

SECURITIES AND EXCHANGE COMMISSION  
ADVISORY COMMITTEE ON  
SMALL AND EMERGING COMPANIES

Washington, DC 20549-3628

March 21, 2013

The Honorable Elisse B. Walter  
Chairman  
U. S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-1070

Dear Chairman Walter:

As you know, the Securities and Exchange Commission organized the Advisory Committee on Small and Emerging Companies to provide the Commission with advice on the Commission's rules, regulations, and policies with regard to its mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation, as they relate to the following:

- (1) capital raising by emerging privately held small businesses and publicly traded companies with less than \$250 million in public market capitalization;
- (2) trading in the securities of such businesses and companies; and
- (3) public reporting and corporate governance requirements to which such businesses and companies are subject.

On behalf of the Advisory Committee, we are pleased to submit the enclosed recommendation to the Commission regarding creation of a separate U.S. equity market that would facilitate trading in the securities of small and emerging companies. This recommendation was unanimously approved by the members of the Advisory Committee present and voting at a meeting held on February 1, 2013.

We and the other members of the Advisory Committee are prepared to provide any additional assistance that the Commission or its staff may request with respect to these recommendations.

Respectfully submitted on behalf of the Committee,



Stephen M. Graham  
Committee Co-Chair



M. Christine Jacobs  
Committee Co-Chair

Members of the Committee

David A. Bochnowski  
John J. Borer, III  
Dan Chace  
Milton Chang  
Joseph "Leroy" Dennis \*  
Stephen M. Graham  
Shannon L. Greene  
M. Christine Jacobs  
Kara B. Jenny  
Steven R. LeBlanc \*  
Richard L. Leza \*

Paul Maeder \*  
Kathleen A. McGowan  
Catherine V. Mott \*  
Karyn Smith  
Charlie Sundling \*  
Timothy Walsh  
Gregory C. Yadley

\* Not present at the meeting held on February 1, 2013.

Official Observers

A. Heath Abshure  
Sean Greene

Enclosure

cc: Commissioner Luis Aguilar  
Commissioner Troy A. Paredes  
Commissioner Daniel M. Gallagher  
Lona Nallengara  
Elizabeth Murphy  
Gerald J. Laporte

U.S. Securities and Exchange Commission  
Advisory Committee on Small and Emerging Companies

**Recommendation Regarding Separate U.S. Equity Market for  
Securities of Small and Emerging Companies**

February 1, 2013

AFTER CONSIDERING THAT:

1. The Committee believes that current U.S. equity markets often fail to offer a satisfactory trading venue for the securities of small and emerging companies because they fail to provide sufficient liquidity for such securities and because the listing requirements are too onerous for such companies.
2. The frequent failure of U.S. equity markets to offer a satisfactory trading venue for small and emerging companies has discouraged initial public offerings of the securities of such companies, undermines entrepreneurship, and weakens the broader U.S. economy.
3. Establishing a separate U.S. equity market specifically for the securities of small and emerging companies, where these companies would be subject to a regulatory regime strict enough to protect investors but flexible enough to accommodate innovation and growth, offers promise of providing a satisfactory trading venue for small and emerging companies, which may encourage initial public offerings of their securities.
4. A possible feature of an appropriate regulatory regime for such a market would be limiting investor participation to accredited investors who meet a standard designed to assure that the regulatory protection afforded is appropriate given the characteristics of those investors.
5. The separate U.S. equity market for small and emerging companies could be an exchange established under Section 6 of the Securities Exchange Act of 1934 (the “Exchange Act”), an alternative trading system operated under 17 C.F.R. § 242.301, or some other appropriately regulated trading venue.
6. Other actions by the U.S. Securities and Exchange Commission (the “Commission”) with respect to trading venues may also be warranted in order to encourage small business capital formation and facilitate liquidity in the securities of small and emerging companies, including in the context of the Commission’s rulemaking to implement Section 3(b)(2) of the Securities Act of 1933.

THE COMMITTEE RECOMMENDS THAT:

The Commission should facilitate and encourage the creation of a separate U.S. equity market or markets that would facilitate trading by accredited investors in the securities of small and emerging companies, and such small and emerging companies would be subject to a regulatory regime strict enough to protect such investors but flexible enough to accommodate innovation and growth by such companies.