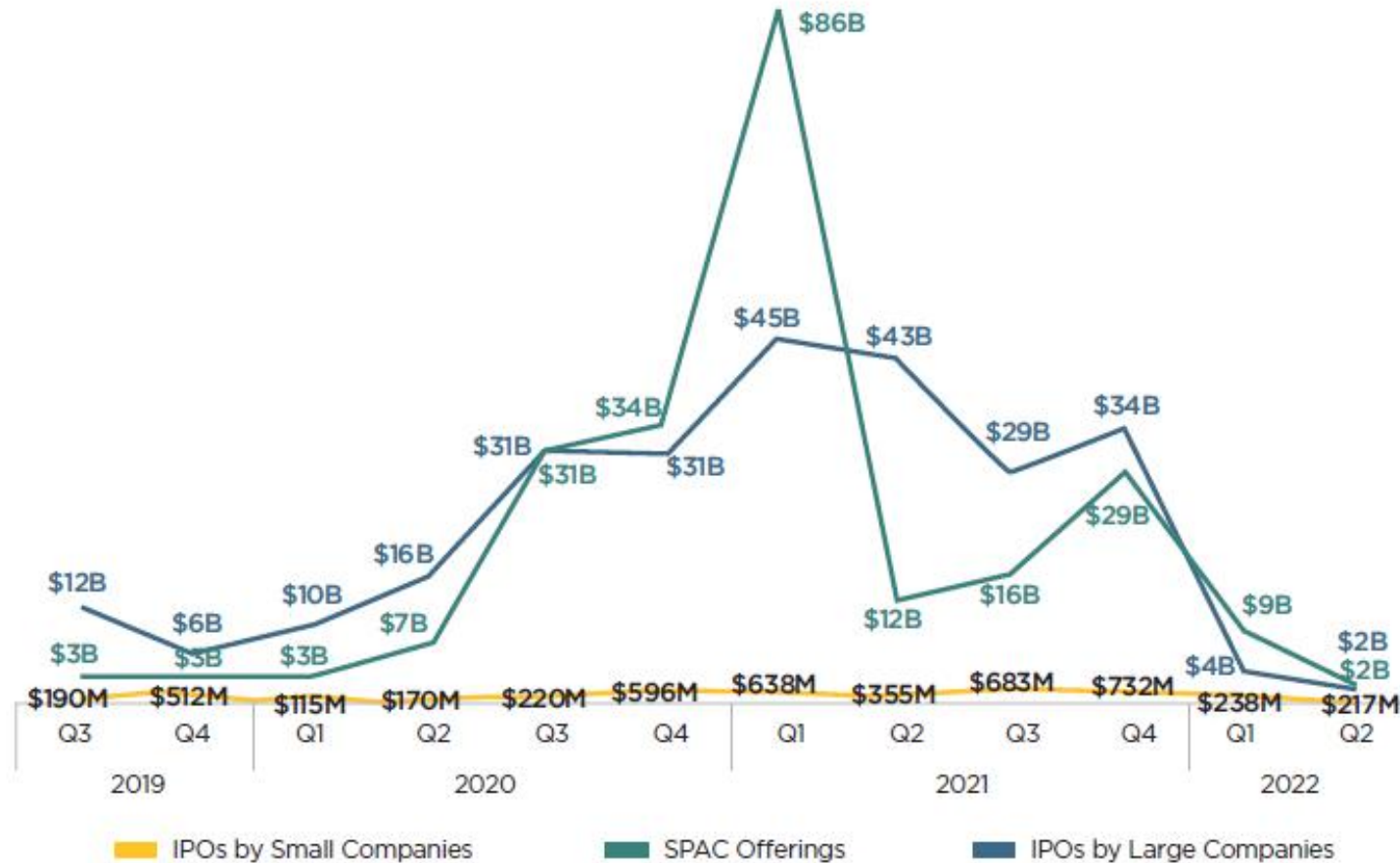
# CHALLENGE FIVE

The number of small exchange-listed companies has declined over the last several decades, and the vibrancy of our capital markets depends on having companies of varying sizes.





# How are the dynamics changing for companies going public?



Source: 2022 Annual Report p. 40.



# How are small public companies faring compared to their larger counterparts?

## Average Internal Annual Sarbanes-Oxley Act Compliance Costs

Large accelerated filer		9%
Accelerated filer (including SRCs)		1%
Emerging growth company		-3%
<b>Smaller reporting company</b>		<b>27%</b>

Source: 2022 Annual Report p. 43; Protiviti Global Business Consulting, “SOX Compliance Amid Rising Costs, Labor Shortages and Other Post-Pandemic Challenges” (June 9, 2022).



# RECOMMENDATION

**Scaled disclosures** for small public companies help them stay public.



# RECOMMENDATION

When considering new disclosure obligations for public companies, the Commission should scale those obligations and delay compliance for **small public companies.**







# QUESTIONS AND ANSWERS



YOUR SEC SMALL BUSINESS

# Advocacy Office

*Empowering small businesses and their investors*

## ENGAGE WITH US



[smallbusiness@sec.gov](mailto:smallbusiness@sec.gov)



[www.sec.gov/oasb](http://www.sec.gov/oasb)



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