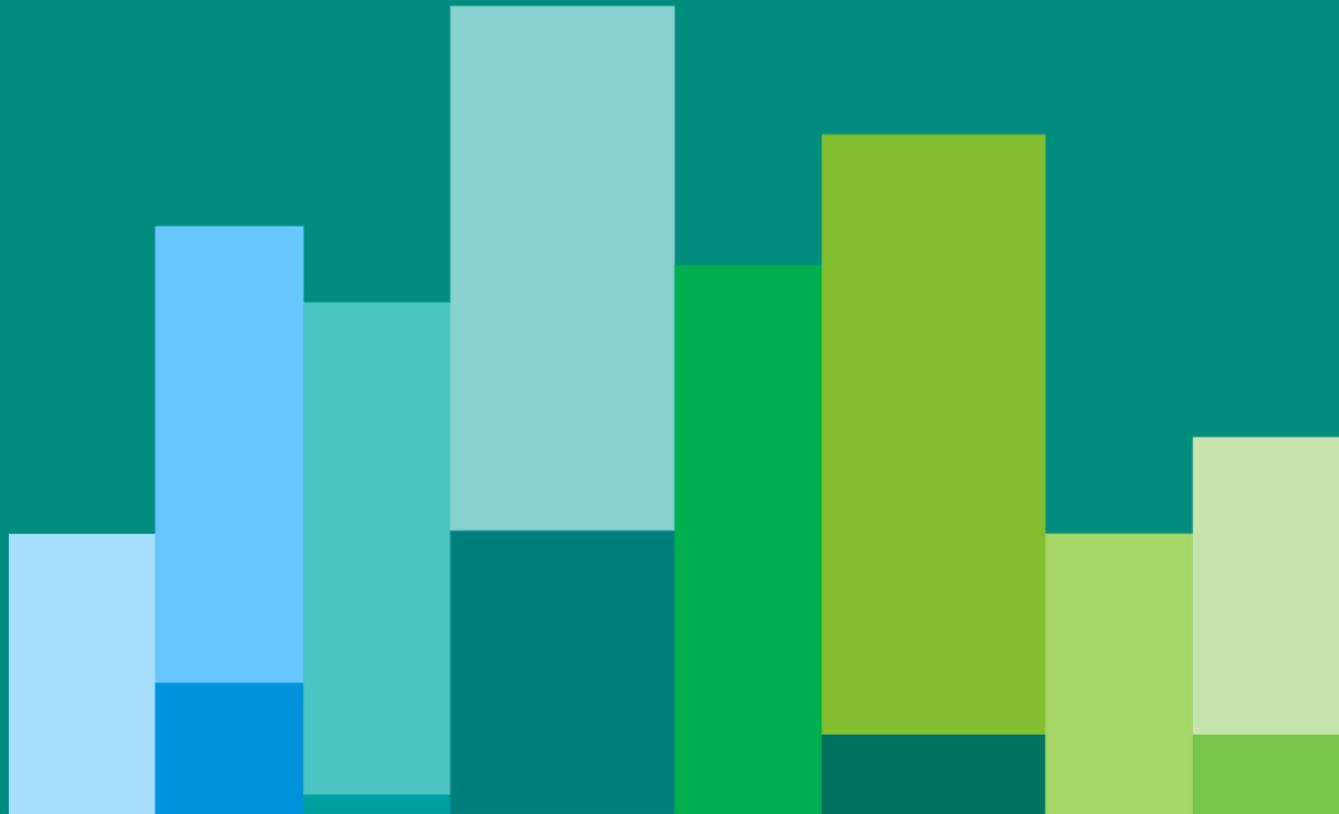


# SEC ADVISORY COMMITTEE ON SMALL AND EMERGING COMPANIES

Duncan Niederauer

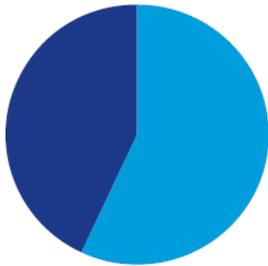
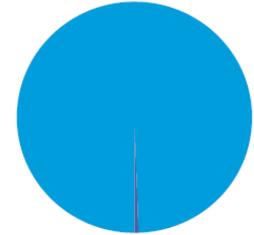
May 1, 2013



# SMALL COMPANIES ARE THE BACKBONE OF THE US ECONOMY...

In the US, small firms represent **99.7** percent of all employer firms

SOURCE: [SBA.GOV/ADVOCACY](https://www.sba.gov/advocacy)



Small businesses employ **57%** of the country's private workforce

SOURCE: [UNITED STATES SMALL BUSINESS ASSOCIATION OFFICE OF ADVOCACY](https://www.usbiz.org/)

Small businesses create **13x** more patents per employee than large patenting companies

SOURCE: [UNITED STATES SMALL BUSINESS ASSOCIATION OFFICE OF ADVOCACY](https://www.usbiz.org/)



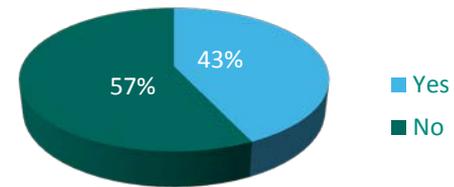
# MANY SMALL BUSINESSES NEED ACCESS TO AFFORDABLE CAPITAL

In the US, **5.7 million** businesses have less than **500 employees**

- Most of those are “Mom & Pop” businesses that will never go public
- They need access to affordable capital, not necessarily capital markets

**43%** of businesses with less than 500 employees are unable to find sources of capital...

Have you needed funds for your business and been unable to find anyone to lend to you in the last four years?



“This failure to secure financing has caused **32%** of small businesses to reduce their number of employees and **20%** to reduce employee benefits.”

- NATIONAL SMALL BUSINESS ASSOCIATION SURVEY (July 2012)

## Typical sources of capital

- Bank loan or line of credit
- Credit card
- Vendor credit
- Private loan (friend or family)

SOURCE: US Census Bureau (2010); National Small Business Association (2012)



# THE NYSE BIG START UP SUPPORTS THESE COMPANIES



**CORPORATE CONNECTIONS:** A simple tech platform that provides trusted introductions between startups and more established companies. Likened to a match-making service, it simplifies the procurement/supplier process and provides a unique opportunity to introduce large corporations with small innovative companies.

**NYSE ACCION JOB GROWTH FUND:** A job growth fund managed by the largest microfinance lending network in the US started with a \$1.5 million contribution from NYSE Euronext.

# FOR OTHER SMALL COMPANIES, ACCESS TO CAPITAL MARKETS CAN BE POWERFUL

**Public markets provide many benefits for small companies and their investors:**

- **Permanent access to capital** – direct access to capital markets means businesses can raise additional funds by issuing more stock in a secondary offering
- **Visibility** – markets enable businesses to **gain recognition** and **credibility**
- Public companies can often **attract higher quality talent** by offering employees stock options and other incentives with a known market value
- **Liquidity** and **transparency** for investors
- Opportunity for the public to buy / fund **growth, job creation** and **innovation**

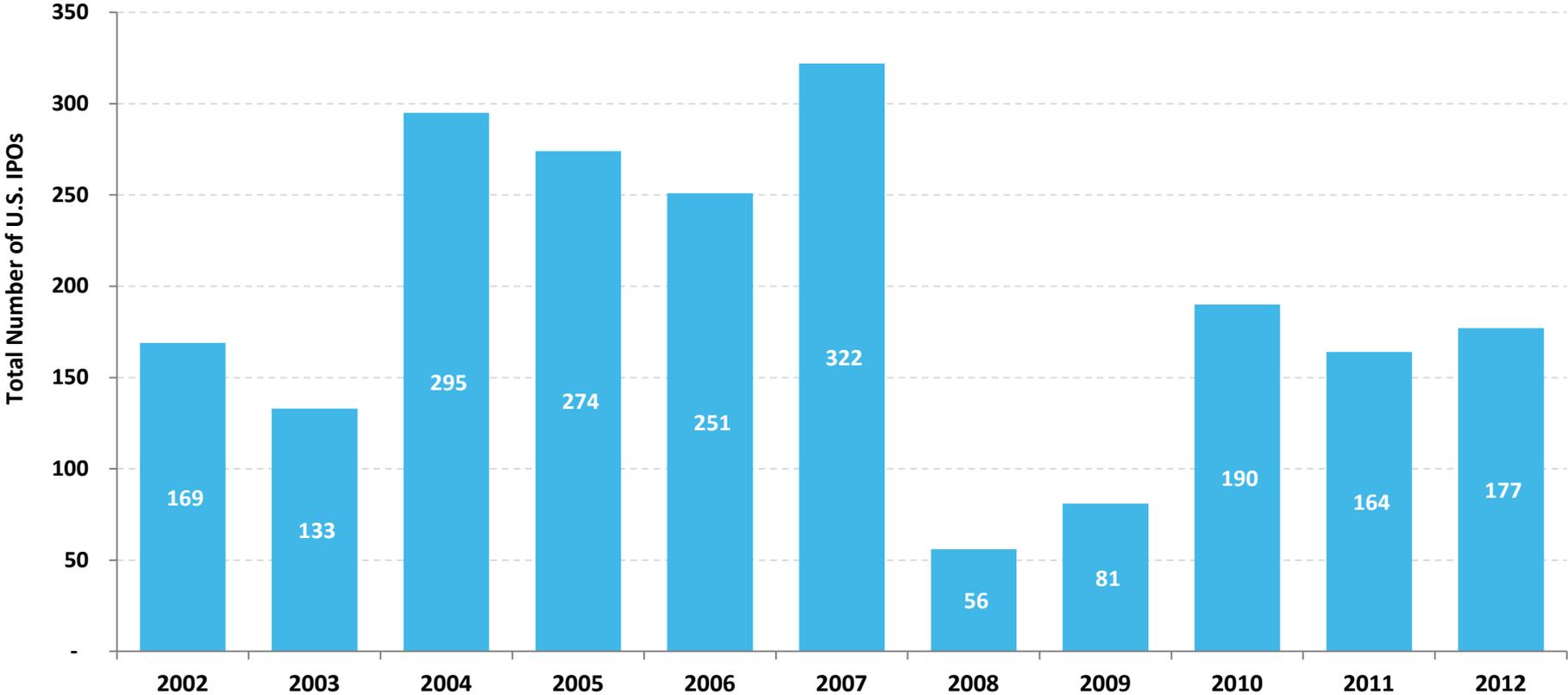
**92%** of job growth occurs after a company goes public

SOURCE: NATIONAL VENTURE CAPITAL ASSOCIATION



# THE IPO MARKET HAS REOPENED POST FINANCIAL CRISIS

Total Number of U.S. IPOs by Year

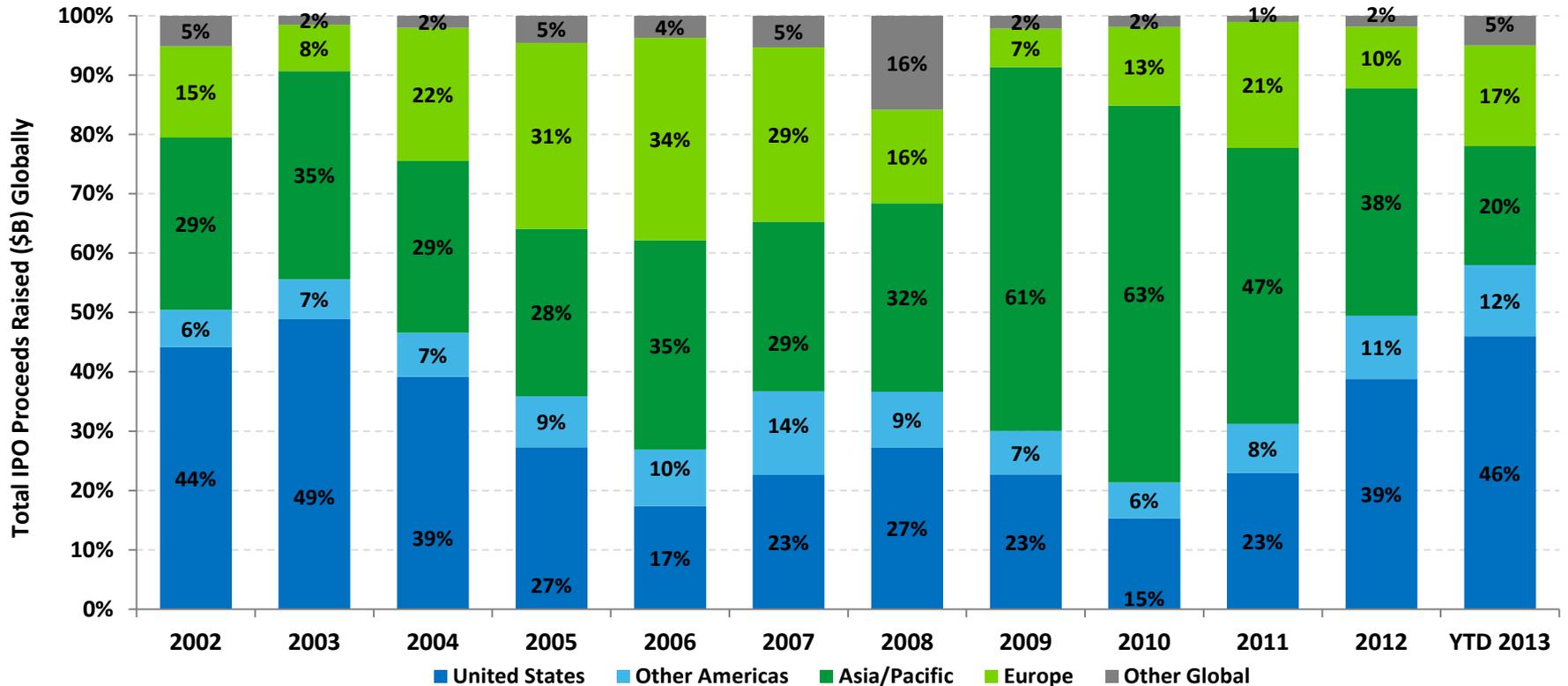


Source: Dealogic  
Data includes all Initial Public Offering (IPOs) on any exchange globally with pricing dates from 01/01/2001 – 12/31/2012



# AND US LEADERSHIP IN THE GLOBAL IPO MARKET HAS RETURNED

## Percent of IPO Proceeds Raised Globally by Region



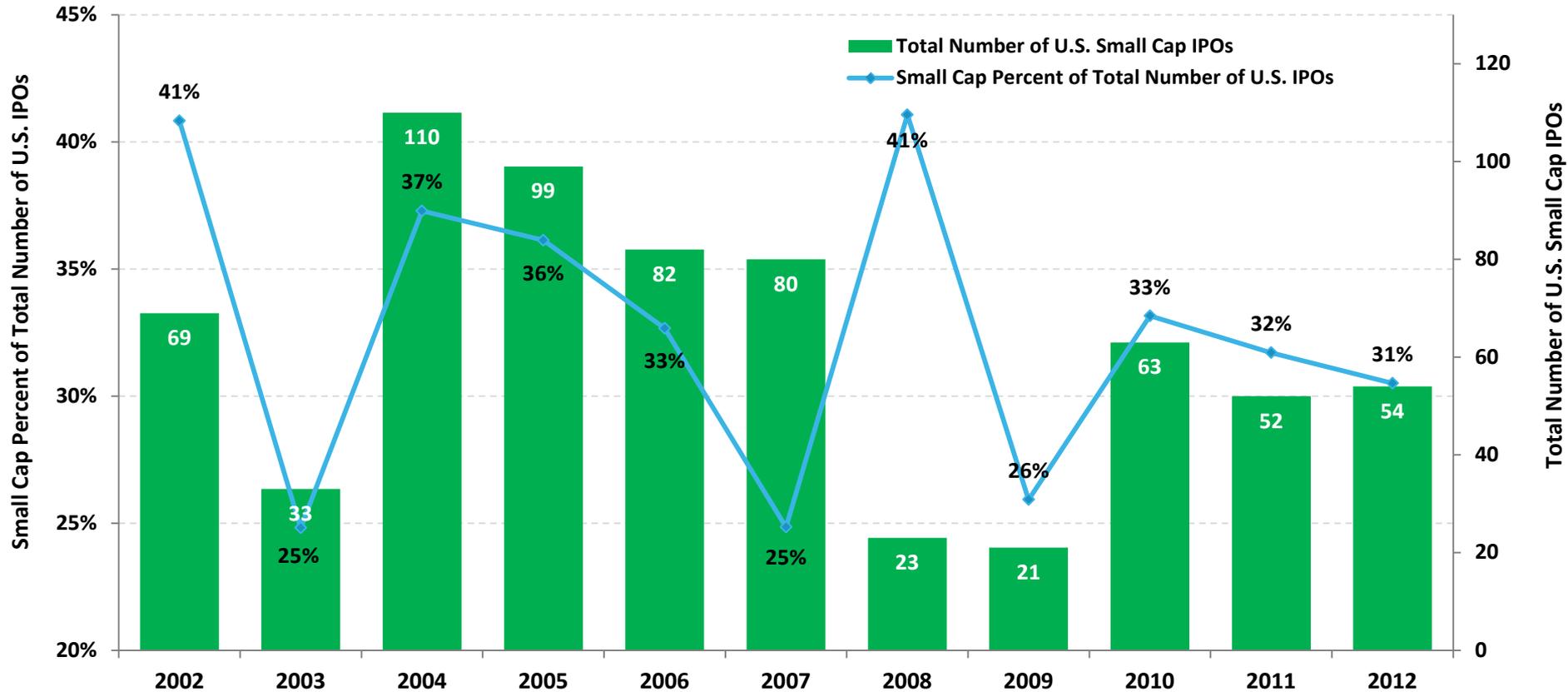
Source: Dealogic

Data includes all Initial Public Offering (IPOs) on any exchange globally with pricing dates from 01/01/2000 – 04/24/2013; YTD 2013 as of 04/24/2013

“Other Americas” includes Canada, Latin America, and the Caribbean; “Other Global” includes Africa and the Middle East

# YET SMALL COMPANY IPOs HAVE DECLINED...

## U.S. Micro Cap (under \$250M market cap) IPOs by Year



Source: Dealogic

Data includes all Initial Public Offering (IPOs) on any exchange globally with pricing dates from 01/01/2001 – 12/31/2012

“Micro Cap” represents all IPOs with a post-deal market capitalization of less than \$250M

# WHY ARE SMALL COMPANIES STRUGGLING TO RAISE PUBLIC CAPITAL?

- **The cost / regulatory burden of going public**
  - Significant increase in the last decade and a disproportionate impact on smaller companies
- **Smaller eco-system supporting small companies**
  - No economics for market making / trading
  - Fewer IPO exits for small companies
  - Lack of liquidity
  - Limited analyst coverage
- **Market fragmentation and dark trading**
- **General economic uncertainty / macro conditions**

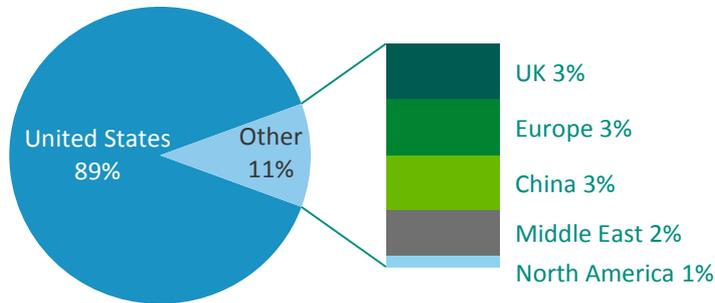


# THE JOBS ACT IS HELPING...

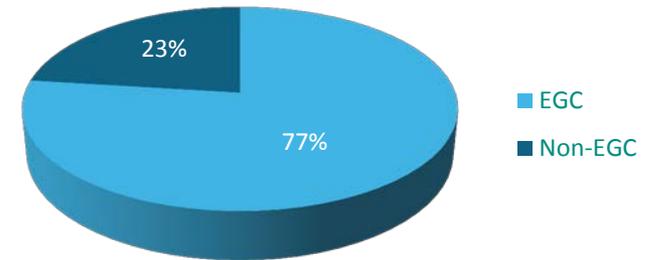
Although major sections have yet to be implemented, early results show the JOBS Act is having an impact...

More than **500** companies have elected emerging growth status

**89%** of those are domiciled in the US



**77%** of companies that went public since the Act passed registered as emerging growth companies



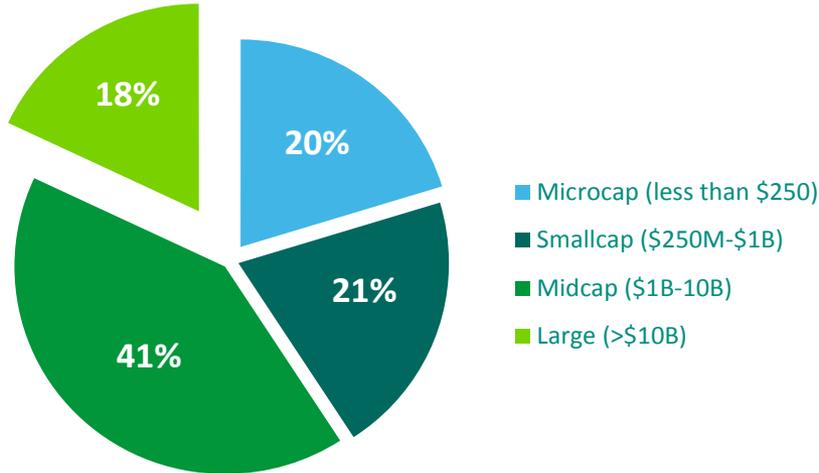
The confidential submission has been particularly popular: **63%** of EGCs that publicly filed confidentially submitted at least one draft registration statement prior to public filing.

Source: LATHAM & WATKINS REPORT (APRIL 2013); Dealogic/NYSE Research, includes only companies who listed or filed to list on a national exchange

# AND AS AN EXCHANGE, WE'RE DOING OUR PART TOO...

**Small / Midcap companies are an important focus of our business...**

**Small & Midcaps make up 82% of NYSE / NYSE MKT listed companies**



**Our Listings Standards Support Small / Micro Caps:**

- NYSE can take companies as small as \$40M in Market Value of Public Float (MVPF)\*
- NYSE MKT can take companies as small as \$3M in MVPF\*\*

**Examples of how we partner with and support small companies:**

- Sponsoring High visibility events, such as Global Entrepreneurship Week, the Kairos Summit, and many others
- Collaborating with organizations that support small and emerging companies, such as the National Venture Capital Association and StartUp America
- Advocacy on behalf of small companies on issues like the JOBS Act, SOX reform, Tax Policy, and Immigration reform
- Thought-leadership – op-eds, speeches, policy roundtables for entrepreneurs, etc

\* for IPOs, spinouts, carve outs -- \$100M level for transfers and quotations

\*\* they have to be profitable (\$750,000 PTI)

# BUT FURTHER STEPS COULD BE TAKEN TO IMPROVE CAPITAL MARKETS FOR SMES....

## Key Issues to Target:

- Lack of Liquidity: Almost 2000 stocks have less than \$1 million in daily volume traded (compared to more than \$500 million for S&P 100 stocks)
- Limited and Declining Analyst Coverage: Companies under \$300m market cap have an average of only 1.4 analysts covering their stock (down from an average of 2.6 analysts in 2007)
- Market Structure: The significant growth in off-exchange trading (and small/micro cap stocks tend to have a higher percentage of volume traded away from an exchange) discourages market makers from quoting on displayed markets

## Potential Solutions:

- Complete JOBS Act implementation (ex. Reg A)
- Tick Size Reform
- Market Maker Incentives
- Strengthen public markets by improving market quality and price discovery

Source: Factset; Reuters; CTA; UTP



# TICK SIZE REFORM

**Tick size reform may incentivize liquidity in small / mid cap stocks, and consequently improve capital-raising for these companies.**

- Narrower spreads are generally positive for investors, especially in more liquid stocks, but a \$0.01 minimum tick size for illiquid stocks may create a disincentive to provide liquidity

## Potential Benefits of Tick Size Reform:

- Encourage market makers to quote and provide displayed liquidity
- Increase depth and liquidity
- Reduce volatility
- Reduced time in negotiation
- Higher likelihood of a match
- Increased interest from institutional investors
- Increase analyst coverage over time

## Parameters of a Pilot Program:

- Time period should be longer than one year: Market participants will need enough time and incentives to adapt to the new environment
- Include a sufficient number of stocks (300-500) so market makers have an economic incentive to adapt their trading strategies and there is enough data collected to analyze the program



# MARKET MAKER INCENTIVES

- NYSE Euronext has been working with the SEC for several years to develop a pilot program that would further incentivize market makers to provide liquidity in illiquid Exchange Traded Products.
  - NYSE Euronext, Nasdaq and BATS have all proposed programs that allow exchanges to provide economic incentives to market makers if they reach certain liquidity benchmarks for Exchange Traded Funds.
  - The programs also allow the exchanges to charge a fee to ETF issuers for the fund to be eligible for the program, essentially passing through the economics while eliminating any direct conflicts between the issuer and market maker.
- These programs could be expanded and used as an incentive program for individual securities (i.e. less liquid smaller public companies).
  - If results of our pilot ETF incentive program are positive, we would like to discuss expanding it to individual company stocks.



# STRENGTHEN PUBLIC MARKETS

**The significant growth in off-exchange trading discourages market makers from quoting on displayed markets.**

## Impact on market quality

- Off-exchange dark trading is at record levels, deteriorating market quality for ALL issuing companies
- Less liquid stocks (i.e. small/micro cap companies) tend to have a higher percentage of volume traded away from an exchange
- NYSE MKT lists 442 securities, mostly less actives – over 40% of the volume in NYSE MKT stocks trades off-exchange

## Proposed Structural Change

- While holistic reform may also be warranted, we believe this is the time to introduce an obligation in order to trade based on the publicly quoted price (a “trade-at” rule)
- This would take the form of a meaningful, minimum price improvement standard
  - Re-aligns incentives to contribute to price discovery
  - Rewards liquidity posters
  - A block exemption could be warranted

## A Private Microcap Exchange is NOT the Answer

- The suggestion of setting up a private market or second exchange for accredited investors is worrisome
- Investor protection must be the paramount focus and we should concentrate on strengthening the public market rather than pushing more securities to private, less transparent and less regulated markets

Source: CTA; UTP



