UNITED STATES SECURITIES AND EXCHANGE COMMISSION

MEETING OF THE
SMALL BUSINESS CAPITAL FORMATION
ADVISORY COMMITTEE

Monday, May 6, 2019
1:07 p.m.

Securities and Exchange Commission
100 F Street, N.E., Washington, D.C.
Multipurpose Room
PARTICIPANTS:

1. Jay Clayton, Chairman
2. Hester Peirce, Commissioner
3. Elad Roisman, Commissioner
4. Martha Legg Miller, SEC's Advocate for Small Business
5. Bill Hinman, Director, Division of Corporation
6. Finance
7. Jennifer Zepralka, Director, Office of Small Business
8. Policy
10. Greg Dean, Senior Vice President, FINRA
11. Carla Garrett - Corporate Partner, Potomac Law Group PLLC; Washington, D.C.
12. Stephen Graham - Co-Chair, Fenwick & West LLP's Life Sciences Practice; Seattle, WA
13. Sara Hanks - CEO and Co-Founder, CrowdCheck, Inc.; Alexandria, VA
14. Youngro Lee - CEO and Co-Founder, NextSeed; Houston, TX
15. Brian Levey - Chief Business Affairs and Legal Officer, Upwork Inc.; Mountain View, CA

PARTICIPANTS(CONT.):

1. Terry McNew - President and CEO, MasterCraft Boat Holdings; Vonore, TN
2. Sapna Mehta - General Counsel & Chief Compliance Officer, Rise of the Rest Seed Fund; Associate General Counsel, Revolution; Washington, D.C.
3. Karen Mills - President, MMP Group, Inc.; Boston, MA
4. Catherine Mott - Founder and CEO of BlueTree Capital Group, BlueTree Allied Angels, and BlueTree Venture Fund; Pittsburgh, PA
5. Poorvi Patodia - CEO and Founder, Biena Snacks; Allston, MA
6. Jason Seats - Chief Investment Officer, Techstars; Austin, TX
7. Jeffrey M. Solomon - Chief Executive Officer, Cowen, Inc.; New York, NY
8. Hank Torbert - President, AltaMax, LLC; New Orleans, LA
9. Gregory Yadley - Partner, Shumaker, Loop & Kendrick, LLP; Tampa, FL
10. Michael S. Pieciak - Commissioner, Vermont Department of Financial Regulation, Montpelier, VT

PROCEDINGS

1. MS. MILLER: Thank you all for being here, and welcome to the first meeting of the Small Business Capital Formation Advisory Committee. We are thrilled to have each of you here today, especially on the very quick notice for time between being appointed for service on this committee, as well as us convening this meeting. For those who missed the memo, it is National Small Business Week, and it is no coincidence that we have this group here together to talk about capital formation with smaller businesses.

2. I wanted to give a brief introduction of the Office of the Advocate for Small Business Capital Formation, which is the group that will be working the most closely with this Advisory Committee.

3. We were born out of the same legislation that created this Committee, and our office was established to provide a dedicated office and resource network to serve as an amplifier for advancing policy that can support small business capital formation.

4. This same legislation is what dissolved the predecessor Advisory Committee that focused on small and emerging businesses and constituted a new Committee with a revised scope of work.

5. Congress charged this Committee with providing...
the SEC with advice on SEC rules, regulations, and policies relating to capital formation across the spectrum of small businesses all the way, on the one hand, from small, really emerging, privately held businesses all the way up to smaller public companies with less than $250 million in public market capitalization, which is a really broad swath of companies, which is why we have such a diverse group of industry and professional experience here today to help us deal with the myriad of issues that we see across that landscape.

In addition to looking at, you know, what the issues are with raising capital, this Committee was also charged with looking at the trading in the securities of the companies, as well as public reporting and corporate governance requirements of these smaller businesses.

I want to confirm that we also have on the phone in addition to those who are here present today three members of our committee: Jason Seats, Mike Pieciak and Poorvi Patodia.

Can you guys hear us?

MS. PATODIA: I can hear you.

VOICE: Yes, thank you.

VOICE: Yes, I can.

MS. MILLER: Wonderful. All right. We have just come from a closed administrative session where we covered some lovely policies and procedures and things that we did not go through in the public setting, but we also appointed the inaugural officers of this Committee.

So we're thrilled to announce that the Committee has appointed Carla Garrett as our Chair; Jeff Solomon as a Vice Chair; Greg Yadley as our Secretary; and Youngro Lee as our Assistant Secretary.

So congratulations to each of you, and thank you for committing not only to the Committee, but to an extra level of leadership and service.

So I will be taking a more active role today facilitating this meeting since the new officers got about 15 minutes' heads up that they are now in charge, and they not have quite the opportunity to plan for leading, but going forward, they will be the ones running the show and I will take a seat alongside you just as another member.

We're very appreciative though of each of you stepping up into these roles.

And because this is the first meeting of this Committee, we want to start with getting all of our members really on the same level and up to speed on the various capital formation initiatives that the Commission is currently undertaking.

And from there, we will start to discuss items that we wish to take up in the coming months as a Committee, but before we move into our agenda for the day, we are very pleased to have Commissioner Peirce and Commissioner Roisman with us. Chairman Clayton had a meeting out of the building, and he will be joining us on the back end of this Committee meeting, and Commissioner Jackson regrets that he cannot attend today due to a preexisting travel commitment.

So I will turn the microphone over to you, Commissioner Peirce for opening remarks.

COMMISSIONER PEIRCE: Thanks, Martha.

And I have to start with just the disclaimer that my views are my own and don't necessarily represent those of the Commission or my fellow Commissioners.

But I think with the first part and saying that it's my great pleasure to welcome you to the SEC this afternoon, I'm sure I have unanimous agreement on that.

One of the difficulties of being a good regulator is ensuring a thorough understanding of the industries that we regulate. From Washington, New York and its financial center is a quick train ride away, especially when we at the SEC don't even have to leave the building to get onto the train.

But it can be easy to think only of Wall Street and the companies whose trickers dominated its exchanges when we think about regulating the capital markets. As you well know, however, our influence and, therefore, our duty extend across every part of the country and to nearly every company that issues securities or dreams of raising capital in our marketplace.

It's, therefore, essential that if we're to fulfill our duty, we solicit feedback not only from our biggest and most visible players, but from every type of market participant.

We're delighted to have Martha Miller as our first Advocate for Small Business Capital Formation. I was impressed with her before she got here, but she has already exceeded my expectations as she's jumped into this role with a great work ethic and a great attitude, and I know that all of you will enjoy working with her.

We're honored to have all of you and the breadth of the experience that you bring to give us counsel, insight, and feedback. I want to quote from the statement that one of, Youngro Lee, submitted to explain why he wanted to serve on the Committee. He said, quote, "I believe that the capital markets, if properly harnessed in this era of massive disruptions and uncertainties, can become an incredible tool to level the playing field for hardworking entrepreneurs everywhere,
while also creating opportunities for all investors, not just the super wealthy.”
I share that vision for what our capital markets can do, and I look forward to hearing from you on how we can make our capital markets a tool that will improve the lives of people all across our country.
As a native Ohioan, I especially appreciate Martha’s efforts to assemble a geographically diverse group. Great ideas and great businesses exist all across the country, and this group clearly demonstrates that.
Welcome, and I look forward to having you on board.
COMMISSIONER ROISMAN: Thank you, Commissioner Peirce.
MS. MILLER: Thank you, Commissioner Peirce. COMMISSIONER ROISMAN: It is always a hard act to follow, and I will say the same disclaimer as Commissioner Peirce. My views are my own. But good afternoon, I think, is universal.
I'd like to welcome everyone here, but I'm especially pleased to welcome the inaugural members of the Small Business Capital Formation Advisory Committee. Thank you for accepting this responsibility, and I really mean that.
I realize that each of you is certainly busy enough with your day job to feel justified in saying that you simply do not have the time for this commitment.
Each member of this Committee is devoted to improving the current state of play for small and new companies and businesses. You’re driven, dedicated practitioners who care deeply about the issues the Committee will address and will strive to ensure that the small business communities’ ideas are communicated to us here at the SEC.
I recently spoke on the importance of capital formation. I’d like to take this opportunity to reiterate that this is a priority for me. In particular, I hope that this Committee will advise the Commission on steps we can take to encourage the entrance of smaller companies to our capital markets.
I’m also interested to hear the Committee’s thoughts on improving secondary market liquidity for smaller companies and recommendations on guidance we can issue with respect to finders so that we can provide clarity to those market participants.
As we heard from Mr. Harold Hughes this morning, I think more ideas about ways to improve capital raising mechanisms, such as crowd funding and Reg. D offerings, would be very helpful to new and small companies looking for funding.
Before I conclude, I want to say congratulations and thank you to Martha Legg Miller and her team, including Julie Davis. I’ve been so impressed by both your passion for the agency’s and your office’s mission and also your ability to get things done at such a fast pace, especially here in government.
So enjoy all that you’ve accomplished today and thank you, everyone. I look forward to today’s conversation and to supporting your mission going forward.
MS. MILLER: All right. Thank you very much.
So as is very clear, we are thrilled.
"Pleased" doesn’t really seem to cut it. We are thrilled to have the wide variety of experience and perspective represented today. Each of you bring very different backgrounds and areas of expertise which we will allow each of you to elaborate on in just a minute.
But one thing that is very clear in spite of the very different approaches that you have and roles in the marketplace that you all clearly share a common passion for small business capital formation.
So I would love for everyone to go around the table and for each of the Committee members to introduce themselves, starting with Bert. I’d like for you to give your name, professional affiliation, and the highlights of any experience that is relevant to small business capital formation.
And while we could make an entire Committee meeting out of learning about each other, I will ask that each of you limit your bio to a very short one-minute blurb so that we can move into substance thereafter.
Bert.
MR. FOX. All right. My name is Robert Fox. I go by Bert. I am a partner at Grant Thornton LLP. Currently I lead our national office in the audit practice. So all of the technical accounting, SEC regulatory matters, independence audit training, risk management all report up to me.
But I’ve been in the audit profession for over 20 years. While I’ve worked with a variety of all sites, types of companies, the majority of my career I’ve spent with start-up and emerging companies.
I’ve done everything from helping companies raise capital, even helping them write their business plans and doing their initial projections, to taking companies public, to advice on all sorts of different issues.
So I really look forward to the work of this Committee, and I’ll turn it over to Carla.
MS. GARRETT: Good morning. My name is Carla Garrett. I am a corporate securities partner at Potomac Law Group based here in Washington, D.C.
In my role as the partner, I routinely advise small businesses on corporate issues and securities issues, and I have been involved with small businesses throughout my career.

I started my career in Silicon Valley at Wilson Sonsini as a corporate securities attorney and continued it in Washington, D.C., at Sullivan & Cromwell as a corporate securities attorney, and I then went on to be the first General Counsel of a then small public company called CoStar Group, and that was a very interesting experience, to be the first General Counsel of a public company.

I am looking forward to working on this Committee and serving as Chairman, and thank you very much.

MR. GRAHAM: I'm Steve Graham. I am a partner at the law firm of Fenwick & West. I've spent the last three or four decades representing tech and life sciences companies from emerging companies to smaller public companies. So has been my life.

MS. HANKS: I am Sara Hanks. I'm CEO of CrowdCheck and managing partner of CrowdCheck Law. Between the two entities, we provide a wide range of legal due diligence and compliance services for companies raising funds online through the various exemptions and intermediaries that assist them to do so.

MR. LEE: Hi. My name is Youngro Lee. I'm the co-founder and CEO of NextSeed. We are an online investment platform focusing really on local businesses and utilizing regulation crowd funding specifically; also with a broker-dealer practice, try to grow really the power of alternative capital into private markets.

Prior to starting NextSeed, I was a corporate lawyer really focused on private equity and private equity formation. So my personal desire to start NextSeed as well as to be on this Committee is to try to bring the professionalism that we are used to at the high levels and to be able to provide that service and access to really the local medium and small investors as well.

MR. LEVEY: I'm Brian Levey, Chief Legal Officer at a company called Upwork, which just recently went public. It's a marketplace that connects independent professionals with small businesses of all types around the globe.

Prior to Upwork, I was at eBay for 13 years sort of doing the same, helping small businesses create their own businesses in a marketplace that had never existed before. So I've had wonderful fun and experience doing that.

And prior to that, I was in private practice as a corporate attorney.

So thrilled and honored to be invited to be part of this and look forward to contributing my perspective.

MR. McNEW: Like Brian, I'm thrilled to be here as well. My name is Terry McNew. I'm the president and CEO of MasterCraft Boat Holdings. We're comprised of three companies and four brands in the recreational fiberglass boating industry.

I've been in manufacturing for 31 years, 23 at Brunswick, a former Executive Vice President there.

I've grown MasterCraft from essentially a break-even company to today we're listed on the NASDAQ Exchange, a public company with about half a million in market cap. So like many of our team members, I have worked with companies that are very small and had to generate capital to grow and have some experience in that.

Looking forward to working with my colleagues on the team to help provide a voice for manufacturing on this panel, as well as helping to spawn more entrepreneurs.

MS. MEHTA: Hello, everyone. My name is Spana Mehta, and I'm Assistant General Counsel at Revolution, and General Counsel of the Rise of the Rest Seed Fund, led by Steve Case, trying to shine a spotlight on the fact that 75 percent of venture capital money goes to Silicon Valley, Boston, and New York. We're trying to spread those opportunities and encourage venture capital investments in the rest of the country.

Prior to that I was Deputy GC at Living Social, where I handled M&A, and a very interesting perspective in a start-up, going through hyper growth stages.

And prior to that I was at Latham & Watkins for five years.

So I'm very excited for this opportunity.

Thank you.

MS. MOTT: Good afternoon. I'm Catherine Mott from Pittsburgh, Pennsylvania. I'm the founder of BlueTree Allied Angels and the BlueTree Venture Fund in Pittsburgh.

BlueTree Allied Angels is one of 600 professionally managed angel groups in the United States. We were founded in 2003 when there were only about 100 angel groups.

I'm former chairman of the board of the Angel Capital Association, our national trade support organization, which is like the National Venture Capital Association, and I'm also the former chairman of the Angel Resource Institute and also happy to be here and be...
supportive of the efforts of the council.

Thank you.

MR. SOLOMON: Hi. I'm Jeff Solomon. I'm the CEO of Cowen. Cowen is an emerging growth-focused investment bank located in New York, just turned 100 years old, though I was not there at the founding just to be clear. Some days it feels like I was.

But so I have spent the better part of the last decade trying to figure out what we could do to help small businesses figure out how to get access to capital, debt capital and equity capital. It's a focus of ours at Cowen.

I did co-chair the Equity Capital Formation Task Force, which was sanctioned by the Treasury a few years ago to try to figure out some solutions around market structure that would create liquidity for small cap companies, and I was involved in helping to advocate for the Jobs Act, which I think really turned over a new leaf and created a new day for a lot of small market capitalization companies that were looking to get access to public capital.

But I am myself the product of a small business. My father still owns and runs a small manufacturing business in Pittsburgh and where I was born and raised, and I do remember that he and my mother both had to sign away just about everything we had when he bought that business in 1978, and I like to remind everybody that he's only ever one recession away from trouble.

So if we can figure out ways to bolster our economy through the growth of small business, it would be a real benefit to a lot of folks, including the people that really gave me my start.

And so I think this is a great effort that the SEC is undertaking. I've been quite active in small business. I'm on the Advisory Board of the Entrepreneurship Institute at the University of South Florida. I'm the past chair of the American Bar Association's Middle Market and Small Business Committee and past co-chair of the Private Placement Broker Task Force.

And it's a thrill to be here, and I look forward to working with all of my colleagues.

MR. SHEPARD: My name is Joe Shepard. I'm glad to be here with everyone on the Committee and the Commissioners, and, Martha, good to be joining you today.

I'm the Associate Administrator for the Office of Investment and Innovation. That office was created in 1958 by Congress with the Small Business Investment Act of 1958, 61 years ago, trying to do something similar to some of the things we're going to be talking about in the weeks and months to come with the Small Business Advocacy Act of 2016.

When you read the beginning of the Small Business Investment Act, it talks about -- and, again, this is in 1958 -- trying to figure out a way for the U.S. economy to create a program in federal government that would stimulate and supplement the flow of private equity and long-term loan funds to small business concerns because the supply is inadequate.

And so some of those truths are still facing us and some of those challenges today, and so the program that I manage does that within the Office of Investment, seeks to do that through Small Business Investment Company Program, which some of you may be familiar with.

One of the other entities within the Office of Innovation is a 1982 and 1992 legislation with the Small Business Innovation Research, the SBIR Program, which was a grant program, and then the STTR Program as well, which is more related to universities.

My background is primarily in private sector, venture capital, private equity as a sub-debt lender with
A little bit of background out me, I have come directly from private practice at a law firm in Birmingham, Alabama, in the Southeast where I worked on a spectrum of transactions across the company life cycle, from, you know, your very nascent companies, entrepreneurs or repeat entrepreneurs that are looking for their first bits of funding, to working with companies on investments as they merge through the so-called "Valley of Death" trying to come out on the other side with more institutional capital, to sometimes a sale or purchase to strategic buyers on the other end.

MR. DEAN: My name is Greg Dean. I'm a Senior Vice President at FINRA. We're very thankful to Martha and the Commission for inviting us to be part of this Advisory Committee. We weren't doing part of the statutory delegation, but we're very happy to be part of this.

Recently FINRA has undergone a number of changes with regard to capital formation. We put forth our capital acquisition broker rule set. In addition, we had our advisory committees reformulated. So now we do have a capital acquisition and private placement advisory committee specifically focusing on these issues.

In addition, through our FINRA 360, we are open to looking at our rule sets as well as making more changes to help access to capital and small business capital formation.

Personally, in the '90s, I spent a lot of time with angel financing and small business capital formation. So this is such an important Advisory Committee to get the views out and to make sure the policy makers hear them.

Thank you for inviting us.

MS. MILLER: Wonderful, and Bill and Jennifer, we'll introduce you in just a minute.

A little bit of background on me. I am here at the SEC as the first Advocate for Small Business Capital Formation, which is quite a long title and comes with a lot of responsibility as well as creating this new office, and I'm trying to really do more to raise the profile of small business within the SEC, which has always been a priority, but we are making it a priority on a new level.

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MR. DEAN: And I used to joke that when you get involved with a securities capital raise you get to hear about all the other issues that are happening within the company, and so my joking response used to be that I was a business therapist because I took in all the issues. I just couldn't advise you on all of them.

But it was a lot of fun and got to really see how the entirety of the company life cycle and system really impacted and came down to that crucible moment of when and if you can bring in the right amount of capital from the right people.

So I was appointed by the Commissioners to lead this office in December and started in January, and our office, I will point you to more information online for those who are interested in it. We have plenty more online, including our business plan, which lays out exactly how we plan to approach this first year of operations for our office, including through the constitution of this Committee.

So one thing I'll note along those lines.

And so when we do take matters to a vote with the Committee, because of that somewhat conflict of interest there, I will not be taking votes on anything so as not to give away whether or not something is or is not under current rulemaking consideration and also not before it has come before a vote of the Commissioners.

So that is just to go ahead and get that procedural piece out there about my role.

I do also want to introduce two members of our staff who are here today who are absolutely integral. We have Julie Davis and Emerald Greywoode, Boston Mama, who are both fantastic and none of this would be happening today without them, and I look forward to each of our Committee members getting to know both of them.

And we do also have members on the phone.

Thank you, Julie, who also makes sure that nothing goes awry.

For those on the phone, perhaps, Jason, would you like to start with an introduction of yourself?

MR. SEATS: Sure. I'm Jason Seats. Yep, I am Chief Investment Officer at Techstars. Techstars is a worldwide network that helps entrepreneurs to succeed.

We do really early stage investing in start-ups all over the globe, but a significant amount of that in the U.S.

Eighteen hundred portfolio companies and lots...
as in many states, the small businesses are the entities that drive our economy and drive job creation. So capital formation for small businesses has always been the focus for our department and a focus of our work here in Vermont. So looking forward to working together with the new iteration of the Committee, and look forward to seeing everybody in person shortly.

MS. MILLER: Wonderful. Thank you.

I don't think we have anyone else on the line.

This is the point where I get to give the lovely SEC disclaimer that any of the views that are expressed here today, whether by staff or our Commissioners, don't necessarily represent the view of the Commission or the SEC taken as a whole.

And the flip is true that any views that are expressed by our Committee members, whether here today or out in public outside of this don't necessarily represent the views of this Committee, but we certainly welcome you to share your perspectives candidly so that we can engage in a really fruitful discussion.

So we are pleased to have with us today Director of the Division of Corporation Finance, Bill Hinman, and Jennifer Zepralka, who is the Director of the Office of Small Business Policy, which sits within Corp Fin, as we love to give an abbreviation to everything.

Here. I'm learning them all.

They are here today to talk to us a little bit about what is on the regulatory agenda, specifically around small business.

To give you a little bit of background on Bill, he joined the Commission staff in 2017 after a long and very productive career in private practice most recently with the Silicon Valley office of the law firm Simpson Thatcher & Bartlett.

And in private practice, he advised issuers and underwriters in capital raising transactions and corporate acquisitions in a wide range of industries, notably including technology, e-commerce, and the life sciences.

Jennifer Zepralka is back at the SEC for her third go-around or second, not third, second. Thank you.

Second go-round coming from private practice, and we are thrilled to have her here leading OSBP, which is the group that is responsible for much of the rulemaking that impacts small business capital formation, and she brings a wealth of experience from the private practice, as well as from her prior service here at the Commission.

So just to give a little bit more background on Corp Fin to level set, there's a broad array of responsibilities within the Division of Corporation Finance. It's the one that a lot of companies and lawyers know very well for reviewing and commenting on public company reports with initial public offerings.

But the Division is also responsible for making recommendations to the Commission about rules that govern public reporting company obligations and, importantly, as all of you are aware, if a company wants to offer or sell securities without doing a public offering, you have to have an exemption.

And the regulation of those private exemptions also falls within this group, including Regulation D, which is the most commonly known exemption that most of you are probably quite familiar with.

So this Committee will have many agenda items I am sure over the coming months and years that will be directly related to the work that Bill and Jennifer are doing, and so we are thrilled to have them here today in what is a very busy schedule that both of them have with the rulemaking agendas that they'll be discussing to share with us a little bit about what they're doing in the capital formation space and what you can expect to be coming out of the SEC very soon.

So I'll turn it over to you two.

MR. HINMAN: Thanks very much, Martha.

It's delightful to be here and to have Martha.
as our Advocate and have a Committee assembled again after a couple of years of looking for the right team, and we are all delighted that we have accomplished that.

Listening to all of the introductions and hearing where folks are from and thinking about this morning’s theme, I think we're doing very well to have a broad cross-section of the country represented here today and sort of demonstrating that there's a lot of expertise outside of the coasts and there's a lot of need for capital formation in that area that is served well by a number of the Committee members, and we hope to do our part in Corp Fin.

As Martha has said, we look over the private placement exemptions, which are very important for small businesses. We don't have anything to do really with the rules that govern finders, which I know would be a big topic. So we'll get that off the table right now.

(Laughter.)

MR. HINMAN: That's another group you can lobby on that one.

But anyway, we are delighted to have some interaction with this Committee.

This Committee's input to our rulemakings is very, very important, and I really encourage the members to sort of follow what we're doing, and we will be reaching out for input on the various initiatives that we have underway.

We will cover today a few of those, as well as I'll give you a little bit of a report on where we stand with Reg. A and regulation crowd funding. We're soon going to be reporting on both of those rulemakings and rules and how they have been used, and we'll give you a little preview of some of the numbers and some sense of how that's going.

And then we'll also talk about some proposed rulemakings that we have and concept releases. I've chosen to talk about the ones that I think this Committee would be very valuable to provide us some input with respect to.

The Chairman and I got here about two years ago, and in that period of time, I think we have been emphasizing the value of looking at funding outside the coasts. The Office of Small Business Policy that Jennifer heads had held a forum every couple of years. It will now be the responsibility of this Committee, and traditionally it has been held in New York or -- excuse me -- in Washington. We did one in New York.

And since the Chairman arrived, we’ve been holding those outside of D.C., and we have found that very valuable. The first one we did was in Austin, though.

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Texas. We got to know Youngro there, showed us around a little, and last year we did Columbus. And I think this year it's going to be at Omaha.

We've also done some conferences in the middle of the country. Chairman Clayton and I went out to Montana to do an entrepreneurship conference. We did a similar thing in Nashville.

And every time we leave D.C., we learn something new and valuable. So we will continue that practice.

So let me talk a little bit about the two exemptions that were put in place or expanded through the Jobs Act. First, crowd funding.

As I think all of you know, just to level set a little, an issuer can raise right now up to $1.07 million through a crowd funding in any given year. The investors are limited also in the amounts that they can put into a crowd funding raise, about 100,000 if you're sort of at the top of the income standards there.

And then every crowd funding, as I think you know, is mediated by a portal, and Youngro and others have been engaged in that kind of business.

We've been getting a lot of comments around ways to improve crowd funding, and again, this is one where we'll look to you for more thoughts. Right now we count about 1,300 offerings done under the crowd funding regulation.

Out of that 1,300, a little less than half, I guess about 520 or so have actually raised the targeted amounts, and I think a total of about 110 million has been raised. So relative to, say, Reg. D or even Reg. A, the amounts are modest, but the numbers are increasing.

And we hear a lot of interest when we go out and speak around the country. So this is something that we'll be keeping an eye on and be looking for your recommendations on things we might do there to improve, whether we should be raising limits for the amounts that can be raised or the amounts that investors can put in.

You know, we're interested in the Committee's thoughts on crowd funding.

Regulation A, thanks to the Jobs Act, was broken into a couple of pieces, Tier 1 and Tier 2. We're due to report on that this year, and again, we're going to be looking at the size of funds that can be raised under Tier 2 of Regulation A.
Right now that's limited to $50 million. We are considering whether it's appropriate to raise that.

As you know, Reg. A is a lighter touch in terms of regulatory compliance. Tier 2 of Reg. A requires audited financials, but the reporting is somewhat simpler.

The staff reviews the Reg. A filing, gives comments, qualifies them to go forward, and as I think you know, they can be offered to the public generally. They're not restricted securities.

The Tier 2 level has gotten a lot of activity, in part, we think because of the ability to do a Tier 2 offering without compliance with the various state securities rules. Those are preempted for Tier 2 offerings.

So we'll see a lot of folks doing Tier 2 offerings, but at amounts that could have been raised under Tier 1. So they're willing to go a little bit further in the disclosure and live with Tier 2 standards to afford themselves the preemption protections.

Since the start, we have seen 360 offerings done under Tier 2. About 277 of those have actually been qualified by the staff.

We have 132 of that 277 reporting actually raising proceeds. So there's a bit of a delay from the time folks get qualified to the time they actually report a deal getting done.

Total amount of the Tier 2 raise has been 1.4 billion. That's an average for a deal of about 10.6 million, and again, we are looking at the size limits there and other ways that that might be improved, and again, the Committee's input will be very valuable.

One of the things that you may be wondering is the Committee over the years, your predecessor Committees and this Committee will be making recommendations with respect to our various exemptions and what happens to those.

Right now I can tell you that Jennifer and her team are taking a look at a lot of the prior Committees' recommendations, and we're looking for thoughts from this Committee as well on how we can harmonize our private placement exemptions.

The first proposed rulemaking I'll talk about is we're thinking of doing a concept release on the harmonization of our various private placement exemptions. There's a whole network of exemptions. Some would call it a patchwork that has grown up over time, some by statute, some of the things we just discussed, Reg. D being one of the larger and most often used exemptions.

But in terms of how do they work together, you know, can we do things that would make them fit various life cycles of a company more appropriately?

Are the accredited investor definitions that we use in connection with many of those exemptions, are those appropriate?

Right now we see a very binary system in terms of accredited investors. Generally, if you're an accredited investor, you can invest unlimited amounts, and if you're not, you can't invest a penny.

We'd like to look at ways, you know, to examine whether that's the right approach. Some of the approaches in some of the other rulemaking like crowd funding do kind of scale the amount of the investment with the wealth of the individual, and are there scaling opportunities more broadly across the private placement exemption framework?

So we'll be looking to the Committee for that, and that will be a significant release, and again, the prior recommendations or prior Committees' and this Committee's recommendations really do get folded into our thinking there. When you read the concept release that we'll put out on harmonization, you'll see a lot of the thoughts that we've gathered from Committees such as this reflected in the background that we're providing in that release.

So the work you give us is valuable and finds its way into our rulemakings.

Another rulemaking that is in the shape of a concept release that is still outstanding are the changes to Rule 701. As many of you know, 701 is the rule that allows private companies to offer equity to their employees or consultants on an exempt basis.

We're looking at that to see whether the eligibility for participation in those exemptions can be broadened. Right now you need to have that either employee or consultant kind of relationship with the recipient of the award to use the exemption.

We're asking in light of the gig economy where people don't always have employment relationships with people that they want to incent, is there some value in redefining the universe of folks who could take equity from a company where they're involved and they have a business relationship, but just not necessarily a traditional employment relationship?

So we're looking for input on that, and that is out right now for comment, and again, any thoughts from the Committee or the Committee's members would be really helpful.

Another sort of broad-based release that we have out there is looking at quarterly reporting. We,
you know, are examining whether quarterly reporting in
general creates a more short-term type view of the world
for companies and the people that invest in them. We are
looking at whether smaller companies might have a better
pace of reporting available. If they had more
flexibility, would that be useful?

We're looking at the relationship between
earnings guidance and short-termism. We're looking at
the connections between the earnings release and when
that goes out and the 10-Q that follows a week or so
later generally, and is there a way to put those rules or
to revise the 10-Q rules so that the earnings information
can be incorporated or you can streamline some of the 10-
Q reporting to make it easier to join the public
reporting sphere?

And, again, we're looking at the pace, and
again, the Committee's thoughts on, in particular,
whether smaller companies find quarterly reporting
burdensome or whether there's a better cadence for them.
That would be useful to look at.

We recently changed the level at which
companies can qualify for the smaller reporting company
scale disclosures. We've upped the size limits there to
250 of market cap or 700 of market cap in less than 100
million of revenue.

As we did that, we did not change what we call
the 404(b) attestation requirements that companies face
at a certain size. It used to be if you were a smaller
reporting company, you did not have to do a 404(b),
outside auditor attestation of your controls over
financial reporting.

As we significantly increased the number of
companies qualifying for smaller reporting status, we
said let's take a harder look at whether companies that
qualify for smaller reporting status also should be given
relief on the attestation requirements because as we
moved the smaller reporting limits, we did not change
that exemption at the same time.

So now we are looking at that. In fact, we've
noticed for this Thursday's open meeting a proposal on
404(b) that would reexamine the limits and when do you
have to provide that outside attestation.

Right now the test depends on market cap at 75
million or more of market cap. We are thinking there may
be a more tailored way of looking at those limits and
whether you could also integrate the company's amount of
revenues or a different level of market cap and have
attestation only apply after a certain level of revenue
has been met. It might be a way to approach that rule.

So you'll see a proposal there and, again, this

Committee's input, your predecessor Committee had a lot
of thoughts on the attestation requirements. This
Committee's input will be very valuable.

We just proposed, and again input from the
Committee on comments would be useful; just proposed
changes to Rule 305 of Regulation SX, and Rule 305 of
Reg. X has broad applicability to all public companies,
but as we started to look at it, I was surprised to see
that smaller companies, even companies that are not
reporting companies, were focused on 305.

Three, oh, five is the rule that says when a
company acquires you, they generally have to provide,
depending on how significant you are, provide historical
financials of the acquiree. Many times the acquiree is a
private company that hasn't been preparing financials in
accordance with the U.S. GAAP that are easily dropped
into public reporting documents.

So a lot of private companies we understand
have been preparing their financials with an eye towards
305, even though in their daily business they don't need
to provide 305 styled financials. They do that because
it makes them an easier financing target.

You know, if you're going to exit not through
an IPO but through an M&A transaction, having financials
that are easily dropped into the reporting system is

valuable, and so people have been looking at 305 and
trying to sort of gauge their own reporting and their own
financial statement presentations based on 305.

Three, oh, five, we think, can be simplified,
has a number of technical issues with it in terms of how
you do measure significance under 305 and when historical
financials are required. So we're reexamining the
significance test and also the period of time that needs
to be covered with those financials.

It's expensive to go back and prepare
historical financials if you haven't just to get ready
for an M&A transaction, particularly for private
companies, and so we're asking for comment on whether the
periods could be shortened without really in any way
lessening investor protection.

We think some of the older years may be much
less relevant as investors look at an acquisition and try
to understand its impact. So we're looking at the number
of years that need to be covered.

We're also looking at some of the pro forma
requirements like come along with 305 requirements. So
when companies are combining the pro forma financial
statements that give effect to what they would have
looked like if they had combined earlier, have kind of
grown to be almost irrelevant to the users of pro formas
in that they are sort of a hypothetical accounting test.
And we're looking at those pro forma
requirements and perhaps by entertaining the idea that
management's synergies could be worked into those pro
forms to show people what may happen as a result of the
acquisition, that that might be a useful thing.

So, again, take a look at 305. There are a lot
of things there that even though it's generally something
that large companies worry about, I think smaller
companies because of their target sometimes in these
acquisitions, it's a way people get liquidity, have a
real interest in 305 working well.

Longer term we are looking at Regulation SK
generally. As you know, Regulation SK is sort of the
repository for all the various disclosure requirements
that get incorporated by reference into your periodic
reporting. We've been looking at these in chunks. We've
been trying to modernize those as well.

Some of the SK rules have sort of bright line
dollar standards that may be a little out of date. We
want to sort to reinvigorate SK with a principles-based
approach that focuses on materiality. We do think that
will give us an ability to streamline some of the
requirements there.

Also, if you look at SK, it's quite evident

that it was done at a time when property, plant and
equipment was usually the biggest set of assets that a
company had, and as we all know, about 85 percent of
companies' assets today are generally intangibles.

And so looking at things like intellectual
property through the lens of SK as well as human capital,
again, with a principle-based approach, will be, we
think, important, and we look forward for the Committee's
input on that.

Those are just some of the highlights. I, you
know, would welcome questions or thoughts on any of that
or other things that you'd like to raise.

MS. MILLER: Thank you, Bill.

MR. HINMAN: That was a lot in a little bit of
time.

MS. MILLER: Well, I think what's clear from
that overview is I think a lot of folks, and we've heard
this as we've gone out in meeting, have said, "Okay.
We've delivered some recommendations and we've told you
some things we want to hear you working on. Where is
it?"

Here it is, and it is underway, and the
Commission and Commission staff and particularly Bill and
team have really made it a priority to not just hear
recommendations, but to start acting on those.

I will highlight a couple of other initiatives
that are going on within the building that are not within
his division, but that are also germane and which we hear
about often when we are out and about.

The first one is on BDCs, and business
development companies in March, the Commission proposed
offering reforms for BDCs, and from meetings we know that
there are a lot of issues and opportunities around how
BBCs can work within the small business ecosystem.

And so we are encouraging investors and
businesses to take a look at those, at that proposal and
provide comments on that that is already out.

Another one that we are keenly aware of because
we've heard about it quite a lot since we've gotten the
office started is the finder's issue and the lack of
clarity on the role of finders and in the context of
whether or not they need to be registered as a broker-dealer when they are providing something less than the
full suite of services that you typically expect of a
broker-dealer.

And so I know that many around this table have
encouraged the Commission to take action there, and we
have been in discussions with staff about that as well,
and that topic has been added to the Commission's long-
term reg. flex agenda. So you will see that there.

There's also a small fund outreach initiative
that is underway that was just launched by Dalia Blass
and Brent Fields in the Division of Investment
Management, and they are looking at small funds' specific
issues.

And we are thrilled to see them looking at that
because small funds tend to invest and take smaller
positions, and you guessed it, smaller companies, and so
there's a direct correlation with what's happening in the
funds space and what then trickles down over into the
investment dollars that are flowing into businesses.

And on the last set, which is not really
rulemaking or regulatory agenda, we are working as an
office with a statutory mandate and a personal passion
looking at how any sorts of regulatory issues and
requirements may create unique challenges or hurdles for
women-owned businesses and minority-owned businesses and
businesses in areas of natural disaster.

And we have been working closely with our
Office of Women and Minority Inclusion to identify groups
who can help weigh in on the issues they face and so that
we can layer in those unique perspectives into the
various rulemaking agendas that are underway across the
Commission.

So that's a lot of us telling you what's going
they're doing, but there's a fine line that they have to walk between not then soliciting an offer for the sale of securities. And it's a fine line that is often a little bit difficult for entrepreneurs to navigate and to understand what do those look like within the securities framework. And so the HALOS Act is proposing to draw a bright line and make that clear.

MS. MILLER: Yes, and just to provide further clarity into the HALOS Act, that's looking at demo and pitch events, which are common. They are mainstays in the entrepreneurial community where a company gets up on stage and they talk about what they're creating and what they're building, and they talk about what they're creating and what the entrepreneurial community where a company gets up on pitch events, which are common. They are mainstays in the entrepreneurial community where a company gets up on pitch events, which are common. They are mainstays in the entrepreneurial community where a company gets up on stage and they talk about what they're creating and what

I think from what Bill has shared and what I have seen in the middle of the night and buying securities? Let's just expand it so we can do here that could clarify. Because what we're seeing sometimes is that demo days and pitch competitions are confused about how they can conduct themselves and not default to 506(c). So I know that, you know, we get the Angel Capital Association just testified to the Senate Finance Committee on passing the HALOS Act, which we hoped this would address it, but I don't know if there's anything we can do here that could clarify.

MS. MILLER: Yes, and just to provide further clarification into the HALOS Act, that's looking at demo and pitch events, which are common. They are mainstays in the entrepreneurial community where a company gets up on stage and they talk about what they're creating and what they're building.

MR. HINMAN: Right. So the proposal that's out there on the test the waters is basically just expanding it to non-AGCs, which is somewhat increment, right, because you can only go to QIBs, and it's just a group of people that are pretty sizable anyway, generally not the focus of this group.

But in the harmonization release that we are working on, we are asking the questions around, you know, is there a better approach if we regulate offers. We are looking at the general solicitation question, and you know, again, just sort of seeking input from the market right now through that harmonization release so that when we do do this, it is a little bit more comprehensive and it isn't something here done one way and something on another, exemption done another way.

When we say "harmonize," that's the kind of thing we are thinking of doing.

MS. ZEPRALKA: Not really. I mean, I think people have been following this space for a long time. You know, Linda Quinn was talking about deregulating offers back in the 90s or whenever that was. It's something that we spend a lot of time thinking about, and you need to find the balance with the investor protection.

MS. MILLER: And so one of the things I think you heard earlier from Kathy this morning is there's still market confusion around general solicitation, around 506(b) and (c). So I know that, you know, we get the Angel Capital Association just testified to the Senate Finance Committee on passing the HALOS Act, which we hoped this would address it, but I don't know if there's anything we can do here that could clarify.

Because what we're seeing sometimes is that demo days and pitch competitions are confused about how they can conduct themselves and not default to 506(c).

Still we see it across the country.

MS. MILLER: Yes, and just to provide further clarity into the HALOS Act, that's looking at demo and pitch events, which are common. They are mainstays in the entrepreneurial community where a company gets up on stage and they talk about what they're creating and what they're building.

MS. MILLER: And so the HALOS Act is proposing to draw a bright line and make that clear.

MS. HANKS: If I could actually build on what Catherine was saying, one of the things that I've noticed with the whole regulation of offers is we keep having this sort of incremental approach.

Okay. You can do testing the waters for Reg. A, but here's your legend. You can't do testing the waters for Regulation CF, and we heard this morning that's an issue.

I think all of this boils into one thing. We're regulating offer when we don't need to. Let's just regulate the sales and not the offers. And so is there any possibility on building on -- I know there's a proposal open at the moment -- on expanding testing the waters? Let's just expand it so we say if it's an offering and you're not actually taking money, not regulated yet.

MR. HINMAN: Right.
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<td>talked about really the small businesses that you saw in Austin, it's a very different reality, I think, than what gets portrayed in the media. So now that we're on this Committee, I'd love to learn maybe is there any specific topics that you or the SEC would rather appreciate sort of more technical or just more specific information on? Because, I mean, just kind of paraphrasing, I'm speaking for other portals that are involved in regulation crowd funding and Reg A, let's say, as well as major entrepreneurs that we deal with outside of the coasts. I'm based in Houston, Texas, and the common feedback that I get and I felt myself is when we at SEC or anybody in this kind of position talk regulation, we assume that it's some sort of rule that everybody in the world knows, and that's just not true, right? Entrepreneurs don't think of it as, oh, I can get money from this accredited investor or this private equity shop or this, you know, Mom or whatever. Like it's money. They need money. From an investor's side, they don't look at it like it's a Reg. D offer and this is a Reg A offer and this is a Reg C offer or anything. This is a real estate offer, and so I'm not sure of the rules.</td>
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<td>raise capital, and how can the private placement exemptions fit well into that world? And in looking at, again, the level of company, the size of the company, and the kind of disclosure you would expect it to provide will be one really important piece of that in scaling that, as well as potentially scaling the ability of folks who may not be classic accredited investors, but want to invest a small amount and diversify their portfolio, their ability to get involved in that space, too. So that's what we're looking at. We're going to ask a lot of, you know, good questions, I think, in that release, and again, this Committee's input will be really useful. But I think that's going to be our vehicle for a while.</td>
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<td>MS. MILLER: Jeff. MR. SOLOMON: Yes, so two questions. You mentioned small fund creation initiatives. I'd like to understand a little bit more about what's going on there because I think one of the things we've talked about is, you know, the challenge for a lot of companies is being able to access. We heard this morning that three to $20 million Series A, but even small public companies have a very</td>
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<td>difficult time accessing the right size funds. It was just one of the reasons why I think we don't see small IPOs anymore. The funds that are buying public securities are so big that, you know, taking a company public with a 75 or a $100 million in float doesn't move the needle for most of those funds. I'd like to hear that, and then second, I'm just curious, and this is the upper edge of the range on small companies, but certainly we're beginning to see MiFID II impact. Small company research, we see it all over the place, and I think that that's actually moving in the opposite direction. So to the extent that we're funding smaller companies that may someday want to avail themselves of the public markets, certainly MiFID II, which is sort of creeping into the regulatory or sort of the compliance framework of U.S. publicly managed funds is now beginning to really put a crimp on small company research. I'm curious to know if SEC is planning to give any guidance around that or any guidance around investment advisor status.</td>
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<td>MS. MILLER: So that's a really fun one where I have to punt because I can't speak for what I am doing. I will give you more clarity on what they're doing with</td>
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<td>So the reality is that people who need money to start businesses are looking for money wherever they can get it. People who are looking to invest are looking for investments wherever they can find it, and sometimes the rulemakings are so specific to this almost academic perspective of what is securities and what is not, it really confuses everybody. So at least my purpose and I think, again, speaking for the entrepreneurs who don't have any access to any of us at this table on a typical basis, if there's some clarity on literally what is the role of capital formation instead of trying to pinpoint the exact specific scenario in which this works, maybe a guidance of or spirit of this is the way the world is evolving and this obviously you can help. I think personally that would give a lot of confidence to the Main Street entrepreneurs and businesses on sort of SEC leadership on this topic.</td>
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<td>MR. HINMAN: We hear you. That, again, is really why the harmonization release is in the works, and that would be one of the things that we'd be thinking about there, is instead of having, again, this somewhat patchwork approach, something that steps back and says, okay, at different cycles of a company's existence, what are the things they are doing in terms of trying to</td>
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their small fund outreach initiative, which is very nascent. So it's just launched this year, and right now my understanding is that they are very much so in the active. Tell us what the issues are. Talk to us about the specific pain points before we come out and own some proposed solutions.

And so we are encouraging people to get involved with that. I had an opportunity to jointly attend an event with them last week and to try to start getting feedback about what the issues are that are faced by smaller funds.

I think if you look, this morning, I think, everyone when you log into the computer in the morning, you have 20, if not 50, different newsletters or updates that you get, and I woke up extra early so that I could read through those just in case there was anything particularly applicable for today, and lo and behold, PitchBook and the National Venture Capital Association released their first quarter deal results. And I mentioned this morning the statistic on 13 percent of capital by deal flow went into the middle of the country if you were to carve out the West Coast and the Northeast.

But beyond that, they also pointed out what's happening with venture capital deal flow and more institutional investors pushing further into the maturity cycle of companies. The data is showing that year over year there's a larger gap in earlier stage financings where your institutional capital is moving out of it. And we're looking for angels and smaller funds to step into that space, and they're just not there in the numbers that are needed, and that's just reporting the data as it's come out raw right now.

I think that one of the things that's really interesting from the SEC perspective is where is the marketplace doing things independently of regulation and where is that driven by regulation.

And that's something that I don't have the answer to yet, but we are hearing a lot of anecdotal evidence from folks, and we're very interested in learning more on that from our office because we very much so see small businesses and the small business investors as intertwined.

And if one of them is moving in one direction, it's going to have an impact on businesses and how they access capital, especially if you create this void where you can't move. If the "Valley of Death," so to speak, if it becomes increasingly wide, fewer companies are going to come out the other end. Fewer are going to IPO, and they're going to make it to full maturity.

And that's my thought on it.

CHAIRMAN CLAYTON: Actually maybe I can use that to segue into a few general remarks, and then I'll address your specific question, Jeff.

First, to all of the members of the Committee, thank you very much for your willingness to do this. As Martha said and I'm sure Commissioners Peirce and Roisman said, it is extremely important. You have identified a number of the issues today that I'll come back to.

I also want to say to Martha, Julie, Emerald, Bill and Jennifer, thank you for getting this Committee up and running so quickly and hitting the ground running.

Now, to the turn of the business of the Committee, I think we all recognize that a $100,000 company is different from a million dollar company, is different from a $10 million company, is different from a $100 million company.

And then let's get into the public markets. A $100 million company is different from a billion dollar company, is different from some of the much larger caps we see.

Our rules and the way we approach the regulation of capital raising, they need to reflect that. They also need to reflect that in a way that, to Mr. Lee's point, doesn't make it so complex that nobody can access them.

We could write pages and pages of rules that would be tiered along the way, but then you'd just employ more and more lawyers and intermediaries, and as we heard this morning from the panel, intermediaries are costly.

To the extent we can cut out intermediaries and allow capital to flow where it needs to flow, particularly in the early stages of companies, while giving and maintaining appropriate investor protection, those are the ideas we're looking for.

And your kind of boots on the ground feel for where the real issues are, I think that's what we're aiming to receive from this Committee and aiming to respond to.

So I thank you for being willing to do this. I really like the way the agenda for this Committee matches up with the agenda that Director Hinman has set for our Division of Corporation Finance, and I look forward to actionable suggestions.

So thank you.

MS. MILLER: Wonderful. And I think, Chairman Clayton, that's a good segue into talking about, you know, each of you that are here today bring a wealth of experience, and I do encourage our members of the public...
and everyone to really take a look, and we put the bios on our Website, soon about just the breadth of experience and knowledge that this Committee brings. But based on that, each of you have come in and have seen the pain points. You know, it's funny. When you've done enough outreach events, I've figured out what question elicits the best feedback, and it's not when you ask just more broad, what would you change necessarily or, you know, what's your least favorite part of the securities laws, because you don't know what you're going to get on that one.

But when you ask the question of where's the gray area, where is the gray area, whether you're talking to a lawyer, where you don't know what to tell your client is the way they should approach the rule?

Where's the gray area as the issuer where you don't know if, you know, you hit this point where it's clear you can do something over in one lane; it's clear you can do something in another, but that innovative opportunity lies in the gray area in between, whether that is through, you know, creation of new vehicles or offering, you know, development?

And so we'd be curious to hear from this group. Where do you see gray areas? Where do you see areas where we need further clarity in the securities framework that we as the Commission can take that feedback and try to start acting on that?

So I'll turn that over, and I think this is right time for discussion of the different types of issues that you think that we could take on as a Committee, that we can use to then set our agenda for specific topics that we will dive into.

We won't each time have more of open discussion with the Committee, but instead we will try to take on different topics. We would love to know some specific topics that you think would be really fruitful for us to delve into.

MR. YADLEY: Tying together a number of points that have already been made and responsive to the Chairman's comment, companies are out there, entrepreneurs who love what they do. That's what they talk about. They live and breathe their idea, their technology, their product, their service, and they talk to everybody about it.

So as Youngro was saying, okay, that's general solicitation. We know that. Don't care; they don't know, first, and by the time they get a lawyer, it's too late.

So this intersection of what's an offer and who can they talk to. So finders, obviously something that I care a lot about, and mindful of the enforcement issues involved, and happy to have FINRA here because that's also an issue that affects them.

But really allowing entrepreneurs to be able to tell their story without worrying about whether they've already violated the law.

And I know it touches a lot of points, but I think there's enough discussion that's been out there, and at Small Business Forum and the prior Advisory Committee, and actually the prior-prior Advisory Committee back in '06, we've talked about these things.

So I think the composition of this Committee reflects a lot of people who are out there dealing with those problems, and several companies that have survived that and gone public and maybe are happy they've grown through that.

So we're happy that you're listening, and I think we will be able to put together some good responses to the concept release and be very constructive in helping you do the right thing.

MR. McNEW: To further what Greg and Youngro had said, you know, we heard this morning there's that gap in funding for companies between three and 20 million, and I can tell you as a public company CEO, I probably spend 20 to 30 percent of my time with investors, non-deal road shows, conferences, Qs, Ks. It's very expensive. It's prohibitive, and I think we're choking the pipeline of new companies, new innovation. They can start, and honestly, I agree with 100 percent, Greg and Youngro and others that have said it. It's expensive, but it's complicated. Entrepreneurs generally have a great idea. They're not, and none of us are in our businesses; we hire a broad spectrum of subject matter experts to help us, but it's very expensive.

So I think simplifying -- I think you hit it on the head, Youngro -- is simplifying this. A $100,000 business, really it's nothing. I mean, when we became a public company, we were probably 200 million in revenue. Today we're closer to, you know -- well, I've got my earnings release next week. So I'm in a quiet period.

(Laughter.)

MR. McNEW: But it's more than that. Okay?

So when we were a young public company, I continuously heard from portfolio managers that we didn't have enough float. What we're talking about here, you know, anything under 20 million is not much. Don't over complicated it.

The beauty of this country is simplification, and it's speed, and speed's a function of trust, and
that's how we can outflank and raise great ideas.

Investors in our business, and I think I speak for every public CEO here today, a long investor is two years. So we're always having to wrangle with ISS and others, and again, these are my own comments, but it's complicated, but when you think of somebody, long, two years? I mean, that's not long, but it is in their world.

So I think to help these younger companies, newer companies, just really I think we ought to come up with some real practical, simple ideas to root out unnecessary regulation.

There's balance between investor risk, and there's risk of these companies. They're taking their time, but don't expect a young company, a CEO to be an expert on all of these fields.

And I think it may have been you in our closed session, Jeff, talking about just the cost increase from being a private company to being a public company. It goes from thousands of dollars to millions of dollars, and then you've got, you know, audit committees and so forth.

So, again, I'll just summarize it. I think Youngro is right on and Jeff's alluding to it. Greg's alluding to it. Simplify this. Nobody knows all these rules. It has taken many of us years to understand this, with counsel, to be somewhat converse in this.

So that gap from three to 20 million will kill a lot of great businesses if we don't simplify and allow them to get through that pain, and you're still really small, honestly, if you're under 100 million.

So anyway, that's my thought, Bill, and I don't think we have to deliberate for, you know, years on this. I think if we can approach it from that manner, we heard a lot of great panelists this morning, which some are here, to just make their lives a little simpler and balance the risk with an investor.

An investor would like almost no risk and great return. Well, so would I. So would any of us. There's a balance in there, but we're not talking particularly large dollars, not in the scheme of our $22 trillion economy.

Anyway, thank you.

MR. FOX: I agree with everything that's been said, but I think we can't lose sight of what Jennifer said earlier, too. There's a big investor protection piece of this, too.

I know I hear a lot of people say that, hey, $20 million is small in our economy, but it can be very big to the people actually investing in that deal, and you know, my guess is that a lot of the things that are in the current regulations are there because something happened in the past, right?

And so, you know, to me I do think we have to be mature; we're balanced in the approach because I totally agree with you. I hear all the things that Bill laid out, and I can understand where that all is coming from, but several of them will come with some sort of cost, right?

You know, if we raise the limit for 404(b), there is a cost in the accuracy of financial reporting. You know, if we reduce the amount of information investors get, there's a cost to that.

Now, I'm not saying that that means you can't do it, but I do think that as a Committee we need to make sure we weigh both sides of the argument, and that cost can be factored in through a return.

Investors say, "I'll take the risk if you'll give me a higher return." Let the market fuel caveat emptor. Let the market help balance this.

We're not saying -- I agree with you. We're all investors. I'm the seventh largest shareholder of our stock in the world, and so I share your concerns, but I think there's some balance between three and 20. Maybe it doesn't protect perfectly all the way to 20, but there's got to be something because otherwise I'm really concerned we're going to choke off the new Commission.

CHAIRMAN CLAYTON: Yes, let me jump in there with my own views on some of this.

Clearly, I hope there's nobody who disagrees with this. The compliance structure you would have for a multinational one billion dollar company should be substantially different from the compliance structure you have for a one million dollar regional company that's in a growth phase.

And we should be recognizing that, and that compliance structure goes from financial reporting throughout because you can't have that kind of barrier to entry for being a compliant company. It's crazy.

I'll pause there. Does anybody disagree with that?

On the investor side, we have a model now.

Look. Our model has worked incredibly well. I've had the luxury of traveling the world to do deals and do private deals and public deals. It's the best model in the world by far.

But it's odd to have a qualification system where unless you're an accredited investor, you effectively can't invest. Okay? Maybe that's, you know, your right level of paternalism. We can debate that, but
Once you're an accredited investor, you can lose everything in one deal. That doesn't make sense to me. Now, you know, that's a pretty bold statement, but I think that's effectively where we are. If you're not an accredited investor, there are ways to invest, but it's so expensive that no one wants your money. And then once you are an accredited investor if you just qualify, you can invest to your heart's content in one deal. I'm not sure that all makes a lot of sense. So maybe we can do something about both of those things.

MR. SOLOMON: So on that front, just to extend it a little bit because, you know, it's interesting to me that crowd funding is something that I think we'd all like to see more of because it democratizes. It gives access to exciting companies to those who might not otherwise have it.

But when you look at it, those people's ability, the same people's ability to invest even in public companies, you know, the deck is stacked against the smaller retailer investor in many ways. And so one of the things we talk about is what's missing for a lot of smaller public companies, microcap companies, is that they were used to be dominated by individual investors, and a bunch of people had a really bad experience in the late '90s, and everybody remembers that, you know, what's happening in that block is happening. I would say you know, microcap companies are not crowd investors, they didn't know that crowdfunds exist until 100 million that probably went to cities and businesses are from literally the Houston metro area. And that's our theme of invest local everywhere, is the idea that when we talk about investor protection, and that term gets thrown around, there are some assumptions that are being made, I think, that are just not true in today's world. So, for example, like the chairman said, if you're rich you can lose money. If you're not rich, you shouldn't be investing anything. Especially for those of you with children, let's say, in college and early 20s, I don't think they would invest in the same things you would invest, right? And would you say that they are stupider than you or no less than you? Maybe in some cases, but probably not in other cases, right?

So I think that the idea of, for example, how do we protect investors, in my opinion it should be fundamentally reshaped. Like so anecdotal evidence, we're based in Houston, Texas. We've done about $7 million of crowd funding campaigns in Houston. About 70 percent of the capital invested in that, in Houston businesses are from literally the Houston metro area. Right? If you're from New York, why would you ever invest in a Houston business? You just don't care, and that's our theme of invest local everywhere, is the idea that when we talk about it, for example, when Bill said 100 and $1 million in regulation crowd fund, yes, that's nothing in the world of capital markets. That's $100 million that probably went to cities and businesses that would never ever otherwise have that capital.

And the flip side, are we saying as an industry if those are not crowd investors, they didn't know better? That's just not true, right? Like somebody in Houston knows exactly that block is happening. I would have to have a bar in that location or with an alternate location.
The second point is technology, which is another, as he says, tons of communities about that, but the way we perceive trust is very different, right? For myself, I don’t walk into a fancy building and say, “Oh, this is a fancy building and really expensive paper. I’m going to trust that person.” No. I value a technology based on the interface, the streamline, and that’s how every single millennial thinks about it.

So when we try to incorporate this technology into online capital formation, which is basically regulation crowd fund in Reg. D, 506(c), give that some credit, right?

I mean, I think all of us, even though it’s not in the SEC laws, you can look at two Websites and know one is a trustworthy company and one is probably not, and I think those elements, kind of to summarize, the incentive isn’t aligned or at least as the regulations are put, the incentives that the law is providing for participants isn’t aligned to the reality of who’s participating specifically in those transactions. And maybe that’s generational at least to some degree. Maybe it’s just people are changing where some countries become more diverse, but I do think that fundamentally the assumptions that we are thinking of when we say investor protection aren’t necessarily reflective of the reality that I think we’re living in today.

MR. SEATS: I have a comment from the phone. Sorry to break in. It’s hard to raise your hand from this point.

This is Jason Seats from Techstars.

So I think it’s a really interesting topic, and I appreciate a bunch of the perspectives, and one thing I’ll react to quickly, I think, Martha, it was you that brought up sort of the question of whether or not some of the capital movement that’s happening in the private side, if those are market forces or if those are related to regulatory, and I think a lot of it actually is market. It’s interesting, some of the dynamics and the way that the venture capital world works.

But then sort of the bridge to talking about investor protections, I think, is really an interesting one, and I wonder, and maybe this could be something to clarify a little bit, is the focus of this group. How much of it is based on or faced towards the small business need versus faced towards thinking about what the investors’ experience is or access is in the capital markets.

I mean, one of the things that was exciting to me about sort of being a part of this is that I do feel that the retail investor is losing out on the opportunity to invest in growth because it’s staying private now. And I wonder how much that falls on the agenda for us to think about, and to the extent that it does, I think there is a lot of work to do there.

And then just one point I’d raise on the investor protection side. I guess maybe I’ll make this quick point, which is I wonder how much we’re helping protect investors if the way we’re protecting them is preventing them from investing in growth.

So I wonder if this paternalism is potentially backfiring in some cases.

And then one other related item is, you know, being a fund manager, raising investment funds to put money to work, we don’t talk to retail investors to put money into funds, and so when you’re thinking about these protections, it’s easy to picture someone investing directly into a start-up by themselves, but I think probably the safest way to do it is for them to put money in the hands of a professional who’s aggregating that money.

And right now the limitations around how that money can be aggregated makes that not a feasible path for most funds.

CHAIRMAN CLAYTON: Let me just chime in. It’s Jay, and I have to go to another meeting. But I want to say that retail access, whether direct or indirect, through a professional intermediary is something that I know is important to me. I’ve talked to Commissioner Peirce and Commissioner Roisman about this as well.

It’s important to all of us that our retail investors have an opportunity to participate in the growth stages of companies, and since the growth stages of companies are largely happening outside of our public capital markets, we need to find a way to facilitate that. Otherwise the wealthy continue to get wealthier, while the retail investors have fewer opportunities.

In terms of protecting those people in these types of businesses, it’s been a theme, but I want to make sure that I state it because I believe it very clearly. They get a lot of protection when the interest of the retail investor is aligned with management and aligned with the institutional investor, when they’re in the same share class, when the fees are mostly the same, when the incentives are mostly the same.

Where I worry is when the retail investor can get primed, to use the pejorative term, or otherwise
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<td>disadvantaged by the people who have more information or more capital. So as we look for creative solutions or new ways to approach this, let's think about alignment of incentives of management, institutional capital, and retail capital, and how we can align those incentives in a way that doesn't create a whole lot of drag for the retail investment. Thank you.</td>
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<td>Thank you.</td>
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<td>MS. MILLER: Thank you.</td>
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<td>MS. HANKS: Just to go back to your original question on the gray areas, I'd like to say 12(g) is probably one of the grayest. The point at which a company has acquired certain assets, certain number of shareholders, holders of record, and the pretzels that those of us who are advising companies in the early stages have to twist ourselves into to say can we use a custodian, for example, which the answer is yes, but only if the only reason to use the custodian was not to avoid 12(g). Some kind of clarity in this area would be great. I mean, my own objective would be a company should not be forced into '34 Act registration until it's ready, but you've got a whole range of people interpreting those rules in very different ways at the moment, and some clarity would be great.</td>
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<td>MS. MILLER: Anyone else have any further topics or areas they wanted to delve into?</td>
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<td>MR. TORBERT: Martha, if I may.</td>
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<td>MS. MILLER: Yes. Thank you, Hank.</td>
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<td>MR. TORBERT: There are two things that are important to a lot of the folks from the Gulf area, one of which is, which I think we've alluded to as well, making sure that we increase our local investing in certain markets and ecosystems and doing whatever we can structurally to encourage that, whether it's folks who are outside of that region or within. So the whole idea that Mr. Lee brought up about the Austin market, if there's a way to create the same sort of interest in investment in certain markets, we should try to do that. Secondly, I'd also like to have some focus on better managing intermediaries. I know exactly why they put the investment advisory documentation, rules and regs. there, but you still have a lot of nefarious people out there who go to small businesses and promise the world, that I'll do this or I know that or I play golf with such-and-such, and so on, who do incredible damage to small businesses because these companies are relying on these people to raise capital, save their business, restructure the business, whatever it is. But better management and regulation are, quite frankly, punishment, severe punishment for people who mislead companies. That's it.</td>
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<td>MS. MILLER: Very helpful.</td>
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<td>Just to ask a follow-up question, in terms of the importance of encouraging local investments, that is one thing. I mean, the statistics bear it out that people, you know, operate on a local level both psychologically as well as investing, and they feel affinity to local businesses. It's easier to be involved with them, to sit on the boards, and we heard about that this morning. But when you have a board member or an investor who would need to fly out, that may change their calculation. What do you think that we need to do from a regulatory perspective to increase opportunities for greater investments, recognizing that most of that investment capital is deployed locally?</td>
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<td>MR. TORBERT: If I may, there are two ideas, one of which is actually -- so quick disclosure. The owner of our company is 87 years old. He's like a second father to me, and we spend many hours discussing the</td>
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<td>moment, and some clarity would be great.</td>
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<td>issues he's seen over time as he's gotten to where he is now, one of which he always talks about is, in fact, artificially incentivizing people to invest in these markets.</td>
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<td>I don't care whether it's tax incentives, I don't care, whatever works, but also talking to our colleagues with regards to banking so that banks, too, see real value in investing in these businesses.</td>
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<td>Back in the day, you could put your suit on and you go to your local little bank, and you talk to the guy and say, &quot;Hey, this is what I expect for the crops this year. This is what we're doing,&quot; and those people actually understood their local market. Their job was partially to help grow that market economically. That has been lost with large banks. They're looking for customers and deposits. They're not looking to be value added stakeholders as many of us are sitting at this table.</td>
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<td>And so if there's a way to incentivize banks as well, more than just incentivize, strategically encourage them to support these local businesses and other functions that we can use the government, too, to support, I think you can encourage people within certain markets to put more money to play.</td>
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<td>MR. LEE: I think just on that though, I agree</td>
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with you 100 percent. I know SEC isn't the regulator for banks, but it's directly related, especially for us. We work with a lot of small businesses like restaurants, bars, gyms, not tech businesses, not any businesses that VCs would invest in, and that's I would say whatever, 95 percent-plus of all small businesses in U.S., right? And the reality is they need that. They need bank capital because it's their family business. They're not trying to grow it to something. They want income to send their kids to college.

If the banking gap is there and the big banks are bigger -- the irony of the Great Recession, they're bigger than ever -- that's why businesses come to us, is I can't get a bank loan, right? And I've got merchant cash events calling me a million different ways. I've got alternative lenders giving me, you know, income or whatever, loans that are 100 percent interest rate or all of the above.

So I don't think we need to create like a completely new solution, but for example, regulation crowd funding, we've been using it as a debt crafting product, and other platforms are starting to do so as well. But for example, the regulation crowd funding, the underpinning was the assumption that it would be used for equity raises for mostly tech companies, I assume. So things like that I think are sort of easy wins, potentially to say this capital potentially when structured under the regulations are clearly, you know, correct. I think a lot of local platforms and local businesses, local investors would love to do that because on the flip side of non-crowd investors, I don't maybe feel comfortable investing in a crazy idea that might be successful, but you know, it's a long shot versus here's a cash flowing gym, and I'm going to get 12 percent interest on my money. That's a very attractive investment opportunity for a local investor, local community member who wants to support their community as well.

MR. GRAHAM: I wonder how the facts would bear this out, but it seems to me that, you know, one of the issues with respect to getting more people to invest locally kind of goes back to our paternalistic approach to who can and who cannot invest. I think oftentimes you have in these smaller communities people that are doing just fine for purposes of that community. Maybe they couldn't afford a house in the middle of San Francisco, but that really shouldn't be the focus. That really shouldn't be kind of the defining factor.

And related to that is what we've already talked about in terms of the definition of accredited investor. That plays into this as well.

MR. YADLEY: Just picking up on accredited investor, that's something that there's lots of information out there, and I know that will be part of a concept release, but that's a way that I think you can structurally maybe, in addition to the financial tests that are there now, and it was mentioned this morning, you know, people who can understand what they're investing in.

And I shared at lunch when we were just chatting working on a deal now where all the investors are doctors, and it's expansion of a medical practice group, and it's risky except that these doctors understand that risk because it's what they do, and yet they have some junior people in their practices who are not yet accredited, and so they're not going to be able to invest.

MS. MILLER: Catherine.

MS. MOTT: So I think the HALOS Act, if I can go -- or not the HALOS Act. It's another bill that I can't remember now. It recently was presented to the Senate Finance Committee, and testimony was about how to expand that definition, how to expand sophistication or even have some kind of a qualification for accredited investor.

The other thing I wanted to offer here, there's two things I was thinking about as I was listening to everybody. One is, you know, I've heard incentives for bringing more investors into the marketplace, you know, and it's not something that SEC can do, but it's something that state governments can do.

And while we're out there talking about, you know, the Small Business Advocacy Office, you can obviously offer that there is good data that shows that more angels come out of the woodwork when there is a tax credit.

Ohio is a good -- there's 22 states that have a tax credit. Ohio has great data around what they had, the kind of angels that existed prior or the number of angels that existed prior and after the tax credit, and the number of jobs they created, and the number of companies they invested in.

Now, it restricted them to Ohio, which meant for us, me in Pittsburgh, I could coinvest in their companies, but they couldn't syndicate and coinvest in my companies in Pennsylvania, although we were like, you
know, 15 miles from each other.

So that's one. That's one. Second is I heard, I think Terry mentioned it and someone else, about everyone heard about that gap, that three to $20 million gap for those. The tech companies that are out there, they need to scale, but they can't find specifically, you know, that. The number of funds that exist in that that are like 100 million or less to get that to 3 or 20 million are far and few between.

And I think that's a market factor, you know. There aren't incentives or rewards for institutional capital to invest in those funds, and so I'm not sure that this Committee can do anything about that, except for one thing, is we used to have liquidity and, you know, be able to take companies public in a smaller market. There used to be a smaller marketplace where companies could go public.

But that doesn't exist now. If you aren't a company that has a valuation that's in the billion dollars, you cannot go public and expect to make a significant amount of money and get the return on investment that you have promised your investors that you're managing the money for.

So those are two things I thought about.

MS. MILLER: And I think that as you bring up, we've heard a couple of different points. You bring up tax credits, which, you know, certainly falls outside of what we're doing, but I think it goes to the broader point and actually harkens back to what Youngro started with. When you talk to a company, they're not coming in thinking about, well, I'm really excited about this specific regulatory exemption under which I'm going to raise money.

They're raising money, and in the same way, when we go out and we meet with businesses, they don't see us as just the SEC. In some ways we are SEC, we're White House, we're Treasury, we're SBA. We're just like tell me what you can do to help small business.

And so one of the things that our office is prioritizing this year is collaborating across the federal government with those who are working on small business and making sure that we are working together because the issues don't exist in a vacuum.

When you tweak something with one agency, it has ripple effects over into what policy, you know, impacts you're seeing in another. And so I appreciate you bring that up. That is something that while it does fall outside of what we can do as a Committee, it is important to be aware of the impact of market forces of other regulators, both state and federal.
to talk about ROI, but when do you actually get to see that dollar amount?

That's a critical question, and I would welcome any thoughts that those in the room have right now in our Committee, suggestions or topics that we could take up in that space more specifically.

More to come. How about that? Jeff.

MR. SOLOMON: Well, there's been a lot of work, just to answer your question. There's been a lot of work around venture exchanges, and I mean, just on a personal level, a personal observation is that so much work went into venture exchanges and the idea of creating venture exchanges, particularly around Reg. A two or three years ago, and there was all of this legislative furor, you know, positive legislative furor actually, in trying to create this small company exchange area.

A lot of money was spent. A lot of venture capitalists looked at it. It went absolutely nowhere because sadly, most companies don't want to sit at the kids table.

And so I'm not sure. You know, I've burned a fair amount of calories trying to figure out if there's a way to create something that's attractive, you know, like used to be the NASDAQ small cap or the NOI market or AIM, and unfortunately a lot of investors just look at that in the public market, and they say, you know, they had bad outcomes across the board because it's adverse selection.

And so there's some structural impediments to that. I mean, we can certainly look at it, but you know, I think a lot of you have looked at that, and we haven't gotten there.

The other thing I would say is that I think, you know, it's going to be the -- the charge of this Committee to look at everything that has yet to be done, and I think that's an important part. But we should recognize the things that have been done that worked and see if we can extend on it.

So I want to sort of pick up on that theme. I will just say, you know, the number of companies that have used the EGC exemption since the Jobs Act is really actually tremendous when you think about it. You know, I'll just say we look a lot at biotech companies, and there's a reason I think why biotech actually works.

Most biotech companies go public, and they raise between 75 and $125 million, and they sell about 15 or 20 percent of the company. And the reason it works is because, you know, that ecosystem is relatively small. The investors, everybody knows everybody.

And when they work, you probably get, you know, multiples of return on your investment as opposed to 20 or 30 percent returns on your investment. So there's a reason why it works for small companies.

But to be clear, there are about 4,100 or so, 4,200 public companies in the United States today, which is about half of what there was in 1998. But 300 of those or 400 of those companies are health care companies that have come public in the last six years. And 300 of those 400 are biotech companies.

And so it's been, for that particular sector, it's been remarkable what's actually happened in terms of opening up access, and a lot of individual investors participate in that. They do. A lot of them participate in the public offerings at reasonable valuations because there's almost always a carveout. Somewhere between ten and 20 percent of almost every public offering goes to retail somewhere.

And so there is that. That element of it is working in that sector. Now, there's a lot of reasons why it might not work in other sectors, but the fact of the matter is if we find the right mix, there's no question that it can work.

And I think, you know, a lot of us have been trying to figure out how do we get that to work in other sectors. How do we get that to work for other things?

And I will just say it could work. At the end of the day if a lot of the private people who fund companies privately and carry them all the way through were less selfish, but you know I don't know that that's the purview of this Committee.

They could take their companies earlier if they wanted to. They've chosen not to, and then we can certainly address that, but I think it would be remiss if we didn't look at at least one model that since the Jobs Act and since the good work that's actually happened in terms of clarification around rulemaking here at the SEC, it's worked, and that's something if we can pick up on that theme would be really helpful.

COMMISSIONER ROISMAN: So, again, thank you. This has been a great discussion just because I think you've laid out a lot of the issues that are important to you and that you've been in your expertise in your practice.

I think one of the best things about this Committee is you guys just have such a diverse set of experiences and also touch different places with I'd say the emerging growth company or, you know, emerging privately held small business, I think is the text of the statute -- life cycle.

And so some of you guys have seen things that have worked for, you know, companies that are really,
really nascent to the point where some of you have seen, you know -- you know, public markets, and frankly, we have COs here from that. It would be real interesting to see if you think back about through the different stages or for your particular expertise what you think has worked really well and what you've seen that's given you pause. Because it's just as important I'd say to say identify things that you think could be bolstered, as Jeff was saying, but also things that have, you know, raised concerns for you. And someone asked earlier about, you know, how does investor protection fit in all of this. It fits everywhere. Everything we do, you know, has to have investor protection, but we're also tasked with facilitating capital formation. So to me one of the things that you guys can provide is saying, look, there's been a concern about access potential for investor protection, but really, you know, it can be addressed or mitigated through these following steps. And if we get that feedback, we can hopefully calibrate accordingly, or you can say I've seen, you know, to Hank's point, there's certain people who are intermediaries that are really bad for companies, and they're providing bad advice. How do we kind of ensure that people are aware of that? And ultimately, you know, they're prevented, hopefully, from engaging with these. But because you guys touch upon so many different places, it would be really interesting to me to see kind of in the evolution what you think would be the most helpful. Because, as I said, you come from different places and different perspectives. To your point about, you know, secondary market liquidity, I do think there was, you know, a lot of interest in venture exchanges. I'm not sure that's the answer or not, but I do think it's important for us to kind of tackle secondary market trading because I think it's not just enough to get capital raised. You need to have some kind of exit through some kind of liquidity event. And if we make it less costly for investors to do so, or if we enable companies to have a better way of reaching a liquidity moment, I think that will increase the ability for companies to grow, which is ultimately what everyone wants. So I encourage you to kind of take that framework, and I think Bill also said, you know, we're trying to kind of reengage our system based upon where you are in the life cycle of a company, and I think it would be really helpful to kind of get the perspective of what's best for each stage of that cycle. But, again, I think, you have great ideas. I could already tell that you guys are working off each other's, you know, discussions, and I think I look really forward to hearing more about what you think could actually be really helpful to these markets and to these companies.

MR. LEE: I apologize for speaking so much, but because you asked the secondary trading and we're again representative platform. So regulation platform, there's no second exchange, and I think this I kind of, again, the reality, which is if you're raising capital less than a million dollars, I mean, and generally no matter what, you're an early mover if you're investing in regulation crowd funding deals.

So I don't think anybody's looking at it as a stock market, for example, where I'm going to invest in this company today and, oh, my God, I wish I have, you know, ability to get out in a year, right? So I think the reality is let's just call it the sub-million dollar raises. The emphasis on second trading, in my opinion, as a platform operator for the last five years, is probably less than a priority list because if you don't want to do it, people just don't invest. People that are participating in it are doing it with the expectation of one day hoping to do well. The adverse effect of trying to fit in a secondary trading mechanism for a sub-million offering is now you have these disclosure requirements that even if you raised $50,000, you have to publish an annual report of your cap table and debts and equity and whatever and lawsuits, all of it, on the public. So a small business owner who raised $50,000 now has to put their entire life on blast to the world to see, right? So that's an example of why the emphasis on the principal secondary trading, which I agree is important, perhaps might not be best forced into a sub-million dollar offering.

COMMISSIONER ROISMAN: And that's perfect. I mean, as I said, your perspective can provide really good insight to, I'd say, folks that are trying to raise a certain amount and an earlier stage in life. I'm also interested in crowd funding. We talk about equity, but debt is another important instrument for capital raising, and you know curiously for you guys, you know, do you think debt raising through crowd funding is working well?
MR. LEE: I mean, so there's just -- kind of overly generalizing, of course, to make a point -- but it's so early, right? It's so premature that there is not even the right actors, in my opinion, in the industry because there's no incentive, right? So every single regulation crowd funding platform I would venture to say -- I'm sure all the COs will agree with me -- nobody's making a profit. All right? Nobody's making money. Everybody did it because they believe in the idea, and folks like myself. Like I gave up an eight-year career in a private law practice because I want to do this. I didn't want to work for a massive private equity firm. Like I wanted to do this, but financially I think this as Jason's point or maybe Hank's point as well. The incentives aren't aligned to reward participants to try to make this work.

And in fact, I guess if the law were agreed, big banks and Wall Street firms and maybe independent broker-dealers would love to get into regulation crowd funding, but they're not because the math doesn't work out. And I think it's things like, you know, secondary trading issues and, you know, offering or accounting issues, legal issues. Right now there's no easy answer to this, but I think all of at least the platform operators would agree, in my opinion, that the risk-reward analysis of running a platform for small offerings is not there. And so I understand this is probably biased from a prospective platform operator, but the incentives aren't aligned to help businesses operate versus long-term reward of running that kind of business.

MR. SEATS: I'll react quickly to the question of secondary. From our perspective, I mean, we manage venture funds, investing very early, with the phenomena of sort of later state investment, you know, getting mature companies that aren't going public as much.

The average life cycle of a venture fund is extending. It used to be ten years, and it's 12 years, and now a lot of LTs picture 15-year time horizons, and that is an impact on early stage investing because when we go out to the market to raise a venture fund and we're investing ahead of those big guys, the question we get is how long is the time horizon going to be. And so a lot of times that liquidity comes in the form of secondary, and so thinking about how to make secondary be a less friction-ful way to liquidate positions that we've already held for potentially eight years at this point, could be useful.
MR. YADLEY: Yeah, the last time I had a Robert's Rules of Order issue it was because there was an unruly member, and he read them, and he came and co-opted the meeting, and we figured a way to get him off the Committee.

(Laughter.)

MR. GRAHAM: Yeah, I don't think anybody looks at them anymore, and I think we've elected a great Chair and a Vice Chair, and I would support not including them unless we have to, do you think?

MS. DAVIS: No, you don't have to at all. This is a provision that's in the Investor Advisory Committee bylaws, and in moving it over here, we thought if there were to be some kind of dispute, then at least you'd have a guide to go back to to figure out how to resolve it. I don't think --

MR. GRAHAM: But if you don't have that, then it's up to Carla to resolve it.

MS. DAVIS: Then I think she's way better than Robert. So.

(Laughter.)

MS. DAVIS: Whoever Robert was.

MR. SOLOMON: I definitely vote for Carla.

MS. MILLER: All right.

And do I have somebody to make that motion?

VOICE: So moved.

VOICE: Second.

MS. GARRETT: And all in favor?

(Chorus of ayes.)

MS. GARRETT: And all opposed?

(No response.)

MR. YADLEY: As the Secretary, just the people on the phone, could you two please say aye so we can record it?

MS. PATODIA: Yes.

MR. SEATS: Copy.

MR. YADLEY: And Mike?

MS. PATODIA: Aye, aye.

MR. YADLEY: Great. Thanks.

MS. GARRETT: Okay. So the bylaws as we've amended them have been approved. Thank you.

MS. MILLER: Wonderful. We've done something productive today. Congratulations, Committee, but more importantly, we have laid out a framework for really fruitful discussions going forward and a very actively engaged Committee.

The SEC is certainly looking to you to be a powerful voice for small business and to use the very insightful experiences that you have to date to improve our capital formation landscape.

With that our meeting is adjourned, and we will look forward to our next meeting together.

Thank you all for being here today and participating remotely. Thanks, all.

(Whereupon, at 3:08 p.m., the meeting was concluded.)

* * * *

MR. McNEW: Martha, I just had one.

MS. MILLER: Yeah.

MR. McNEW: Again, it's a little bit of a nit.

The notice of the meetings, is it possible to give us notice more than two weeks in advance?

MS. MILLER: We will endeavor to absolutely do that.

MR. McNEW: I have to give my board a year's calendar, and I'm on four other boards, as you guys are, and that would be helpful because we're all busy.

MS. MILLER: So that is statutorily mandated, that time period, but we will hope that that is the minimum, which we hope to exceed and exceed expectations with advanced notice for meetings going forward.

So certainly grateful to everyone for working within the very short time period for today's meeting, and we will hope to have a longer period of time going forward.

All right. Carla, as our Chair, would you like to call a motion on the bylaws to wrap up the meeting?

MS. GARRETT: Yes. Thank you very much.

I'd like to call a motion on approving the bylaws and operating procedures with the deletion of Section I, which would be Robert's Rules of Order, and so the bylaws would be the same bylaws with that deleted and

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PROOFREADER'S CERTIFICATE

In the Matter of: SEC SMALL BUSINESS CAPITAL FORMATION ADVISORY COMMITTEE

File Number: OS-0506

Date: Monday, May 6, 2019

Location: Washington, D.C.

This is to certify that I, Christine Boyce (the undersigned), do hereby certify that the foregoing transcript is a complete, true and accurate transcription of all matters contained on the recorded proceedings of the meeting.

_______________________ _______________________
Proofreader's Name) (Date)

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REPORTER'S CERTIFICATE

I, Kevin Carr, reporter, hereby certify that the foregoing transcript is a complete, true and accurate transcript of the matter indicated, held on __5/6/2019___________ at Washington, D.C., in the matter of SEC SMALL BUSINESS CAPITAL FORMATION ADVISORY COMMITTEE.

I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared under my direction.

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