U.S. SECURITIES AND EXCHANGE COMMISSION

# SMALL BUSINESS CAPITAL FORMATION ADVISORY COMMITTEE MEETING

Tuesday, August 4, 2020

10:00 a.m.

U.S. Securities and Exchange Commission

100 F Street, N.E., Washington, D.C.

Station Place 1 Multipurpose Room

PARTICIPANTS:

Jay Clayton, SEC Chairman
Elad Roisman, SEC Commissioner
Allison Herren Lee, SEC Commissioner
Hester Peirce, SEC Commissioner
Brian Levey
Carla Garrett
Catherine Mott
Densil Porteous
Farah Allen
Greg Dean
Gregory Yadley
Hank Torbert
Jason Seats
Julie Davis
Jeffery M. Solomon
Kesha Cash
Lesa Mitchell
Melanie Senter Lubin
Martha Legg Miller
Marc Oorloff Sharma
Monique Woodard
Poorvi Patodia
Robert Fox



PARTICIPANTS (CONT.)

RODNEY SAMPSON
STEPHEN GRAHAM
SARA HANKS
SAPNA MEHTA
SUE WASHER
WILLIAM MANGER
YOUNGRO LEE



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PROCEEDINGS

MS. GARRETT: Good morning. I hereby call the August 4th meeting of the SEC Small Business Capital Formation Advisory Committee to order, and welcome members of the committee to the meeting. I also want to welcome members of the public who are tuned into today's meeting, and thank you for recognizing the importance of access to capital for small businesses.

Our last two meetings have focused on the devastating impact Covid-19 has had on small businesses, and there is little question that the pandemic has hit minority communities quite hard. Even before Covid, or the tragic killing of George Floyd, minorities and women have long struggled to access investor capital, which impacts opportunities to grow their businesses. Today's meeting is dedicated to listening to the perspectives and experiences of underrepresented founders and discussing how access to capital can be improved.

Before we start the meeting, I'd like to share some WebEx reminders for the virtual environment. All members' microphones should be muted. We ask that you mute and unmute your microphone when you speak. If you'd like to be recognized to speak, please use the chat function in WebEx so that we can recognize people in an orderly manner.

When you do speak, please first state your name so that everyone, including the court reporter and members of the public can know who is speaking. If any of the members have any tech issues during the meeting, please email Malika or Julie. Julie, do we have a quorum for the meeting?

MS. DAVIS: Yes, we do.

MS. GARRETT: Great.

MS. DAVIS: And I also want --

MS. GARRETT: And --

MS. DAVIS: -- to take a quick minute to give the standard disclaimer for any SEC staff that speak today. Our views are our own. They do not necessarily represent those of the full Commission.

MS. GARRETT: Thank you, Julie. I'm happy to announce that the Commission has appointed two new members to our committee. Kesha Cash, and Sue Washer. Kesha and Sue replaced Terry McNew and Karen Mills who have recently resigned from the committee, and Kesha and Sue are in attendance today, so welcome. Kesha, would you like to introduce yourself to the committee?

MS. CASH: Hi. Good morning. My name is



Kesha Cash. I am general partner and founder of Impact America Fund. I'm thrilled to join the committee, and specifically to be a part of today's conversation given the impact that Covid-19 is having specifically on black and brown communities, and most recently the racial uprising.

So our work at Impact America Fund is to invest capital in a way that creates more economic agency and opportunity for low or moderate income communities with intentionality to make sure products and services are truly being designed to be inclusive of communities of color and to create more opportunity for those communities. So, looking forward to today's conversation, and really thrilled to be a part of this committee.

MS. GARRETT: Well, we're thrilled to have you. Thank you, Kesha. And Sue?

MS. WASHER: Hi, I am also very pleased to join the committee. I think this is very, very important work. Too many times small businesses have a great deal of trouble accessing the capital markets. I'm president and CEO of Applied Genetic Technologies. We're a small bio-pharmaceutical company who are developing products for patients in rare -- very rare, orphan diseases.



And so, again, a very underserved marketplace. I've had experience raising capital from private markets, from grants, and also from the public markets, but this is still a significant issue especially today in the time of the pandemic. So thank you for having me on the committee. I look forward to the work.

MS. GARRETT: Great. Kesha and Sue, the committee welcomes you, and we look forward to working with you in the future. Today, we have with us -- and I'm not sure who is all on the phone right now, but we're going to have Chairman Clayton and Commissioners Peirce, Roisman, and Lee, who we welcome to the meeting, and who will each say a few words before we begin. Is Chairman Clayton on the call? If not, should we go on to Commissioner Peirce? How about Commissioner Roisman?

MS. DAVIS: I've seen them come on and off, so --

MS. GARRETT: Thank you.

MS. DAVIS: Yeah.

MS. GARRETT: There used to be --

COMMISSIONER ROISMAN: Yeah.

MS. GARRETT: -- a Commissioner --

COMMISSIONER ROISMAN: I -- I'm available --



but, go ahead --

COMMISSIONER PEIRCE: Yeah, I'm --

COMMISSIONER ROISMAN: -- Commissioner Peirce --

COMMISSIONER PEIRCE: -- available as well, I --

MS. GARRETT: Oh, okay.

COMMISSIONER PEIRCE: I apologize. I was double-muted.

MS. GARRETT: Thank you

COMMISSIONER PEIRCE: Well, thank you, Carla, and welcome to Kesha Cash, and Sue Washer. I look forward to hearing your thoughts today and in the months to come and I hope that some time I'll get to meet you in person.

You're joining a committee made up of people who share a common passion for capital formation and whose hard work greatly benefits the Commission. Thank you to today's panelists for joining us as well. A special welcome to fellow Ohioan, Densil Porteous.

Today's meeting is an opportunity for us to think about ways that we can open the doors of our capital markets so that more Americans walk through them as investors and as entrepreneurs in need of capital. Our capital markets have the ability to empower individuals, transform communities, bring us together in shared enterprises, and enhance our great nation's prosperity.

Capital markets can and should work for every American. When entrepreneurs with exciting ideas cannot find funding through our capital markets, we have to consider whether our existing regulatory framework may be contributing to these unnecessary barriers. One existing exemption that hasn't lived up to its full potential is regulation crowdfunding.

While the Commission has proposed to increase the offering limit of reg crowdfunding to 5 million, and to permit the use of certain special purpose vehicles to facilitate investment, there is much more that we can do to make crowdfunding an attractive fundraising option and one that people without built in networks of wealthy friends can use.

Some of the issues that I'm thinking about include, should we consider eliminating or raising the individual investment limit for both accredited and non-accredited investors? If any individual investment limits are retained, should we simplify their calculation? Are there ways to reduce the existing disclosure requirements while preserving investor protection?



For example, should we consider raising the current threshold requirements for reviewed and audited financial statements, or scaling ongoing reporting obligations based on the offering size? Given the highly regulated nature of sales through crowdfunding portals, should we eliminate the prohibition on advertising of a crowdfunding offering?

Can we encourage intermediaries to increase their involvement and better align their interest with investors by permitting them to receive carried interest or performance fees -- based fees.

Another potential way to get capital to entrepreneurs without easy access could be a micro-offering exemption that would enable entrepreneurs to raise money from their local communities without having to hire an attorney. Would a micro-offering exemption permitting offerings of up to $1 million, coupled with bright-lining individual investment limitations provide a meaningful framework? Is another offering threshold more appropriate? Should we consider creating a micro-offering tier within reg crowdfunding with reduced disclosure obligations?

Demo days are another way that entrepreneurs without ready-made networks can get in front of -- can



get in front of potential investors. We proposed an exemption from general solicitation for these events, which may be sponsored by, for example, a university, a local incubator, or an angel investment group. Is that exemption appropriately designed to allow young companies consistent with investor protection objectives to show off their ideas to people who are able to fund them?

I'll stop talking now so that our panel and committee can weigh in on whether these or other solutions would work. At the end of the day, we want a regulatory framework that facilitates the flow of capital into the hands of the people who can best put it to use, wherever they live, and whatever they look like. Thank you, and I look forward to today's discussion.

MS. GARRETT: Thank you, Commissioner Peirce. Commissioner Roisman?

COMMISSIONER ROISMAN: Thanks, Carla. And I'm not sure -- I think Chairman Clayton is on. I want to give him a chance if we can hear him.

CHAIR CLAYTON: Hi, I'm on. Are you -- are you guys able --

MS. GARRETT: Are you --

CHAIR CLAYTON: -- to hear me?



MS. GARRETT: Yes we are, Jay.

CHAIR CLAYTON: Oh, terrific.

MS. GARRETT: Welcome.

CHAIR CLAYTON: Thank you.

MS. GARRETT: Welcome, Chairman Clayton.

CHAIR CLAYTON: Oh, thank you. Thank you. Thanks, Elad, and thank you, Carla, and, Hester, and I want to welcome Kesha and Sue. I'm certain that your unique perspective, energy, and expertise will help the committee in its mission. So thank you for being willing to join us. And also thank you to the panelists for today. It's an impressive group, individually and collectively.

We know your time is valuable, and we greatly appreciate your efforts. And Carla, I'm grateful to you and your fellow committee members for focusing today on how capital markets are or are not serving underrepresented founders, including minorities and women.

The current pandemic has underscored the need for prompt and efficient access to capital for small businesses, when remote and unforeseen risks become unfortunate realities. In no area of our multi-faceted inter-connected economy is this more clear than in the case of underrepresented founders.

The economic impacts of Covid-19 have underscored the obstacles that many underrepresented entrepreneurs have historically faced in raising capital.

I want to share just a few statistics. Minority-owned small businesses employ over eight million Americans, yet these businesses face disproportionate challenges accessing bank loans, and are more likely to seek nontraditional financing.

Of course in times of stress, these sources become more scarce and more expensive. Little more analysis is needed to conclude broadly two things about Covid-19 and its affects. One, there is a disproportionate effect on small businesses, and minority and women-owned small businesses in particular.

And, two, those effects including due to the consumer driven and interconnected nature of our economy adversely affect our economy at large. Said another way, this is not an isolated issue for minority and women-owned businesses. This is an economic issue for all of us.

I want to thank all of you in advance for bringing attention to this issue and offering tangible suggestions for action to the Commission. In closing, I would be remiss not to credit Martha Miller and her



colleagues in the Office of the Advocate for Small Business Capital Formation on the work they have done since standing up this office to identify and address challenges in capital raising everywhere, and in particular for minority and women-owned small businesses and underrepresented founders.

Finally, recent events have also brought the always important topics of racism, bias, and racial injustice to the forefront of our national discourse. In this environment, I believe the Commission's focus on promoting diversity and inclusion, particularly through access to capital, access to opportunity, and access to financial literacy and education is of a paramount importance, and I thank all of my colleagues for their focus in these areas. Thank you, Carla, and back to you.

MS. GARRETT: Great. Thank you, Chairman Clayton. Commissioner Roisman?

COMMISSIONER ROISMAN: Thank you, Carla. Good morning to everyone joining us today and thank you to those participating in the discussion. I want to echo my thanks to Martha and your incredible team, and Carla, and all of the committee members for dedicating so much of your time and expertise to this meeting and all the meetings.



I want to give a special welcome to Kesha Cash and Sue Washer, the newest members of the Small Business Capital Formation Advisory Committee. I very much look forward to the valuable perspectives and insight that you will both provide. Thank you for serving on this committee.

While the items on today's agenda are particularly timely, it's important to note that in the legislation that created the position of the SEC Small Business Advocate and the Small Business Capital Formation Advisory Committee, Congress explicitly mandated that the Small Business Advocate identify problems that small businesses have with securing access to capital, including any unique challenges to minority-owned small businesses, and women-owned small businesses.

Martha, I commend you and your team for making this a priority, not just for this meeting, but in your day-to-day work. I learned something new at each Small Business Capital Formation Advisory Committee meeting, and I'm sure that this meeting will be no exception. I'm interested to listen to today's presentations about the unique capital-raising challenges faced by underrepresented entrepreneurs. It is my sincere hope that the committee will present



the SEC with suggestions on how we can improve access to opportunities.

As the SEC staff considers responses to our proposals to amend the accredited investor definition, and modernize and streamline our exempt offering framework, now is the time to provide us with ideas on how to improve access to capital for those who face barriers to success.

I can say a lot more on the subject, but I'm sure we would rather hear from the terrific presenters joining us today. So I'll cut myself off in the hopes we can get to the substance of today's meeting a bit earlier than planned. Thank you again.

MS. GARRETT: Thank you, Commissioner Roisman. Commissioner Lee?

COMMISSIONER LEE: Thank you, Carla, and good morning, everyone. I also want to welcome our newest members, Kesha Cash and Sue Washer. We're very happy to have you both with us today, and in the future.

I'm glad to be here with you, and I'm glad to see that the committee will spend the day discussing one of the most important issues we face, which is how to make sure our economy is serving all Americans. I appreciate the continued commitment of

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this committee and our small business advocate to addressing the particular challenges faced by women and minority-owned businesses.

We know we have a problem, and we know there are significant disparities in access to capital for women and people of color, and we know at least some of the likely causes. There is a persistent wealth gap between minority and non-minority communities that can prevent minority entrepreneurs from investing their own capital in their businesses or for using it as collateral. There are disparities in lending practices that can hinder or discourage minority and women founders from seeking or obtaining loans. There is unconscious bias in investment behavior, just to name a few.

We know also that these problems may be compounded in the current financial stress. Small businesses are at higher risk during the downturn. Credit may be more difficult to obtain across the board, but women and communities of color will disproportionately suffer.

So we have a convergence of challenges right now, but also perhaps a convergence of opportunities. If we can find ways to support women and minority-owned businesses and reduce the racial and

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gender disparities in capital raising, these small businesses can be job providers, sources of wealth, the drivers of economic growth in our communities. They can help fix some of the very problems that may hinder their growth right now.

For example, one recent analysis estimated that if black Americans enjoyed the same business ownership and success rate as their white counterparts, there would be some 860,000 additional black-owned firms employing more than 10 million Americans. Women and minority-owned businesses are a tremendous underutilized resource that could help drive our recovery, and we must find ways to support them and dismantle the barriers they face.

That, of course, brings us to the hard part. We know there's a problem. We also know that problem could present an opportunity. What can we at the SEC do to contribute to the solution?

Well, outreach for one thing, just as this committee is doing today, and just as I know Martha's office does throughout the year, and we must ensure that we within our own ranks here at the SEC at all levels of seniority better reflect the communities that we serve.

We must engage with other regulators to

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understand how we can work together. What are the ways in which we should more systematically consider gender and racial disparities in our regulatory efforts? Perhaps for example, we should enlist our Division of Economic and Risk Analysis to analyze whether and how our work proposals are specifically tailored to assist underserved populations. Perhaps our office and women and minority inclusion could play a larger role in policy discussions and rulemaking. Perhaps we should take a more active role in addressing the lack of diversity in the financial services industry and better empower investors to identify and target investment opportunities from women and minority-owned businesses.

I appreciate very much your willingness to help us think through these questions, and I look forward to your recommendations on how we can do better to help create economic opportunities and level the playing field for underserved communities because we will all be better for it. So, thanks to all of you for your valuable time in this effort.

MS. GARRETT: Thank you, Commissioner Lee, and thank you to Chairman Clayton and all the Commissioners for joining us at today's meeting. At this time, Martha Miller, our terrific small business

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advocate, is going to provide an overview of statistics and trends on diversity in entrepreneurship in founder demographics. You may recall from the annual report of the SEC's office of the small business advocate that was put together last year that Martha's office spends a lot of time looking at data and trends on small business capital formation, and last year's annual report included data on founder demographics, and that data is quite relevant to the topic today. Martha?

MS. MILLER: Thank you very much, Carla, and thank you to each of the Commissioners for recognizing the longstanding focus that our office has had. It has been thrust into the spotlight with recent events, but it nonetheless has remained critical to our mission and how we approach thinking about capital formation issues. Before I dive into the numbers, which for those of you who know me, know that I love it, and I'm going to have to hold myself back from really just going hog wild nerd out with statistics.

I do want to share an important announcement from our office. When we hear people say Martha's team or Martha's office, it's really -- it's a broader team, and it is a team full of talent, and I just want to recognize the team members who are on the line today. Julie Davis, Jenny Riegel, Jessica McKinney, and Todd Van Laere, and we have others behind the scenes who are making this possible, but it is absolutely a team, and it is a growing team, and I am thrilled to announce that Sebastian Gomez Abero will be joining our team as deputy director.

Many of you know him in his current capacity as a senior advisor to Chairman Clayton. Those who have worked with the SEC for a while also know him as the former head of the Office of Small Business Policy in our Division of Corporation Finance, and if you've spent any time with Sebastian, you know him for his expertise in all things capital formation rules, but most importantly if you have actually had a chance to work with him, you are undoubtedly a fan of his collaborative and sincere approach to everything he does.

I could not be more thrilled to be welcoming him to the team very soon, and so I just am excited for the committee members to get a chance to get to now Sebastian better, and I would be remiss if I didn't start out with what I think is one of the most exciting elements of news from our office. So, Sebastian, welcome, we are very excited to have you on the team very soon.



I want to share some slides. Previously, I have talked a little bit about -- can everybody see the slides that are on the screen right now? Are we good? Okay. I'm going to assume we're good. There's some space at the bottom to allow closed captioning space. These are also posted on the advisory committee's website, but what we wanted to do was to highlight some of the data that we compiled for our annual report to frame up the conversation that we're about to have, because one of the things that we know is that it's important to couple heuristics and stories with what we're actually seeing in the marketplace. So without much further ado, I want to dive into some of that.

So, I want to start with some of the data on minority-owned businesses and what we're seeing in terms of trends. This is a snapshot of minority business ownership across the country. As you can see, there is substantial minority business ownership, and we've seen significant growth over the years. These are statistics that come from the minority business development agency who keeps track of minority business ownership trends.

We've seen a dramatic surge in the increase of minority-owned businesses over the past few years,



and that is something that -- particularly when we get to looking at Covid-19 data is in jeopardy. That growth in minority-owned businesses is absolutely critical and has been quite a boon for many local communities and our economy as a whole.

However, we also know that small businesses, particularly those owned by minorities face less access to capital. One statistic from the Kauffman Foundation shows how much less capital black-owned businesses start with compared to new white-owned businesses. Around a third of the capital.

And minority entrepreneurs report that profitability is disproportionately impacted by their lack of access to capital, and when surveyed across demographic groups, that breakdown is even more severe when we look at African American and black-owned businesses, you know, followed shortly thereafter by Latinx businesses and then Asian American businesses.

Looking at access to capital challenges, these statistics I think are really interesting, looking at who is actually seeking capital, and then what are they actually receiving back in return?

So, this is actually I think a relatively positive trend, and this is -- these are the statistics that Jeffrey Sohl, who is a researcher in



New Hampshire published last year. He's actually just refreshed the data, and we'll be revising that and sharing some of that in our annual report I think coming up later this year, but you see that when minorities go out and are seeking capital, when they actually go forward and to do it, they have a pretty good return in terms of how much money actually comes back in. So that is I think a positive sign. The challenge is minorities are only 10 percent of the entrepreneurs who are actually seeking capital for their businesses.

The other side of the coin is looking at what does the diversity look like of those who are writing the checks, and one of the statistics that I think many of you may be familiar with is founder diversity in VC-backed businesses, which plays in really closely with the investor side which we'll get to in just a minute.

Looking specifically -- and this is because there's a lot more data here on VC-backed businesses than there are on angel or others, you'll see that the vast majority of venture capital-backed businesses are white, followed closely by Asian owned businesses, and then other minorities really make up a very small percentage of the founders who are receiving venture capital.

Looking as I mentioned at investor diversity, Angel investors, really small numbers that comprise that community. So about 5 percent of angel investors are minorities, which is a very small number, and we know from pattern matching and from the ways that affinity and bias works is that plays out into how investment decisions are made.

Similarly, looking at VC investment positions, you also see a breakdown that does not mirror the population. And so, there is a disproportionate lack of access and lack of investment making decisions that are happening by those who are looking to invest in members of their community.

Looking at women-owned businesses, which is also a big piece of our office's mission, we've seen that women are founding more and more companies. There has been a dramatic increase from 2001 where only 4 percent of start ups were founded by women. Now we are looking at closer to one in five businesses that are founded by women.

However, similar to our minority communities, founder gender impacts access to capital, and women-owned businesses are more likely to bootstrap and to start with less capital. You see the



statistics there, similar to what we have seen for minority-owned businesses in terms of what they start with.

So interesting research as we look at gender compared to sexual orientation and the impact that that has on capital. Some of the research by Start Out, which has been doing the most research that I have seen in this space has found that gender has a far greater affect on start up funding levels than sexual orientation of the founders, which I also think is a telling sign of where we need to be looking at inequities and how to solve them.

Similar to the slide that you saw on access to capital challenges with our minority communities, women constitute about one in four entrepreneurs seeking capital, but their investment yield rate, so ultimately what gets put back into their hands and their success rate, is lower than the baseline population rate, which speaks to a lot of interesting biases that we will probably be probing today with our speakers.

VC funding by founding team gender is also I think an interesting and telling marker. So looking at the allocation of dollars, you see on the left this is an allocation of where the dollars go based on the



gender of the founding team. So looking at all women teams in the light blue, mixed gender teams in green, and then all male teams in blue, and then not identified by gender team, you see that the breakdown is pretty stark there.

However, the slope of that is I think a very interesting statistic, which is a study that I found very interesting about how women founders and cofounders tend to generate more revenue per dollar of investment than male-only teams, which really goes to the impact of diversity and in developing solutions as entrepreneurs.

Looking at the diversity of small business investors, a little bit better than the statistics we see from the minority communities, that we see about one-third, just shy of that, of angel investors are women -- closer to one in four. Only 11 percent of venture capitalists across the industry are women, and according to some figures -- and it's hard to get an exact number on this, but 71 percent of venture capital firms do not have any female partners.

But it's important to be aware of who actually has the investment making decision authority, because it does play into the statistics, and it's related to who ultimately receives the funding.



I want to dive into now some of the statistics that we have recently seen on the impact of Covid-19 with business ownership and the decline in small businesses. Right now, we are still very much so looking at trailing numbers. We will likely not know the full economic impact of what we are dealing with right now for years to come, and I imagine it will be the subject of many scholarly research articles, but this is a study that many people have seen that came out recently in June from Robert Fairley with the National Bureau of Economic Research who looked at the overall decline in small businesses, and there has been about a 22 percent decline in closures -- so that's between February and April -- 22 percent of small businesses shut their doors.

That breaks down very differently when you look at slicing it across verticals of women-owned businesses, African American-owned, Latinx-owned, and Asian-owned, and the most stark closure rates were among African American-owned businesses, 41 percent of which closed their doors in response to Covid-19 with very uncertain long term impacts of when and if they will be able to open again.

So, again, what we're seeing already is the, you know, heuristics of what we're hearing about disproportionate impacts in minority and women business ownership communities, that those are breaking down and showing up in the numbers with business closures, and that makes this conversation I think all the more important and impactful for us to be having today, and with that, I promise I will not keep talking data. If you do want to talk data with me at any point, I think all of you know how to reach me.

I will share -- just a plug again for our annual report, which has much of this data, excluding of course the Covid-19 data. We delivered this report to Congress and to the Commission in December, and we are already hard at work on our report for this year. And so I encourage you to check that out, look at some of what we are looking at from the data perspective and join us in the conversation and engage with us if you have interesting insights that you think we need to hear. Carla, I'll turn it back over to you now.

MS. GARRETT: Okay. Thank you, Martha. That's a lot of very good data. That's great that you've looked at it, and I think it shows our committee a lot of really interesting points. I also want to thank Martha's entire team for everything that they do. You guys have no idea how much they do and



how valuable they are and how dedicated they are. So, here's a big thanks from the committee to everybody on that team.

So thank you again for the statistics. Now to get into our presenters who we're very happy to have with us today. The committee has invited five speakers to join us today to share their experiences and perspective as underrepresented founders and their investors.

So, the format today will be about -- each speaker will probably have about 20, 25 minutes to speak and engage in conversation with the committee. We do encourage the committee members to feel free to ask questions, and you know, the goal is for us as committee members to learn as much as possible from each speaker. So we'll have each speaker speak, and then we will break for lunch at 12:30, and we will resume the meeting at 1:30, and during our afternoon session, you know, as the Commissioners and Chairman Clayton suggested, the committee will discuss potential recommendations that we can make to the Commission to enable a more inclusive capital formation ecosystem, drawing from the perspectives that we learned this morning from our speakers and also from our own experiences.



So, our first speaker today is Farah Allen, and Farah is an accomplished tech leader with over 15 years of experience in the software development industries. She is CEO and founder of The Labz, a cloud-based, blockchain music creation and real time collaboration platform based in Atlanta.

The Labz protects artist music by collecting song data to facilitate electronic exchanges of contracts and digital copyrights. Farah's previous executive positions include president and CEO of the Allen Group Management Consulting Agency, where her clients included Fortune 500 companies, and CEO and cofounder of Song Society App.

Her IT background helped her create a solution that led her to be accepted into Comcast Universal's The Farm accelerated program. Farah also has the honor of being the Atlanta Journal-Constitution woman of the year for technology, as well as having her company named one of Atlanta's top 50 startups in 2019.

Farah, we're very happy to welcome you today.

MS. ALLEN: Thank you for having me, Carla. Okay, so I guess I'm on. So, one thing I wanted to thank everyone for putting -- starting to put in



measures for minority businesses. This committee is doing a really good job from what I hear today and with some of these measures.

What I want you guys to get from me is a perspective of a founder which is in a certain stage of her journey in her company. So we -- a lot of times you may think of founders in one lump answer, and we are not that. So I kind of look at it as a pyramid where the bottom of the pyramid you have programs, you have education, because we are lacking education a lot of times when it comes to what this is with startups, and entrepreneurship, and the language of it.

Now, me being a tech start up, we do have a community and a language and a society that we have to learn before we can ultimately be successful in it. So on the bottom of that pyramid, we see those programs, we see some accelerators, and we see founders entering into those programs, right? Those are there, and those are the first things that I saw and found when I started this journey.

And then when you move up to the pyramid and you graduate from that, there's less of us there. Some of us didn't make it. Some of us decided this wasn't working for us, and there -- though there may be some other programs -- some more accelerators that are more established and provide more funding for you.

And then what you see is as you go up the pyramid, there's less founders of color, and at times, it may seem that we are not present on the top of the pyramid at all.

So what can you do with a founder that's on the third stage, and there's very little of us? What happened in that -- in that journey to where we weren't supported anymore because maybe the powers that be didn't understand that we -- there was a pyramid to begin with, and that there was -- there were things that needed to be done for us in order for us to move further along.

So my story is -- that I will tell today is really about your understanding of people like me that are of a certain stage and also need help because we're not done.

So, we did have -- and thank you, Carla, for the bio, but we did have a pivot not too long ago. So what the -- what The Labz is, is a collaboration platform for the entertainment industry, but out of Covid we birthed a new product which allowed -- which allows the entertainment industry that is without a venue, without a place to have audience members and to



be creative with them, without the -- they don't have a place. They have Zoom, which is not their place. It's not a creative vehicle for audience members. So we did develop a product that allows them to do that now.

We developed that product within 45 days, and we were able to do that because a customer invested -- our customer invested a million dollars because they saw an opportunity, and knowing me as a founder, knowing that I deliver and I'm a good company, they invested in that.

We were able to afford the developers, and the staff to be able to create this product. Before we even finished within that 45 days, we had already booked out the rest of the year with customers.

So I went from making $25,000 a month with the collaboration platform to over $100,000 a month with that, and we are just launching that product. That is the power of funding companies and founders that are smart, have ideas, who know everything there is to know about starting the business, because we've been -- we've been overly educated through the bottom of the pyramid and having no opportunities. We have the knowledge there.

So, that's one. So the journey for me



started out with me having an idea, and not knowing how to become Mark Zuckerberg, because that's all I saw, was Mark Zuckerberg. I didn't see anybody else. I saw Oprah, of course, but she wasn't a technology company, so -- and Mark was.

So, how do I become Mark Zuckerberg? I looked into my community. I'm in Atlanta, and I went to our local -- our local startup center which is at Georgia Tech, and I didn't see really much of anyone that looks like me there.

When I spoke to people, I -- they spoke to me as if I went through the -- the language of a startup, and I was not receiving the type of help I needed as someone -- a professional consultant, had her own consultant agency, I did not know the language. So therefore, there was a language barrier when they were trying to mentor me, and me trying to understand, because I am eager and willing to build a business.

So after not feeling supported, but still hanging in there because there was nothing else for me but that, so I had to figure it out. I got some information from that. Then I found an organization, Digital Undivided that understood me, because they created a platform for black and brown, Latina women



and women founders.

They understood me, got into that program, and it was 38 weeks -- it was very long -- I learned everything there is to know about a community that I wanted to go into, the product I wanted to do, product development to how people invest. I learned the starting measures of how that should work.

I graduated there, and thank God, on demo day, I was introduced to Burunda Prince from Comcast who was the director there, and I got into Comcast via a committee of executives that thought at the time my music platform was worth investing in for $20,000.

Now, I had -- I left my job of, you know, very good, you know, a profitable job to be able to pursue this full time with $20,000 as the investment, because the idea of demo day was that this big day that I'm going to receive funding once I finished this program.

Though the program was beneficial with, you know, having a company invest in me that people really knew and really respected, at the end of the day, I did not receive money.

So now I'm having to figure out how to survive and continue the research and development needed in order to create this beast -- this Mark

Zuckerberg beast that I knew was possible. So I went to friends and family. My friends and family do not know about investing in companies. They knew about investing in real estate, stocks, 401(k), that was it.

So, at that time, I have to educate my community about investing in a startup, and what that looks like, and because they knew me, and they knew of Comcast, and because of the dream of this -- this money would be used to get more customers, they -- I raised another 30,000.

So for the whole year of when we first started and got into Comcast, that was around 50,000. I had to be able to hit milestones with investors who were continuously telling me I needed these milestones before I was investable. I had to figure out how to hit those milestones with $50,000 and no job, two kids, a wife, and a big technology product.

So long story, but I'm not going to get into how I did it, but I did it, and by the time I -- in that -- between time as I'm hitting milestones, of course I'm talking to all these investors I'm meeting. I'm in other programs. I'm getting educated all over again around product development and getting mentors and all these things, and at -- and nothing seemed to



work as these milestones were being achieved without very little money.

So, the idea of I'm meeting these milestones without very little money, and other founders are meeting -- are not quite there with their milestones and they have tons of money, those weren't lining up with investors.

If you put that on a chart of some kind, you would see that this founder over here is doing way more with way less. Let's think about that. That wasn't being considered. Eventually, I reach a number of milestones with that money, and made a bunch of deals with that money that I got another -- got into another accelerator.

Accelerators have lower risk. They -- you know, if you guys -- I'm sure you guys will talk about that later. So I got my first big check from Quake Capital, $200,000. That was a blessing, because I got to move faster.

Am I able to move as fast as a million dollars, which ultimately companies at my stage in my industry are raising 3 million to $5 million, pre money -- I mean, pre, you know, pre-having customers, but I'm at 200,000. I could do something that -- with that -- if I could do something with $50,000.



So I did do something with that. I wasn't able to hire people like that, but I could hire just the right amount of people to reach that next milestone, because I still need to raise money.

So I reached the next milestone. Because of that, I was able to raise money from angel groups. So I went to Beaufort Ventures, which is an angel group, and they gave me 50, and then I went to Band of Coders, and they gave me 100 dollars. So by the time I ended 2019, I was at almost $350,000.

That was not going to be enough because of course I'm still building a really big, heavy system, and I'm doing it in a way that I ultimately had no room to make mistakes. I had to build a product that sold $100,000, or a million dollars in revenue before the investment community even wanted to go there with me.

And they'll take my calls, and they'll -- you know, they want updates, but the market for me being -- to happen to hit these markers, the -- I -- it actually moved. The level moved up, and I needed to do more before that next -- that bigger investment was achieved, and then when I did get to a point where a company -- a VC wanted to come and invest in me, I got a deal that would have never been offered to a



founder that wasn't a minority founder. It was a horrible deal. It literally would be a deal that would -- you know, no one would take, or had -- no one would have offered, and this is -- this is before Covid, and that -- it was -- it's unfair, you know?

Ultimately, it -- the world is pattern matching, and if you are a founder that you do have -- you know, they -- investors do see the potential in the company, investors do see that I am working hard, but as pattern matching has it, what has worked before, what do we see before in the market? That's what we're going to use as our benchmark.

So therefore, I am having a harder time, because I am not a benchmark. I am not seeing them in that market, and there's no incentive for investors to invest in me. So I love the solution around incentivizing investors to come in and invest in minority founders, because they're trying to de-risk themselves as well. So, that is a great idea.

Moving, you know, moving onto the idea around education and that kind of being a problem after the founder has been educated, mentors and investors that are in those minority programs, they tend to be in there because they are doing a good thing and are trying to do their part, but at the end of the day, they -- if they don't pattern match, they feel that they can't make money, and that's why they are an investor at the end of the day. So they end up being a mentor or, you know, maybe a board member, but not an investor, which is a huge problem moving forward.

We fall into this vortex, again, and I'm just pretty much summing up what I've said so far. Founders fall into the vortex of we are doing everything we can with the money that we have, but that isn't a -- that's not recognized as a milestone of achievement.

So, that $50,000 to build a million-dollar platform, that is not a thing in the eyes of an investor. So, therefore, you know, what we do at the end of the day, we must make money, we must move fast, we must have a good team. These are all the things investors are looking for.

We're not able to do that at all without funds, and after a year of building and continuing to build and continuing to have a company, these milestones are achieved because of funding, we are -- we're out of the pyramid. We're gone because we can't afford to move forward anymore without funding.

I think that is it. Does anyone have any



questions for me?

MR. SEATS: I have a question.

MS. GARRETT: Jason?

MR. SEATS: Part of this -- your story sort of -- you didn't use these words, but it sort of sounds like the goalposts move, right, that you feel like there's some established sort of criteria, if I have -- if I get the business to this point, then it'll be easier to access capital, or the specific investor you're talking to would then be interested in investing, but then you get to that point and that doesn't happen? I'd love to maybe just hear you talk a little bit more about that dynamic.

MS. FARAH: Yes. So, Jason, that's a good question, and it happens all the time. You know, when you enter into just being a startup, a founder, and you know, it's -- I'm in technology, so I can only speak to that.

It is different within each industry, but you are -- you have this list. Like there's no list that Forbes wrote and said, do these top ten things, but there is this list, and you learn this list over time in investors that you talk to kind of ask you these questions, and if you don't have it, that's something on the list that you ultimately need,



because they know you're pre-money, or they know what stage you're on, you're pre-seed, or what have you. You must have this before you're considered this.

So when you do get those things, and you go back to those people, or you go to investors just like them that are -- that say they're investing in a certain stage company that list becomes more, becomes greater. It becomes $100,000 versus $10,000 a month, and then it comes, you know, we're pre-seed, and you have to have a million dollars in revenue.

And so you're never -- you'll never be -- you're never able to catch up, unfortunately. But from my perspective, I see it as how -- as an investor -- as this is risky for me, because I am -- I don't see you in the market. I don't see your company. Those ideas, the way you do your product development for your community, I don't see that as the archetype for making money for me.

And so, the -- the convincing has to be a -- this is a phenomenal -- you are a phenomenon, and I want to invest in you. I'm looking for that out of you, because this is -- you are smart, and this company does sound smart to me, but that's not good enough for me to be convinced that this is going back to the multi-verse. So, that's how I interpret it --



interpret them moving these benchmarks, because they do want to be fully, 100 percent convinced, versus matching what they think already is the ideal founder and company match that would be successful.

MS. GARRETT: Thank you, Farah. I believe that Jeff has a question for you.

MR. SOLOMON: Yeah, thanks for sharing your story. Just out of curiosity, had you ever been approached at all by any intermediaries, or had you looked at any intermediary platforms like crowdfunding platforms as a way to access pools of capital that may have been outside your view?

MS. FARAH: Yes, I did. I went to Crowdsmart, which is a crowdfunding platform, and angel investors are on there versus just, you know, the traditional, you know, everyone. And I got the most bias from that -- that platform. There is no -- there's no names. You can make comments and write in questions without being -- with being anonymous.

So I got, you know, very racially, you know, racially pumped questions and comments, like is your husband involved in this? I would trust this company. I love this company, I think it's really good, it could make money, but not with that founder. We need a C Suite. I think a C Suite founder would be a better executive, whatever that means, because I am an executive. I am a C Suite, so what would that mean?

So I got a lot of racial undertones, and I end up not getting funded, though I had high scores for whatever reason. So, I'm still working out with Crowdsmart, because they did see that there were tons of biases with their investors, so they're -- that's something that they identified as something they have to fix over time.

MR. SOLOMON: And did any other traditional -- what I would call -- traditional is kind of a charged word. Did any investment banking firm -- small or regional investment banking firms reach out to you? Have you tried to connect with any of them to see if they've got networks that may be interested in investing in your company, or is that not something that is even on your radar screen, or would you have no idea how to access them?

MS. FARAH: I've had people connect me with investment banking firms earlier on in my -- in my journey, and it was -- it's a milestone-driven connection. Make a million dollars and we will consider. So at that point I was far from a million dollars. I was still at my $50,000 working capital to R&D. So it wasn't an option for me.



MR. SOLOMON: Thanks.

MS. GARRETT: Okay, thank you.

MS. FARAH: You're welcome.

MS. GARRETT: And Greg? Did you have some questions? You want to unmute? Greg, I think you're muted.

MR. YADLEY: Can you hear me now?

MS. GARRETT: Yes, we can.

MR. YADLEY: Okay, great. Well, you are to be congratulated for all you've accomplished and your persistence. You're clearly the face of the company, as with most entrepreneurs, and the visionary, and the operator.

How much of your time do you think you are spending fundraising, and obviously it takes a lot of time to get these small amounts of money. But talk about how you organize your time in fundraising versus actually doing the business, and any of the things we should be thinking about as we try and help support entrepreneurs like yourself.

MS. FARAH: So I spent most of my time in the beginning fundraising. I would say if I put a percentage on that, I would say 70 percent of my time was applying for something, some pitch, some accelerator, something that would ultimately introduce



me to a new wave of investors, because you run out of people after a while if you don't enter into some of these programs, especially if you're not able to travel. You have to be in some type of program in order to meet new investors to move forward with that. So I spent a lot of time doing that.

There was one point where I thought I was getting an investment, and it took two months. So between that two months, I did not seek investors because I thought I was getting an investment. Those were the most creative months, and the most profitable months for me, because I was totally focused on the business, and you know, and planning for the money that I was getting in that timeframe.

I -- like, we killed it for those two months, and then I had to start over again with the fundraising and then I had to kind of slow down. So being the visionary and the product and having, you know, a very small team because that's what the funds -- allows for -- does stifle creativity. You're not able to be inventive in that mindset all the time.

MR. SOLOMON: Thank you.

MS. FARAH: No problem.

MR. SOLOMON: You'll make it.

MS. FARAH: Thanks.



MR. TORBERT: Is it possible I could ask a quick question?

MS. GARRETT: Catherine, did you have a question?

MS. MOTT: Yes, thank you. Yes. First of all, Farah, I've -- I also congratulate you and commend you on how well you've done to date against all the obstacles, and I feel your pain quite often, and I understand and see that with the folks I invest in as well as myself raising capital. So I can -- I understand what you're up against.

MS. FARAH: Thank you.

MS. MOTT: Tell me, if you would, please, I'd like to understand. You've pitched to some angels and VCs. Can you tell me about their gender makeup, or their minority makeup, the ones that invested?

MS. FARAH: A hundred percent Caucasian male.

MS. MOTT: Okay, so no woman angels, no women angel groups, women in the groups? Were there women in the groups? Anything like that?

MS. FARAH: Okay, I take that back.

MS. MOTT: Okay.

MS. FARAH: Quake Capital, you know, the managing director, she was -- Priscilla Pesci, she is one of the advocates for me to get into that accelerator program.

MS. MOTT: Mm-hmm.

MS. FARAH: I do have, you know, some angels from my friends and family round, two women in that round. When I speak about the more formalized angel groups, they are mostly I'd say 99 percent male, with one woman on there, and my other angel, male, mostly white male, one or two women that are some type of a leader or a board member.

Now, the -- you know, my -- outside of the venture capital or angel group, and our more current investor, which is a company and an entity, they are mostly women that invested, and they are Caucasian women.

MS. MOTT: Okay. Just when you get money from folks, use that as warm introductions to others, and if you can get access to other women investors, there are more female angels now than, you know, back when I first started. So I will -- I would -- by the way, just reach out to me, if you can get my email here or whatever. I'll help you, okay?

MS. FARAH: Thank you. Thank you so much.

MS. MOTT: Thanks.

MS. GARRETT: Thank you. Hank, did you have



a question?

MS. FARAH: Hank's frozen.

MR. TORBERT: Hello?

MS. GARRETT: Hank, did you have a question?

MR. TORBERT: Yeah, I do. Farah, thank you for everything. Thank you for presenting to the group, and obviously -- talk to us about what your experience was like with the VC firm and -- that made the offer that you could not accept. I'd love to hear more details about what they offered you, and somewhat -- and to the best that you can, because a lot of my colleagues who are raising capital experience the exact same thing, and people really don't know what many of us go through in situations like that.

MS. FARAH: Okay. So there's about two that I just couldn't -- at the end of the day, as a founder, you want to know what your exit strategy is, and you just can't accept everything that comes to your way, even though you may need the capital, because at the end of the day, you have to be involved in your company and have equity in order to actually achieve any kind of wealth.

So, this one firm offered me -- they wanted a lot of control for a seed -- seed raise -- pre-seed



raise, and that control would have stemmed into a seed, a Series A round, and ultimately I would have lost total control by seed stage, or -- it just wasn't fair to the other rounds that needed to happen with the company.

My evaluation, which is always a big argument, but I could have -- it couldn't be -- because I was in accelerators and things like that, and I had to kind of give away more in the beginning in order to make headway, something that you guys should consider, too, I couldn't afford to have this big downturn of my valuation, or ultimately, there would be no Series A and Series B for me. I wouldn't be there, you know? Someone else would have it. So when you're -- when -- because I knew that, and I didn't -- I couldn't take certain deals, so I didn't. It was just far away from what I could take. Not to say you want to be greedy in any way, but let's say my company was valued at that time at 6 million, and I'd had, you know, over half a million at that coming in, and taking a deal where my valuation at 2 million was -- could be very insulting, especially if you have investors -- that would jeopardize their investment and jeopardize how I can raise money in the future. So those are kind of deals that I was seeing. Good



question.

MR. TORBERT: Thank you very much.

MS. GARRETT: Thank you. Thank you, Farah, and thank you for being here with us today and sharing your experiences. I think they've been very, very valuable for the committee, and good luck --

MS. FARAH: Thank you.

MS. GARRETT: -- with your company, and with your new products, and thanks again. We're now going to move to our next speaker, who is Rodney Sampson, and Rodney joins us from Atlanta also where he is executive chairman and CEO of Opportunity Hub and OHUB Foundation, a leading multi-campus coworking space, entrepreneurship center and tech hub featuring over 300 events a year, a startup pre-accelerator, a coding boot camp, and an angel investing platform for founders from underestimated and undercapped communities.

Throughout his 20-year career, Rodney has cofounded startup companies that have raised more than 20 million in angel and venture capital. He is an active investor and has worked closely with high-gross startups and C-stage venture funds.

Rodney was also a non-resident senior fellow in the Metropolitan Policy Program at the Brookings

Institution in Washington, DC, and a professor of entrepreneurship at Morehouse College in Atlanta. Welcome, Rodney. We're happy to have you here with us today.

MR. SAMPSON: Thank you, Clara. Good morning, Chairman Clayton, Commissioners, and the SEC's Small Business Formation Advisory Committee. Today's hope is my fellow speakers and the American entrepreneur -- can you all hear me okay?

MS. MOTT: Rodney, it sounds like we've got a little bit of audio feedback, but I was hearing you -- so I don't think that your --

MS. GARRETT: Mike, is that on the WebEx?

MR. SAMPSON: Yeah, I'm here.

MS. GARRETT: Okay.

MR. SAMPSON: I'm here. I think it's my -- (audio interference) -- testing.

MR. SOLOMON: Yeah, there's some sort of a bounce-back feedback. Rodney -- (audio interference) --

MR. SAMPSON: Testing. It may be -- I saw the (audio interference) -- also being some -- (audio interference) -- it may need to be -- testing.

MS. MOTT: Rodney, while it's not clear, I can at least hear the words you're saying when you



speak slowly.

MR. SAMPSON: Okay.

MS. MOTT: So we don't lose time, if you want to go ahead and begin, and we can work with our AV on the back end --

MR. SAMPSON: Okay.

MS. GARRETT: -- so we can open a work around.

MR. SAMPSON: Excellent. Good morning, Chairman Clayton, Commissioners of the SEC Small Business Capital Formation Advisory Committee, today's hosts, my fellow speakers, and the American people. My name is Rodney Sampson, and today I serve as executive chairman and CEO of Opportunity Hub, OHUB, as we affectionately call it. I'm also a general partner at 100 Black Angels and Allies Fund I, and a non-resident senior fellow at the Brookings Institution.

These are unprecedented times for this century. This pandemic is unprecedented, the current race reckoning in our nation is unprecedented. Our nation's 33 percent drop in GDP at a loss of 41 percent of black-owned businesses is unprecedented.

Even more, the accelerated job erasure due to the now accelerated push toward the fourth



industrial revolution whereas technology, automation, artificial intelligence, machine learning, computer vision, quantum computing, and beyond are driving the future of work. Yet before Covid-19, McKenzie had already predicted that 4.5 million jobs currently occupied by African Americans were being eliminated due to automation, yet we're all still here.

To that end, I want to encourage all of us to work today and beyond to put forth innovative, disruptive, and definitive solutions to address the days we have ahead, particularly as it relates to our capital markets and the access of those capital markets by operators and investors of color at all stages.

For context, a little bit about myself. 20 years ago, I, along with Omar Wasso in Chicago, Clarence Wooten in Baltimore, Maryland, were the first three black technology startup founders to raise over $1 million in venture capital. Our distant mentor was in DC. His name was Emmit McHenry, and he was the original founder of Network Solutions. All of our companies were eventually acquired.

20 years later, according to Harlem Capital, only 200 black and Latinx founders have raised over 1 million in venture capital. When juxtaposing that to



the nearly 11,000 firms that received $131 billion in 2019 according to the National Venture Capital Association, our pioneering work can seem negligible, and many times, invisible, especially considering that we start with a third of the capital of our white counterparts.

In 2010, we joined forces with Woody Neese, Jason Best, and dozens of Americans like Sarah Hanks as we advocated for the democratization of capital via the Jumpstart Our Business Startups Act. As history will reflect, this federal legislation was one of the most bipartisan supported bills during the second term of the first Obama Administration.

During that era, there were three noted black advocates for the JOBS Act: Kim Wells in New York, Jarvis Huff in Atlanta, and myself. States like Georgia were also pioneers with their interstate equity crowdfunding rules.

We worked with our then Secretary of State and Securities Commissioner to get this rule into Georgia code. In 2013, after the release of my fourth book, and our national, large scale tech start up and the investment conference, Kingonomics: 12 Innovative Currencies to Transform Your Business and Life Inspired by Dr. Martin Luther King Jr., my wife and I launched Opportunity Hub. We used our own money to launch this social enterprise.

It quickly grew into the nation's largest black-owned multi-campus technology hub and entrepreneurship center. We launched a code school, which has now trained over 300 black and Latinx members of our society for their first careers as software developers.

We launched a pre-accelerator, and an accelerator, which we still run in Atlanta, and now in Kansas City, and we started writing small checks. Even in 2014, OHUB utilized the Invest Georgia Exemption to both educate and raise capital from Georgia residents. From 2016 to the present, we've been fortunate to become small limited partners in several funds across America. We've recently formalized our first fund and have been working to raise capital from black LPs and allies.

Today, we have nine black LPs. Woohoo. That is probably more than most funds in America. We're creating a new investor class real time, while also working to meet the benchmarks of the new allies that have reached out to us since Juneteenth.

So, as we say in Atlanta, the South still has something to say. Although some would argue that



raising capital isn't everything, for those who understand how the macro-capital markets work in our country, we understand that capital is -- capital is indeed everything, whether that be debt, equity, of course, preferably, customers.

In my recent report with Dell Gines of the Federal Reserve Bank and the Brookings Institution, we point out that 20 percent of net new jobs are created by startups, 40 percent are created by high growth firms, 60 percent of our nation's net new jobs are fueled by angel and venture capital, probably less than 3 percent of the entire capital stack.

However, according to Northwestern University, this accelerated innovation density is a direct contributor of income segregation, economic immobility, and permanent poverty in communities across America. Racial equity solutions at scale are required to ensure that black Americans, indigenous Americans, and all Americans will be equitably included in the opportunities that are driving the future.

The solutions. Let's give more capital to undertapped and underestimated founders. Let's get more everyday Americans, especially black Americans, educated and engaged as early investors. Here's some



of my ideas for your consideration.

I encourage, number one, the Commission to request funding in their next budget request to, A, increase funding to the Office of Minority and Women Inclusion for outreach and education in undertapped and socially disadvantaged communities about this many times stealth or unknown investment class we call angel and venture capital.

And, B, collect better data and to make that data available to the public and to innovators that want to create new products and platforms to accelerate the emancipation of capital.

Additionally, funding should be requested for the development of black early stage investors and limited partner education. Whether this be retail, accredited, and institutional, this could be a part of the SEC's education mission.

Resources should be requested to fund organizations like 100 Black Angels, or the Black Angels of Miami, and organizations that are introducing college students to career pathways in venture and private equity at historically black colleges and universities and Hispanic-serving institutions.

Next, I support a campaign to get more



ecosystem building organizations, and entrepreneurship support programs to launch funding portals to advance Regulation CF, and Regulation A+, and the support of the SEC to streamline their applications to go live.

I also support an increase to the Reg CF and Reg A+ limits if we can assure a streamlined process for those operators. I support a revision to the definition of an accredited investor in this country to include but may not be limited to reducing the net worth and annual recurring income requirements. America's domain knowledge and industry experience should qualify them to make the decisions to invest in related investments.

I do agree with limits for this new investor class to protect Americans. This will drive investment into black fund managers that are investing in black-owned operators, and this will drive direct investment into black, indigenous, and people of color-founded firms.

I also support pooled funds and special purpose vehicles similar to syndicates or funds for non-accredited and accredited investors that can drive hyper-local redevelopment of residential and commercial real estate, in-demand skills development companies, like coding and technical sales boot camps, coworking spaces, tech hubs, and accelerators that often provide that first capital into high growth firms and approximate main street and small businesses.

These equity districts, as we call them, have the opportunity to drive hyper-local wealth creation and shared prosperity instead of regentrification. I support a more streamlined path to launching Reg A+ offerings. Today, the legal and associated costs are still too expensive for most American entrepreneurs.

I support exemptions for demo days that are affiliated with ecosystem building organizations, entrepreneurship support programs, accelerators, and incubators, particularly those founded and led by black, indigenous, and people of color.

However, for this to scale, it's important to get buy-in from the mainstream entrepreneurship support programs, accelerators, and incubators to make substantive investments and commitments to increasing their own racial equity.

And finally, I support policy formation at the SEC that drive what we call at OHUB DEISS, diversity, equity, inclusion strategies and solutions across its corporate governance, leadership, teams,



procurement, the development of new investment products, outreach, and go-to-market, investment inclusion, and impact.

For the first time in history, we have an unprecedented opportunity to ensure that all Americans, through innovative capital formation, have access to shared prosperity, and new, multi-generational wealth creation with no reliance on pre-existing, multi-generational wealth. Thank you for your time.

MS. GARRETT: Thank you very much, Rodney. At this point, does -- do any committee members have questions for Rodney?

MS. CASH: Hello. I'd love for you to talk a bit more about your hyper-local strategy.

MR. SAMPSON: Absolutely. Hello, Kesha, and welcome to the committee. Congratulations. So as we see innovation districts being formed across America, many times the innovation districts are not inclusive of black, indigenous, and people of color, and whether it's Technology Squared, Atlanta, the proposed Keystone Innovation District in Kansas City, University of Georgia in Athens just announced one, Raleigh-Durham has been known for its research park.

There's even a 1 million square foot



innovation district being planned in downtown New Orleans, and it's not being planned with equity and inclusivity, and I believe there is an opportunity that pooled funds, or existing structures could be leveraged to allow members of those respective communities to invest in those innovations districts, whether they be the real estate component, whether they be the workforce component, or whether they be the incubation component. And through structured vehicles that are attached to the real estate, there could be a risk mitigator associated with the investment thesis of, you know, of said organization.

I think it allows for the local residents to participate and to own a part of what's being built, therefore creating a sense of actual ownership in those respective communities.

Some of the existing framework could be used in terms of Regulation CF, but I believe Regulation A+, Title IV of the JOBS Act, might be a more appropriate vehicle which currently today, whether it's the $20 million provision or the $50 million provision and Title IV of the JOBS Act, it could be used to raise money for the real estate workforce and entrepreneurship parts of these particular investments.



MS. GARRETT: Thank you. Catherine, did you have a question?

MS. MOTT: Yes. Hi, Rodney. You're very well versed in regulations, and the environment itself, so thank you so much. This is great. And so to some extent you were answering part of my question I have, is when you think about, like, for instance Farah spoke to us earlier, you think about what would be the most beneficial thing that we in this committee that are looking at regulations, what do you think would be the most effective things to move the needle in the right direction? So what -- you know, you mentioned, you know, investor definition, you mentioned pooled funds. You know, what do you think that would be most effective in moving the needle?

MR. SAMPSON: You know, I think when -- there are two parts of my answer to that question. You know, Daymond John is a friend of mine. He was the founder of FUBU --

MS. MOTT: Yes.

MR. SAMPSON: For Us, By Us is definitely something that I believe the community should look at. If government doesn't do it, if industry doesn't do it, then the community has the opportunity to do it. So I think a part of that is using the platform of the

Securities and Exchange Commission to drive this investor class as a class of opportunity. I remember meeting with Pam Gibbs and when she was recently appointed to the office right when Dodd Frank was passed, and I came up with a hashtag in the meeting with all the leaders around the table that said failure is not fraud.

And many times when you're the first and you bear, you know, the weight of being the first, and people, you know, invest their hard-earned money, when you fail, you know, sometimes you bear the weight of that failure and you don't get an opportunity to do that again, but I think that you all could normalize and socialize this early stage investing as something that Americans could and would want to do, number one.

The second thing is I empathize with Farah, my heart went out to her in terms of the terms, you know, when they say the devil is in the details, and a lot of times, you know, being one of those 200-plus founders that had to navigate raising capital, you know, across my career, you know, we overcome bias, you know, conscious and unconscious bias, you know, racism, et cetera, to get to the table, to get in the room, to get a deal, and sometimes the terms, you know, still feel like indentured servitude.



And so, if this convening body could somehow regulate some of the terms just for founders to be more founder-friendly, I would love for that to be signaled out that no American should be taken advantage of when it comes to terms.

I think the terms could be more standardized, they could be fair and equitable for GPs, but also small investors as well, and I think there is more governance for general partners, and funds, you know, would definitely be a benchmark for certain types of LP agreements and reviewing those term sheets, but there's a lot happening down in the angel world that we just do not know, and I think -- and don't want to know, so I would say that I would invite more regulation there. And then finally to conclude the question, I would really make publicly racial equity a prominent part of the conversation.

I mean, if you look at the data, it really says there's really nothing we can do in the private sector. It's going to take disruptive, transformative policy formation -- I think there was a Duke report -- to close the racial wealth gap in this country.

And so it's going to take policy makers, it's going to take this type of transformational thinking to right centuries of wrong, and I think the



opportunity to do it is inside of entrepreneurship and small business where, you know, it's not a kumbaya moment, it's not charity, but it's actually an investment, and it creates a mutual responsibility and reciprocity for all those stakeholders.

MS. MOTT: Yeah. A couple things I will add. One is, I will -- I've been doing this for 18 years. So angel behavior is -- across the board is that, well, they'll try to pick through your five, and be successful at it, and a lot of them will fail, and then they will -- they will, you know, not come back to the angel investment market.

So that's standard. People are driven by fear and failure in investment will remove themselves from the market, and I think that in order to be successful is a fund vehicle or, like you were talking about, pooled money, and I think this just goes across the board regardless of gender or origin. You -- I think we are -- it would serve all the market best if we would work with a portfolio of companies so that you can weather the losses and continue to invest in startup companies. That's really, really critical.

So, just a point I will tell you --

MR. SAMPSON: Sure.

MS. MOTT: -- that I think is really, really



important. Secondly is, I'd love to introduce you to the Angel Capital Association and have you speak because they're really trying to address this.

MR. SAMPSON: I appreciate that, and I thank you for that. Quickly, as my closing comment, I don't also want to underestimate the importance of technical assistance and the -- what I call the science of company building. There's got to be a way to attach entrepreneurs learning how to build companies effectively.

It's not enough just for you to get capital, but it's also very important for you to understand how to build a company, what corporate governance looks like, understanding your industry, and I think that partnering with more ecosystem building frameworks and entrepreneurship support programs and pre-accelerators is important.

We often, you know, kind of get overlooked as, like, maybe nice to have, but not got to have, and then founders run into issues when they're negotiating terms or doing business. And to your point, Catherine, I think, you know, even as we develop this new investor class of black LPs that are entering into this high-risk -- high-risk category for the first time, it's definitely important to present vehicles of access, pulled opportunities that can help them to mitigate some of the risk they would have, rather than going directly into companies. That's where our -- you know, our fund, we look to invest in other funds to provide that education and exposure as a risk mitigator as well. Thank you.

MS. GARRETT: Thank you, Rodney. You raised a lot of very important points that the committee is -- looks forward to discussing. Our next speaker is Monique Woodard. Monique founded Cake Ventures, the investment firm that invests in companies -- (audio interference) -- the needs of a world undergoing massive demographic changes -- (audio interference) -- previously -- (audio interference) -- venture fund, 500 Startups. At 500 Startups, she invested in pre-seed and seed stage companies in the U.S. and Africa. Before moving to the investor side of the table, Monique spent over 15 years in the tech industry as a startup founder, product-focused operator, and an advisor to cities on innovation and entrepreneurship.

In 2011, she cofounded Black Founders, an organization with a mission to increase the number of successful black entrepreneurs in technology. The organization has cultivated a new generation of tech



founders from Silicon Valley to New York City, Atlanta, Austin, and several HBCU campuses. Welcome, Monique. Thank you for joining us today.

MS. WOODARD: Thank you everyone for having me. I hope you're able to hear me well. Again, I'm Monique Woodard, founding partner and managing director of Cake Ventures. Before Cake Ventures, I was an entrepreneur, and I also started a community of founders, so I've been on both the ecosystem building side of the table, the founder and entrepreneur side of the table, and now the investor side of the table. So I want to, you know, first say a few things about the funding gap for black founders in particular.

The funding gap for black founders starts on day zero. With less access to friends and family capital, entrepreneurs are less able to meet the metrics that will allow them to go out and raise institutional capital. Any -- so any initiative to democratize access to capital for black founders has to start at the earliest stages, because without it, founders won't make it to later stages.

And you also can't decouple the access to capital for black founders without talking about the challenges of access to capital for black fund managers. Black founders get approximately 1 percent



of all venture capital dollars and, based on data collected by Richard Kerby at Equal Ventures, black investors make up only 3 percent of all venture capital investors, and that does not break out for fund managers in particular.

Most black investors over the last several years became investors by raising our own funds, because a path into venture through partnership or hiring was so rarely available to us. And now as fund managers, we have not had equitable access to LP dollars, institutional or otherwise, resulting in smaller and more hard-won funds than our white peers.

Black fund managers typically raise smaller funds with lower assets under management when compared to non-black male peers of equal experience, and for black women fund managers, the experience is even more fraught with most black women fund managers coming to market with debut funds that are often sub-$25 million in assets under management, and many -- a lot of funds only hitting the 3 to $5 million mark.

This creates funds that can't be sustained by their own management fees, and ultimately keeps these fund managers not only from growing their firms, but also creating sustainable lifestyles for themselves and their employees.



If we want to talk about wealth gaps, this is exacerbating the wealth gap in multiple directions. Black under -- black investors understand that on the face of sheer data and likelihood of a successful loan, raising a venture fund does look like a fool's errand, but we do it anyway because we believe in our abilities as investors, even when no one else does.

One of the things that I've said over and over again is that raising a fund for anyone is like crawling through glass. Raising a fund as a black person is like crawling through glass with no clothes on, but raising a fund as a black woman is like crawling through glass with no clothes on and covered in fire ants.

This type of dual-sided bias leaves both black entrepreneurs and black investors cut out of one of America's greatest wealth creation vehicles: entrepreneurship and investment.

We have seen success in -- with platforms like crowdfunding for black entrepreneurs, but there is still so much more to do. If we don't fix the many different ways that black investors and black entrepreneurs are cut out of these wealth creation vehicles, we stand to exacerbate the massive racial wealth gaps in America and leave a lot of Americans out of these small business creation vehicles.

I'd really like to open it up for questions, because I think you might have a few based on, you know, my position as sitting in the venture capital seat, and I would be excited to talk to you about that.

MS. GARRETT: Thank you very much, Monique. Does anybody have a question for Monique?

MS. MOTT: Monique, tell us a little bit about your structure. Who are your LPs, and who are your other partners in your firm? And tell us about your backgrounds.

MS. WOODARD: Sure. So I'll tell you about my background first. I started off in tech and startups as an entrepreneur, a bootstrap entrepreneur back in the early aughts. I was recruited to a company based in San Francisco in 2008, so that really kicked off the Silicon Valley part of my career. I stayed at that company for a couple of years, and then started another company of my own in the mobile shopping space, and at the same time, I started Black Founders, a community of founders. Our mission is -- was to see more successful black entrepreneurs in tech.

One of the things that I found as I started



to work very closely with founders was that I -- we could do all of the ecosystem building, and I could introduce them to Sand Hill Road Investors, but ultimately, they still were not getting the same level of investment as their white peers.

And so that really catalyzed my move onto the investor side of the table. I did that at 500 Startups. I started investing in other seed funds. I also opened up a lot of their sub-Saharan Africa deal flow and relationships, because they are very much a global firm, and then I decided to leave to start Cake Ventures.

Cake Ventures is focused on early stage ventures, seed through opportunistic Series A, and thus far, most of my investors are individual investors. I don't have a single black LP yet, as well as there are some funds -- there are some fund-to-fund dollars from some large venture capital -- other venture capital funds who have access to my deal flow.

MS. MOTT: Thank you.

MS. WOODARD: Thank you.

MR. SOLOMON: Monique, have you gone through processes where you've been considered for institutional funding for your platform? In other



words, have you gone to distribution networks like wirehouses or intermediaries that have offered to maybe bring you out to their broad based, high net worth investors or anything like that that we -- that you -- and if so, I'd love to know your experiences, and if not, I'm curious to know if that has just not been made available to you.

MS. WOODARD: I pitch one-on-one to many institutional venture capital -- sorry, institutional LPs. My experience with institutional LPs has been mixed. First of all, in the Fund One, with the solo GP for Fund One -- not solo running this fund -- but I sense that also a lot of LPs often want you to be -- want black fund managers in particular to be hitting a triple -- a triple bottom line.

They want black fund managers to be raising a fund, often also be social impact, and often also be wholly focused on diversity, which is something that many of them are not asking of the white male led funds that come through their primary endowment, and I think that is something that has to be addressed. I think it's fine if you do indeed hit those triple bottom line, you know, requirements for a lot of these funds, that's perfectly fine, but there are many of us who are focused on areas of technology that aren't



specifically only going to invest in diverse fund managers or diverse founders, or we believe in a much broader view of underrepresented -- under representation.

And I think that, you know, I'm continuing to speak to some institutional investors, but for Fund One in particular, I've almost entirely moved away from institutional and large institutions, and gone to high-net worth individuals and family offices, and unfortunately, black LPs are not well represented within those two groups.

I have not had the experience of, you know, working with a -- working with an entity that introduces me to potential LP prospects. That just hasn't been particularly successful for me.

MR. SOLOMON: Yeah, so the only other question I want to ask is --

MS. WOODARD: Yeah.

MR. SOLOMON: -- and I just -- again, I think a lot of -- well, certainly battling the first time fund thing is challenging in and of itself regardless, you know, I think we've all had experiences in doing first time funds that have been very challenging.

So one of the things that I'm curious to know is if there were a -- you know, I kind of think about things from the intermediary standpoint, so we marry up people who have capital and people who need capital. That's kind of the way we think about --

MS. WOODARD: Mm-hmm.

MR. SOLOMON: -- the world, and we also use other people's platforms to distribute our product that we manage, and just the process of getting approved on those platforms is very, very complicated.

Once you're in, they can drown you in money and access to individuals, but it's really hard to get in, and I'm just curious, if anybody has approached you with the idea of putting your fund up on their platform, or you know, engaged you around that opportunity set, or if you've tried to engage them, and they've sort of just not paid attention, or not really shown any interest.

MS. WOODARD: I have indeed talked to some consultants, and it didn't go very far. I will say that diplomatically. It didn't go very far, and I just don't think those were a fit for me.

MR. SOLOMON: Got it. Thank you. Thank you for sharing.

MS. CASH: Good morning, Monique.

MS. WOODARD: Hi, good morning.



MS. CASH: I have a question for you -- I have a couple of questions. When you were doing the work with Black Founders in the ecosystem building that I know was catalytic for many founders, some of which that -- one of which I'm invested in now, who supported that work financially, and sort of building on that work, are you -- are you able to effectively use your track record from that work, or do the traditional diligence checkboxes don't account for all of the fantastic work you did to cultivate an ecosystem?

MS. WOODARD: We received a handful of grants from Comcast and a few others, but by and large -- Blackstone was another one of our grant writers, but by and large, we supported that ecosystem building work out of our own pockets, and when I -- so, you know, I think the one person that you're mentioning in particular is Deshawn Amera from Maven, and I met Deshawn Amera in -- back in the very, very, very early days of Maven, pretty much day zero, and so when I talk about my track record, those people that I helped through Black Founders are not considered part of it.

LPs do not recognize that as investing level work, even though, you know, we were certainly



investing time, you know, in a lot of cases, or in capital around, you know, building up Black Founders and the ecosystem building that we did. What is in my track record is -- are my angel investments, my investments from 500 Startups, and my investments as a Lightspeed Venture Partners scout.

So, I do have a pretty extensive track record that I can point to, and you know, it varies from LP to LP whether they think that track record is good enough, but I've certainly seen non-black fund managers raise funds on essentially zero track record.

MS. CASH: 100 percent. Correct. Thank you.

MS. WOODARD: Thank you.

MS. GARRETT: Thank you, Monique. I have a question, just to follow up on Catherine's question to the last speaker. Do you have recommendations to us as a committee on things that you think that we can do, and that we can advise the Commission on to make things better and easier?

MS. WOODARD: Definitely. I think -- I think the main thing I want to sort of dive into might be the qualified purchaser area. So, in order to invest in a venture fund, most of your -- most of your investors need to be qualified purchasers, and so that



means having $5 million in investments, so for the fund that I'm raising being an accredited investor is not necessarily good enough. It's being -- you need to be a qualified purchaser.

And so I am having some challenges taking some of the smaller checks that could come from other black LPs or other, you know, women LPs who just don't make that qualified purchaser threshold, and my law firm is working on some work arounds here, but it is going to be a work around.

And so, I think taking a second look at the qualified purchaser requirements could be a way to get more minority LPs into -- into funds, and you know, have them also be part of this wealth creation. So that's probably my number one recommendation.

MS. GARRETT: Okay. Thank you. Anything else you'd like to recommend?

MS. WOODARD: You know -- there's very little I think that can be done to change the biases of LPs, and so I think those are the areas that have to be changed. It's really unlocking what an LP thinks that a successful fund manager looks like, and what experience they look for when a black fund manager is across the table from them. And so, I think it's up to LPs to address those biases, and to address some of the things that they may be setting up internally that leave great fund managers out of their pipeline.

MS. GARRETT: Okay, thank you. Jason, did you have a question?

MR. SEATS: Yeah, I just wanted to put a little more weight behind the qualified purchaser comment, because -- and by the way, having, you know, raised funds as well against both institutional targets and others, like the metaphor is exactly right, and I can only imagine how it would be harder if I was, you know, you know, covered in fire ants or whatever else. And so -- so, the -- yeah, so if you're going to raise a venture capital fund, you use -- you're using one of the major exemptions there, either you have to choose if you do a 3C1 or a 3C7 fund --

MS. WOODARD: Right.

MR. SEATS: And the trade off there is if you do the version that allows you to take accredited investors, you're limited to 100 or less. And so if you're raising money from small angel investors, you're just not going to get there.

It's going to be a dinky fund. If you go raise a 3C7 fund, you can have unlimited investors, which is fantastic, but the threshold for who those



investors can be is that they have to have $5 million of invested assets, which is a very high bar. And so it's a really weird sort of dynamic where somehow it's easier to raise a fund with lots and lots of small checks from wealthier people versus a fund with lots -- with aggregating small checks from people who actually are more -- where small checks are more appropriate. Totally strange dynamic --

MS. WOODARD: Yeah.

MR. SEATS: And it is something that we -- you know, I mean, I sort of feel like I see both big funds and small funds deal with that -- those challenges.

MS. WOODARD: Exactly, and I think that's why you see a lot of black fund managers come to market with debut funds that are, you know, 3 to $5 million funds, and not able to get to sort of escape velocity on a fund size or assets under management.

And so ultimately it will take those fund managers longer to get to what's called $100 million fund, which is, you know, sort of --

MR. SEATS: 100 percent.

MS. WOODARD: -- higher risk of viability, right. So I think -- I think sort of unwinding some of the challenges around those two different fund



types could be something really important to think about.

MR. SEATS: Yes, to the QP definition, or lifting the accredited investor number cap, or 3C1 --

MS. WOODARD: Yeah.

MR. SEATS: -- one would also I think be, like, huge.

MS. WOODARD: Exactly.

MS. GARRETT: Jeff?

MR. SOLOMON: Yeah, I see. I think we've talked a lot about it in this committee. How do we cultivate the pools of capital that are appropriately sized for the opportunity sets that are being presented? So one of the challenges is, you know, as all these pools of capital have gotten so much bigger, you know, whether it's mutual funds all the way through to venture capital firms, like, their ability to write $10,000 checks or $5,000 checks or $100,000 checks is just -- you can't -- they can't justify that.

So, if we're talking about creating -- and Jason is on this -- with creating a potential or making a recommendation to the SEC to create an onramp, if you will, for non-accredited investors to participate in funds that can invest directly in their



communities, or invest directly in businesses they understand.

How would you be thinking about getting -- how would you think about the idea of having the fund manager be licensed as a -- or qualified in some capacity to ensure that people don't get scammed, right, by -- you know, you're obviously very -- you know -- I can -- I mean, I just looked you up, and I can find out within five minutes that you have lots of quals that give you credibility.

We also happen to be talking about this, and I'm pretty sophisticated about it, so I know how to ask those kinds of questions, but you know, if you're -- if we're looking at aggregating or creating pooled vehicles that aggregate money from individuals that may be non-accredited, or may be under a different definition that has yet to be determined, how would you feel about the idea of making sure that there was at least some licensure required for the GP? Is that what I -- what we don't want to do -- or at least what I don't want to do is create another barrier --

MS. WOODARD: Right.

MR. SOLOMON: -- for fund formation, but at the same time, the SEC is always trying to balance

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this, you know, access to capital with how do we make sure we don't let, you know, individual investors get scammed. I'm curious to know if you have any feedback on that.

MS. WOODARD: I think -- I think it would depend on how onerous the licensure ended up being, right? I think on its surface, sure, but I think it would be what are -- what are the -- what are the questions?

How big is the barrier to entry? Does it -- does it then just become another vehicle to keep people out? Because then I can certainly see more experienced fund managers deciding to create funds that circumvent the licensure, right?

Because they just don't want to deal with the high barrier to entry, even if they probably could pass the licensure bar, right? If it just becomes another high barrier to entry, a lot of people will just circumvent it and say, look, I'm going to create this type of fund with qualified investors. It's more difficult, and I'll -- you know, it'll be more like crawling through glass, but I'm just going to go that route rather than deal with the regulatory issues that this new thing have created. So I -- you know, I wish I had a better answer, but I think the answer is

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really it depends.

MR. SOLOMON: Thanks. Thank you.

MR. SEATS: I'm going to horn in on -- I just want to ask one really quick question, Monique. If --

MS. WOODARD: Yeah.

MR. SEATS: -- you could have unlimited accredited investors in a 3C1 fund, do you think you could raise more money than you're able to do today against qualified purchasers?

MS. WOODARD: You know, ultimately, I'm going to get there, right? Because I have a good background. I have lots of contacts. I'm going to get there. So I think that for me, I would probably not go for unlimited unaccredited investors, because I don't have, like, a high net -- a massive high net worth, you know, network.

What I do have is networks into other venture capital funds who, you know, are interested in doing fund-to-funds, and that they can get access to my deal flow, you know, other GP -- GPs in other funds who do meet the qualified purchaser, you know, requirements, so I am more likely to be in the -- in the bucket of funds that just go out and raise from qualified purchasers, and yes, it's hard, and it's

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going to suck, but that's fine.

I think there are other people who, you know, may say, you know, it's fine if I'm going to -- I'm able to go out and raise from a lot of -- a relatively smaller-check, accredited investors, and that will work for me. And so, I think having those options, having that level of optionality is really important for getting more diverse fund managers across the table and across the finish line. Thanks, Jason.

MS. GARRETT: Thank you, Monique, and thank you for joining us today. We really appreciate your perspectives. We're going to move onto our next speaker.

I'd like to introduce Densil Porteous. He joins us today from Columbus, Ohio. Densil is a CEO of the Pride Fund 1 at LOUD Capital, which is an early stage venture capital fund. The Pride Fund aims to empower LGBTQ+ entrepreneurs through venture capital, and the fund invests in early staging growth companies led by LGBTQ+ individuals.

Densil spent his early career in education administration with roles at Stanford University, Columbus College of Art and Design, Canyon College, and Drew School. Densil also serves in leadership

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roles on a variety of boards including Human Rights Campaign. He recently began serving as interim director of Stonewall Columbus, the city's LGBTQ community center, and on a working group appointed by the Columbus mayor to develop plans for a civilian police review board. Welcome, Densil. Thank you for being here today.

MR. PORTEOUS: Thank you all so much for having me. Hopefully you can hear me well. Great, wonderful. Well, I -- wow. First, I'm just elated and delighted to be here and a part of the conversation with such an amazing group of leaders. I just want to acknowledge Monique and Kesha and Farah in particular. I'm sort of, like, a fan. For all of these folks, I think representation matters in these spaces so much, and so I appreciate seeing black women showing up in these spaces and taking space where they should be.

So, just acknowledging that, and I appreciate it. I think that the opportunity to share a little bit about myself and the pride fund -- Pride Fund 1 is really great. I think this topic that we're discussing and covering is relevant and clearly very timely. And so, I appreciate this space that you all are taking to talk about diversity, equity, and inclusion, which is really what we're talking about with the SEC. So, again, appreciate it.

I think I want to just start off -- I come from a very different space. So, I -- you know, I come from higher education, a non-profit background, so please forgive me, but I want to acknowledge some of the micro-aggressions that were happening during this conversation that I think are really important to talk about, because I think that often times what we as founders and venture folks see in this space is that we are confronted with micro-aggressions in the terms of how people give expectations, say, for who we are as individuals.

And so, just be mindful of that as you continue to engage in this conversation and discussion to think about where people are coming from. Not everyone is equal to you in this space, and so therefore making statements of that is actually quite a micro-aggression, and that's something that we face quite often, so just be mindful of that.

I'm excited to talk about my space and how I've come here. I am not born in America, so I think the intersectionality of my perspective is really great. I was born in Jamaica, became a U.S. citizen at a very young age. I was born and grew up in a



single-family home. My mother did not finish college. She had to work and get her GED when she came here to New York City. I am the youngest of three older -- I have three older siblings, all women. I identify as LGBTQ, and I sit in a very intersectional identity and space.

And so, when I think about how LOUD Capital, you know, which is the organization that started and formed Pride Fund 1, really was thinking about social ventures and wanting to think about how they uplifted and empower diverse communities within -- within this space.

I was really excited to partner with LOUD Capital and Atlas Partners when they asked me to serve as CEO of Pride Fund 1. I had been a venture partner, so I had been behind the scenes thinking about how we really intentionally think about creating a fund that would help lift the LGBTQ community, in particular because often times that holistic identity itself is not allowed in spaces like this.

When I walk into a room, you can see that I'm black, hopefully, right? But when I walk into a room, you don't know that I'm gay unless I open that conversation and dialogue, and up until just recently in June of this year, we were still able to be fired



and discriminated against for that LGBTQ identity in the workplace.

And so you can imagine sort of how so many people who wanted to present their full selves in this space because we understand diversity is important as we think about businesses -- business ecosystems, they couldn't bring their full identities to work to bear, and that was important for us at LOUD Capital and its partners to really, really use Pride Fund 1 to operate in that space.

We are a traditional venture form of investments, and so, you know, we are still looking at the return on investments when we're thinking about what it means to find ventures that are sustainable and growth oriented. But we are really looking at uplifting a story, an identity, and a community, and empowering that community through education as well, which is something that I've already heard those who have spoken before really talk about, and not know only the education in terms of education of the -- of the ventures that are getting started, but also education in terms of those who are looking to invest in some of the -- in some of these companies.

Education is really essential to what we do, and what we talk about as we are working with our



ventures and our venture partners. We're looking at uplifting the community. So not only are we -- are we saying it's important for dollars to support, but how do we also support their growth and education?

Do we have LPs and venture partners who would be able to offer support in terms of marketing or communication strategies? Can we offer these ventures that we're working with legal support or advice as they start to think about how they grow and grow still with intention, and that's a lot of what we're doing at the Pride Fund I, and it's really a phenomenal experience, because also what we're seeing is that, you know, we started in Columbus, but that quickly branched out across the globe.

People were reaching out to us, leaning in, and saying, how can we help out and uplift this really great and important moment? How can -- how can we not only be able to help bring possible ventures to you, but how can we also, again, lean in that support, give advice, and connect with community to uplift. And so, I think that's been a really -- a really, really great positive thing.

When you're looking at the LGBTQ community, we cut across so many different segments of society, and intersectional identities, and I think that's a really great space to exist in as an organization.

What we've found in the ventures that we've funded is that we're also able to look at a wide variety. Our vertical is the LGBTQ identity, but outside of that, with things that we are investing in across the spectrum in a really beautiful gamut. And so, we're looking at -- looking at fashion brands and industries to uplift, but also looking at technology and tech devices that we're investing in as well.

So, I think it's a beautiful -- a beautiful space in which we exist to say that the ventures that are coming to us aren't in one particular segment as some of my previous speakers have spoken about, but we are looking across segments as well.

I think what we are -- what we are finding as we're looking at LPs, and some of the things that we've talked about or people have already addressed is their very limited ability that sometimes that folks want to give smaller checks, and of course we can't accept those, and there's space in how we even have to think strategically or creatively about how we encourage them to think about the ways we can do investing.

And so, that's been, again, an education component, where we spend time not only finding the



resources to give folks so we can learn about how they can potentially invest in the lower dollar amounts, but also bringing that education out to just the general community to ensure that people are aware of the opportunity to be a part of capital and growth and investment and wealth and wealth growth and acclamation as well.

So, it's been a -- it's been a -- it's been a beautiful -- a beautiful opportunity, and you know, again, as has already been highlighted. I come from a very different background of higher education where I believe that higher education and education should be for everyone.

And so when it comes to this particular space about wealth attainment and uplifting, I believe the same thing I think that Commissioner Peirce who said earlier, capital markets should work for everyone, so just like education should work for everyone. I firmly believe that and being able to move into this space and this opportunity is why I'm here and why we're doing what we do at Pride Fund 1. So, thank you, and I'll open it up to questions.

MS. GARRETT: Great, thank you, Densil.

Greg, did you have a question?

MR. YADLEY: Yes. Thank you, thank you very



much. I wonder if you could talk a little bit about the Pride Fund, and what the primary objective was, and how you approached investors, both people that you would think would have affinities for those investments, but particularly those outside, you know, LGBTQ community.

MR. PORTEOUS: Yeah. Well, you know, I come from a marketing and communications background, and I think there's a beautiful storytelling element to what we're doing.

And so the opportunity to connect not only with people's hearts but also minds I think has been what has really helped us. We have created and thought about the ecosystem in which we exist, and then to leverage those spaces in places.

So, for example, Pride Fund 1 partners with an LGBTQ accelerator program that was founded here in Columbus, and that's an opportunity to tell a story about how we are working to uplift the community in a space where we traditionally didn't have the training or understanding of what it meant to create a deck, to present to possible investors.

And so, it's been great to find ways to connect with investors through this, so being able to uplift and tell the story of the ecosystem of the



LGBTQ community, and how we are thinking about in that way to create pieces is that role to develop the whole person. I think that's literally how we found people coming to us.

So as they've heard the story -- these stories, they're like this is a real great opportunity and express the interest in it. And, ultimately, I think to answer in terms of sort of the venture possibilities, again, I think that it is -- it crosses the gamut. You know, they are literally just reaching out to us because for so long folks have not felt like their LGBTQ identity would be a part of what would be an uplifting part of their story, or something that venture partners would be looking at and thinking about in the equation to give them an opportunity in this space.

MS. GARRETT: Thank you. Martha, did you have a question?

MS. MILLER: Yes. Densil, I appreciate you sharing the story of your new fund. I have a question for you. We highlighted some of the data. There's limited data --

MR. PORTEOUS: Yes.

MS. MILLER: -- that I have seen on investing both with founders and investors in the LGBT community, and a lot of what we've seen shows stronger correlation with gender identity as opposed to sexuality, and part of that, I think you covered that as covered identities. You could walk into the room and not affirmatively own your sexuality.

I'm just curious as you look at this space, what should we be aware of as some of the greatest challenges that LGBTQ founders and plus I should say more broadly in the community face that we should be thinking about as we look from a policy perspective, because there is a -- there's a dearth of information there, and I would love to learn more from your perspective.

MR. PORTEOUS: Well, Martha, and actually, I'm so glad that you asked the question, because I had a little note here to say thank you for all of that data at the beginning of it, because it was -- it was amazing, and I hope --

MS. MILLER: I appreciate data.

MR. PORTEOUS: I was smiling -- I was smiling when you said something -- and hopefully everyone else dived into it as well, but you know, I think what you're finding in the space is less about policy and more about systemic practices that continue.



And so I think, you know, that's part of the reason why I started off the conversation about the microaggression in the comments, and, again, it's not something that people probably think about and note, well, was it done, but I think as we think about the systemic ways in which things were created, they just automatically create barriers for folks.

And so I think it sort of deconstruct, then reconstruct, and therefore then you will see sort of forward movement. As you -- as you look around the committee, you've added some voices, and I think if you take a moment to, again, think about the way things were created before with new voices at the table, there are going to be different questions that are asked.

We're going to think about the creation of systems in very different ways. And so, to me, again, it's not necessarily that there are specific policies, but it really is just thinking about the systemic way those things were created, and that's -- that's what we have to sort of -- to make headwinds against.

You know, as you think about, for example, you know, when you -- when you walk into -- I think earlier someone talked about the rooms and spaces in which you walk into, where it's a perpetuation of sort



of commonality, and I think what we're going to see as an example up here is that at some point you broke tradition in terms of what the common makeup of this organization or this group was, and that started to produce diversity within thought and thinking of who would then be stepping on, or asked to be a part of this. I think again, for me, it's less about any written particular policy, but just the creation of it and the systemic ways these things came together.

You automatically start to think about diversity when you have diverse voices sitting at your table. I think that's basically the essence of it, right?

MS. GARRETT: I have a question. You said that you've encountered where people want to give smaller checks, and you can't accept those. You know, that's obviously one of the -- a barrier. I wanted to see what you've done when you've encountered that, and also if there's other barriers that are similar to that that you could point out to this committee.

MR. PORTEOUS: Yeah, yeah. You know, I mean, I think that's -- that's when, again, my heart sort of kicks in, because I -- you know, you see that, that space of a desire to impact, but because of limitations, they can't, and then it becomes this



entire educational moment, right?

So, you're starting to talk to people about, well, do you create entities in order to, you know, combine funds to do a thing to make it move forward. You know, it becomes a space where we become more, again, more of an educator and a mentor and a guide, and those are things that are fine. We -- we'll do that, because again, that's what I believe is important. Education is important, but not everyone exists in that space, right?

Like, how many times will you see a venture partner say, oh, I'll take the time, you know, to stop what I'm doing and really invest in you, the individual, to help you understand how to do this work. That's not a thing that happens quite regularly, and we will take the time to do that. So I think that's -- that's what we do.

So, it does slow down our process, but it's important enough in this space to ensure that those who want to do understand how to do, you know? So I think that's -- I think that's what we've often found, is that we just have to -- people take the extra time to uplift those who may not even have the understanding of what they can do to get to where they want to be.

But it's a beautiful thing again, I think, to me, because you do see that there are so many people who have a desire to be a part of this capital space, but just, you know, don't have the right entry point, or understand how they can enter it.

MS. GARRETT: Okay, great. Thank you. Does anybody else have a question for Densil? Well, thank you very much for joining us. Your perspective has been very valuable, and we are happy to have you here today. We will now move onto our next speaker, our last speaker for this morning is Lesa Mitchell.

Lesa is the managing director of Techstars Kansas City Accelerator, which invests in companies and supports their skill. For ten years, Lesa was vice president of innovation and networks of the Kauffman Foundation where she designed, implemented, and scaled models focused on initiating new markets and recovering markets in support of economic growth.

Lesa's career has included roles as a corporate executive, an entrepreneur, and a consultant to multi-national corporations expanding their innovation footprints.

Lesa, we welcome you to today's meeting.

MS. MITCHELL: Thank you, and I have to tell all of you that I've known Rodney and Monique and



Kesha and a number of others for many years in funding things like platforms and startups and a number of other organizations, and it's very frustrating to know that we have been trying to work on this problem since about 2005 from a philanthropic standpoint and in many cases we're still having the same discussions.

And so I'm sorry about that. I feel like I've spent a lot of years of my life trying to solve some of these things, but to be honest -- and those of you that are on here that I funded your organizations know -- in most cases, we could very seldom get other people behind us to fund things tied to people of color or women in entrepreneurship.

And so I mean I believe everything that Rodney has said and support his policy recommendations. I support policy recommendations that Monique has made, and, frankly, what I'd like to talk to you about is going back to a comment that Monique made, which is day zero.

At Techstars, we have funded over 2,000 companies in the broad middle of the United States that I would classify as, like, Philadelphia to Salt Lake City. We are probably the number one seed funder, and what I find -- and I have funded -- the top of my portfolio are all black founders -- and I



can tell you that what I have found is day zero is the problem.

And what I mean by that is -- and it's -- and it's unfortunately getting worse, not better, and what I mean by that is black founders or black college students have more significant debt than any other -- than any other college students that are coming up there. We also know that there is a generational wealth gap that has not gotten better because of some of the things that Monique has mentioned here.

We also know that many of the founders that apply to Techstars, who are black founders especially, have spent years doing what I would call a side hustle trying to get their companies up and running. In many cases, some of the companies that we have funded have legally founded their companies five or six years ago but couldn't afford to quit a full-time job in order to do this.

As we heard from one of our first speakers, they don't have access to friends and family that are going to support them, and, you know, frankly, doing a side hustle for a long period of time and not being able to fully engage in your early stage company is -- at a certain point, some of the things that you're doing are no longer valid, and you're too far behind.



And so I would like to talk about what I think would help at ground zero -- or day zero, and ground zero. So one of the things that we have seen and, you know, as the vice president of innovation and entrepreneurship at the Kauffman Foundation, we funded millions and millions and millions of dollars of university entrepreneurship programs. Unfortunately, most of those are at what I would call high-end universities. Very few are state programs. Some of them that were state entrepreneurship programs are still some of our highest-cost universities to go to in the country, whether that be the University of North Carolina, the University of Illinois, Champagne, Urbana were a couple of our -- campuses, but still, 40 or $50,000 a year to go to.

And so, you know, while we have put a lot of money into entrepreneurship education per se, I think what we have all found over the years is that it is actually the experiential opportunity that gives all founders an equal footing in terms of expertise. The Kauffman Foundation funded an organization called Startup Weekend, which Techstars eventually has taken over, and just looking back to 2019 to today, the startup weekends that we have funded that focused on people of color or lesbian and gay communities, we have 931 individuals that fall into those categories that have been through that program.

Realize, I mean, 931 isn't a lot. And so, it's a perfect example of, we need more. We need more startup weekends that give individuals, whether they're high school kids, college kids, or adults an opportunity to spend 48 hours experiencing pitching an idea and figuring out how to take it through to later. I mean, one of the reasons that we know that these experiential opportunities are important is that since 2005, the increase in the number of student competitions tied to universities has had an exponential increase.

The largest student competition in the United States is through Bryce Business Plan Competition. They've funded over 237 startups who have raised over $3.2 billion. A, they take 400 applications a year. It's one competition, so, you know, that's from -- that 237 companies that have won their competition is from 2001 to 2019. It's a tiny little slice of life.

You know, MIT, University of Washington in Seattle, University of Washington in St. Louis, again, a number of the high-end universities have a ton of student competitions, but again, it's a burden on the



individuals that are at those universities who are -- already have a student loan burden to participate in the competition and get a little teeny piece of money that they're going to be able to take out into trying to start a company.

What we have seen positively -- and the Commerce Department a number of years ago started funding these models that would allow organizations -- and a great example I would give you is the Arch Grant program in St. Louis.

There is both some state funding as well as philanthropic funding that goes into it. It's $50,000, and I can tell you that $50,000 is more than 65 percent of the individuals that get Arch Grants are women and people of color.

The -- they measure over time the number of jobs that have come out of there. They told me specifically 1,900 jobs over 154 companies, $393 million of revenue, and is non-dilutive money. Because one of the things that you heard from our very first speaker was there -- because of the lack of access to capital in day zero, there is a tendency for both women and people of color to -- what I would call accelerator hop.

If in fact you're dealing with non-diluted



dollars that are from an Arch Grant program or from other competition, that's awesome and amazing, but if you're accelerator hopping from accelerators that take equity in your company and you do that more than two or three times, you've essentially eliminated the opportunity to ever take venture capital, because you've given away so much of your company, and I think that's what we heard from the very first speaker.

And so -- and you know, in my mind of spending 2005 to now trying to support black founders, I think everything that you heard, as I said, from Monique and from Rodney is correct in terms of policy making that we can do to create greater access to capital, but I also have to say, you know, if this committee has an influence on commerce or other areas of the government that could allocate money toward things like -- I mean, we've seen huge success out of the SBIR program, but again, if you look at the SBIR program, those are -- those are long grants.

It's a huge, long grant cycle. The majority of people that are applying for those grants are tied to PhD programs out of our top universities in the country. In some cases, early stage entrepreneurs, but not very often. It's usually PhDs and master's degree people out of some of our top universities.



And so, if we could find other types of kinds of SBIR programs that aren't necessarily focused on staff, but are focused on potential early stage non-dilutive money, I think we would see a significant increase in the number of both women and people of color that are trying to solve real community problems through the lens of entrepreneurship, and we need to figure out a way to do -- to create those kind of early, day zero support systems, because those individuals don't have access to funding in any other way.

MS. GARRETT: Thank you, Lesa. That's a lot of great information. Does anybody on the committee have a question for Lesa? Sue, did you have a question?

MS. WASHER: I didn't have a question. I just had a statement. I think that the idea of coming up with some grant program like the SBIR program for the non-STEM entrepreneurs is a terrific idea, because that program is highly successful. It does make sure that people know and have a plan, because they have to write out their plan. They have to write out their future. They have to provide the qualifications of the people involved.

And so applying that kind of concept outside

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of the STEM space I think could be a very powerful way to help people get that first leg up. The grants can sometimes not be very much, 120, $150,000 at the first stage, but that can make all the difference in the world to generating that first little grain of the idea and moving that first step forward. So, Lesa, I think that's a tremendous idea.

MS. GARRETT: And does anybody else have any questions for Lesa?

MR. SEATS: Well, I guess a question for you, Lesa, and maybe even just -- even for the broader group if anyone else has a reaction to this, I mean, the -- the -- having frustration at, you know, what's now, what, 15 years of your I guess personal -- pushing against this issue, the thing I'm wondering about is what is there to be learned from the prior effort to increase the chances that this moment that we have now is that we can, you know, sort of make some sustainable gains, I guess. I don't know -- how do we make it different this time?

MS. MITCHELL: Yeah. I mean, I think what's going on in the world is actually helpful. I have a number of black founders that I'm currently invested in early stage right now, and the interest that they're getting from venture capitalists is higher

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than I've ever seen.

I'm actually worried about it, because I don't know how much of it is real versus theater, and so -- but it will -- it will remain to be seen, but I would say that in terms of what else can be done outside of government at state and city level, I mean, the frustration with the lack of follow-on funding for pretty much anything -- I mean, we were the first funder to start out, and I don't know if they ever raised any other money we created with -- organization called Platform, which was intended to be TED for not white people. We could never find anyone other than us and corporations to fund it.

And so I guess what I'm hoping is the pain that is felt is real, and other people will come into this space, but I'm not seeing it. I'm not seeing it from philanthropy. I mean, we don't see it from trying to get people to support start up weekends that are very specifically focused on HBCUs. I mean, the ability to raise money to do things like that is just -- it's painful. It's so hard. Sorry.

MS. MILLER: I have a question. You asked just one thought that I was tying together some of the feedback we've heard from some of the speakers as we get ready to go into lunch -- and I'm not cutting off

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questions by any means, but just trying to tie in together.

You know, I think that Rodney mentioned that failure is not fraud, and the challenges of having your portfolio and your success benchmarked against your peers if you are a minority or a woman, but if you are not, then it is judged against a different benchmark. I think we've heard that theme a few times.

I think the one thing that we have continued to hear as an office is the challenge of somebody investing in a minority-led enterprise that may not meet a market-driven solution at the end of the day, and so it doesn't succeed as a company, and that being used as not ammunition, but as a reason to not make an investment like that in the future, and I think that having conversations and really bringing these issues to the forefront with visibility as we start to work on solutions is a critical first step. It's by no means the end-all solution to it, but I am encouraged by the fact that we're actually having candid and frank conversations about the realities that it is very different raising capital if you are a part of a minority community, you have, you know, gender or sexuality that doesn't meet the norms of what the

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investors who are looking to deploy capital look like. So I'm encouraged by the conversation and really looking forward to the discussion this afternoon amongst committee members on that.

Catherine, I think you were about to raise a question for Lesa.

MS. MOTT: I was going to follow up basically what Jason was asking about was, what's the one thing that we as this committee can do, Lesa, regulatory-wise that would push the needle in the right direction? You've heard us talk about things like, you know, the accredited investor definition, or the number of investors in a pooled, you know, entity, you know. What do you think would really move the needle for access to capital?

MS. MITCHELL: Don't need to kind of go through any of those items. I think they're all correct, and I wish there was one thing, but I think unfortunately there is many, and we need to figure out all of those levers and how they -- how we can do them for a regulatory standpoint as quickly as possible.

MS. MOTT: Okay, thank you.

MS. GARRETT: Thank you. And thank you, Lesa, for joining us today, and thank you for all of our speakers for joining us today. I think it's been a very informative and productive morning, and we really appreciate all your time and being here with the committee today. It is almost 12:30.

We will go ahead and break for lunch now. The webcast will stop, and we will resume our committee meeting at 1:30. So if our committee members can try to be back on around 1:25, that would be great, and we will start our afternoon session then. Thank you very much.

(Whereupon, at 12:30 p.m., a luncheon recess was taken.)

A F T E R N O O N S E S S I O N

MS. GARRETT: Welcome back. I hereby call the meeting back to order. I hope everybody had a nice lunch break. The speakers this morning shared valuable experiences and illustrated the longstanding systemic problem that underrepresented founders and investors have in raising capital.

Just -- hi, Jeff. As a reminder, the role for this committee is to use our experience and expertise to provide strategic guidance to the Commission. In this context, I think it would be helpful for our committee to put forward some key takeaways from this meeting in areas where we observe SEC rules that may be having a disparate impact on



access to capital for underrepresented founders, and some best practices and potential regulatory solutions to enable more inclusive capital formation ecosystem, and the Commission can take those findings into account when adopting rules and policies.

Given the breadth of the discussion this morning, I would now like to just open up the conversation to the committee members. If anybody has thoughts that they'd like to share based on what we heard this morning, I think we can have a good conversation about different topics that were raised this morning, and hopefully before the meeting ends we can come up with some takeaways and possibly some recommendations that we could vote on to provide to the Commission.

So, who would like to start? Martha, I guess I'm putting you on the spot first.

MR. SOLOMON: Carla, can I just -- can I add one thing? And maybe this is a -- maybe there's a framework error that I just would like to maybe recommend, and I think if we look at just the two sides of this, which is sort of the capital users -- right, the capital needers, and the investors -- the capital providers.

And I think if we're -- you know, if we're



going to talk about making recommendations, I just think it's a helpful framework to think about whether we're making -- if you're going to make a recommendation, think about whether you're talking about the things we can do to make it easier for companies to access capital, or easier for investors to get access to companies. I think those are the two sides of the discussion, and the SEC regulates both of those obviously.

So, it would be I think helpful when we think about making recommendations that we try to address both sides of that, because I heard enough this morning to suggest that there's work to be done on both sides of that ledger, and maybe that's just a good framework for people to think about how to frame their comments. Is that okay?

MS. GARRETT: Perfect.

MR. SEATS: Maybe just to explicitly --

MS. HANKS: Carla, I'm happy to --

MR. SEATS: -- connect one dot there -- two dots there, Jeff, on top of your point, I think the -- one of the things was I guess implicit -- explicit in some spots is that lack of diversity in terms of the -- and the decision makers who control capital, it just ends up getting reflected into the market, and so



that's -- and so that's, you know, looking at the barriers to capital formation for venture investors who are diverse is an indirect way to try to address that -- those issues as well.

MS. GARRETT: Yes, Sara?

MS. HANKS: Yeah, I just wanted to make one comment about something that I had not realized before, which is the disproportionate impact that the investor rules -- and to -- as what Jeff was saying, this is very much from the investor point of view, and the ability of investors of all types to build their wealth, and I had never really focused on the extent to which the QP rules, as well as the accredited investor rules have a hugely disproportionate impact on the ability of certain communities to build their wealth, and I think this is something that the -- that the Commission should be looking at, specifically when considering as one of the questions that Jason had raised is some -- excuse me -- 3C1, and should that be 100 investors? All of those things should be sort of in the context of how is this -- how are these exemptions permitting everybody to build wealth?

MS. GARRETT: Yes, I thought that also was a very good point. Jason, do you want to expand upon that a little bit? And then Youngro, I'll come to

you, okay?
MR. SEATS: Yeah, I mean, I think -- I don't know if I can expand on it. I would just reiterate it maybe in different words, but you have to make a choice when you're going to go raise a venture fund, one of two paths, or you can do two -- you can -- or you can raise two parallel funds and invest in the same way, but they're each going to be governed by this set of rules, and on one hand, you can go for very large investors, and you can have an unlimited number of those, and on the other hand, you can go for people who meet the accredited investor test, but then you have a limitation on how many, and that how many limitation, I don't know that I understand the philosophy behind why that exists, but it ends up being a double-whammy because then you're aggregating small checks from smaller investors, and you're fixed by how many of them.
And then on the other side, there's no limit. You can have hundreds or thousands of qualified purchasers, and in fact, I -- I mean, in a totally random fund I've come across in the past raised $150 million from 800 qualified purchasers, and that's so unusual that it's, like, worthy of note, because that is just not normally how that looks in a



3C7 fund, but it makes you wonder, well, what would that look like if it could be an accredited investor? Does it change the ballgame?
But I think the thing I was probing at when I asked the question, would this have helped you raise more money is, do we have evidence of fund investors who are stopping raising money when they hit that limit -- that hundred accredited limit? That's not by itself an indicator, because then it could also be discouraged from attempting to raise that way because of the perception of the barrier, but still, it's -- I, you know, think it's something to look at.
MR. SOLOMON: Yeah. Let me -- let me jump in here a little bit before I see Youngro has a comment, and maybe we can go to that. Carla and I are going to tag team here.
By the way, Carla, you did an amazing job this morning and thank you for keeping us on time and really just -- I thought it was -- there was so much in there, you know, and by the way, I don't know about all of you, but I certainly took the last hour to try and process it all because it seems like we have a lot. There's just a lot that has been tried and hasn't worked, and there's a lot to do in order to make meaningful change.



So, Jason, I think if we were to think, you know, boil it down to recognizing that the need -- and I guess the response, you know, maybe Sara to your question, that one of the challenges we talked about is that the needs of a lot of these smaller companies are of a size where the large capital pools don't play, right?
The vast majority of capital pools -- I mean, if you look at, you know, starting with the public company pools because it's -- the public investment pools because they're so much bigger than they used to be, but you -- you know, when you're talking about having trillion -- 2 or $3 trillion investment managers like Fidelity, Wellington, and Capital, those are, you know, so large in the public domain that they can't even focus on small public companies, and then when you -- when you look at all of the capital that's been accumulated underneath that, including a billion dollar plus venture fund, whereas a decade or two ago those funds might have been maybe $100 million, or at -- which would have thought to have been big. Everything has been ratcheted up size-wise, which makes this gap even greater when you think about having to raise 5 or 10,000 or 20,000 or $50,000 to get things going.



And so, you know, one of the things that we've talked about as a group is whether or not there is an opportunity to create a new class, or use some of the exemptions to create a new class of investment vehicle where we have some accreditation so that we make sure that we have regulation.
Again, I -- that's why I asked the question I asked, which is how much is too much and what's the right amount so that we can make sure that we have people -- we have the right kind of protection for investors, but enabling investors to be able to -- investors of all types, all small investors, minority investors, women investors, people who generally are excluded from investing in venture, how do we get them access to pool vehicles that allow them to take appropriate risks with this while, you know, essentially providing the small amounts of capital that many of these venture firms need, and I don't know if 3C 7 does that without some tweak that enables non-accredited investors to participate under certain -- under certain, you know, guidelines.
And so, should we be thinking about exemptions to that to allow for there to be smaller non-accredited investors to invest in pools if they look a certain way and they service a certain segment

of the investment public, which can include minority, women-owned, or just from a -- on a size standpoint, you know, certain offering sizes. Those are the questions I have for the staff that would be helpful to get some guidance around.

So, I know that there's a bunch of questions here so let me -- let me stop, and so -- I know Youngro you were next, so I obviously want to -- obviously, let's hear what you have to say, because I mean, you've been playing in this space.

MR. LEE: You know, and thank you, and that -- and my comments are actually following up yours and Jason's comments as well. I really appreciate today's meeting, and it's such a complicated topic as you all know, and I think -- so, I mean, I was hoping to provide some more context and maybe a little more structure for other solutions.

So specifically, I'm going to focus on the topic of small business, you know, with minorities and women founders because that's -- that was literally the topic of this conversation, and that's a very specific case. Right? So, there's all kinds of fund issues and QP issues and things that are very complex, which I have a particular interest in that because before I started NextSeed I was a fund formation



attorney literally working on billion dollar funds and frankly the reason why I left to start NextSeed was because that system could be direct, would never invest in these kind of small deals that we're talking about. It's just systematically that's not what they're designed to do.

If you think about the problem, okay, so how do we get access to funding for minority and women owned businesses, which I think there is no doubt, based on the presentations earlier, they're basically earlier stage companies, right? They -- they're generally speaking individuals with less access to network or less access to just personal capital, and I think that's not in doubt.

So, if we think about that, well, there's really two ways to increase the velocity of capital into these businesses. One is make it easier for these companies directly to raise capital from a much broader set of audience than they're used to today. That was -- I think the first couple of speakers spoke to that, and that to be honest, is what we've been told -- what we've been talking about this whole time over the past year, including the SEC's own proposals on amortization, increasing, you know, the flexibility in terms of the caps, increasing investment limits,



eliminating the accredited investor limits on the regulation crowdfunding. This is basically a lot of points that Commissioner Peirce highlighted.

I do encourage and I would continue to push for SEC to try to -- I have no idea what the process is in the, you know, formalization of the rules -- proposed rules, but every day counts, right? Especially in the Covid environment where these small businesses are being suffering -- are suffering just dramatically. I think there's never going to be a perfect solution across all those various harmonization issues, but there's very obvious things, such as, you know, the investment caps and investment limits and, you know, testing the waters that are very I think just common sense looking at it, it will enable private companies to access capital much easier under an existing framework of regulated intermediaries which is broker dealers or funding groups.

The second category of how do we, you know, get capital to these minority and women owned businesses is frankly the investors. Like, how do we incentivize the investors, and that's basically I think Monique and other private fund managers out there that are specifically looking to invest in these



companies, which I think, again, we agree, it is not the Blackstones of the world. It is the not the Goldman Sachs or at least the big funds of the world. It is these individuals that have a specific desire to invest in these communities, and then the question is, like, so how do we incentivize those guys to raise the capital they need?

I mean, I think it's very telling that Monique, I think to Jason's question, specifically said she would not choose to raise capital from -- I think Jason you said non-accredited, but I think she understood it as accredited investors, but she was just saying, like, she's in the game, and therefore she's going to keep going to for the institutional capital because frankly, it is easier for someone with her background, which is amazing, to tie capital from the institutional capital.

So, while the -- certain rules may make that easier from a capital perspective, it's not going to make it easier for the average person to participate, and I think the only -- that's such a complicated issue that I can comment on it more if people want to talk about it, but the one thing that I want to highlight there is, it's basically regulation crowdfunding, right? The SPV rules that have been proposed to enable non-accredited investors to participate for purposes of participating in regulation crowdfunding type of offerings, my main comment in that is -- you know, and I submitted a comment letter as well is, you have to incentivize individuals like Monique to take advantage of that. Somebody like Monique will never, ever use SPVs to do regulation crowdfunding based on the rules that are proposed, as we specifically do not let her charge carried interest.

That's the fundamental reason why fund managers are using the 3C7 funds, qualified purchasers, and it's -- it's all kinds of legal issues, but accredited investors, even if near -- even if you accept capital from an accredited investor, you cannot charge carried interest, and you cannot charge certain fees, right?

So, if you -- if you allow SPVs for regulation crowdfunding offerings without the exact same opportunities for the fund managers or the sponsors in these vehicles to realize their own profits just like that they do in the qualified purchaser world, it's never going to work.

You're going to get people who don't work, who are probably not qualified, do not have as much of



a track record, cannot raise additional capital, and therefore they're going to try to tap the public market. I think that's what's going to happen.

MR. SOLOMON: So, here's a -- again, I want to frame this, because I think it -- again, we'll talk about specific recommendations, but here's a good example of making some changes to Reg CF that allows for people to maybe raise pulled investment vehicles with carried interest on Reg CF funding platforms. That's a very tangible thing that you're suggesting, so let's just -- let's record that, put it to the side. We can debate it, but I'm trying to -- we're -- at this point, let's just try to get as many suggestions as we can. By the way, if I get cut out here, it's just because we're having a little bit of a storm in the Northeast in case you all were wondering, and lots of stuff is blowing sideways.

So, I'll turn it back to Carla if I get cut off, but in the meantime right now, let's go to Kesha who has a -- who has a comment.

Hi, Kesha. Welcome aboard.

MS. CASH: Hi. Thank you. I think -- my comment was very much related to what Youngro just said, and I appreciate these specifics given. We are structured -- Impact America's structured -- fund is



structured as a traditional venture fund, and all of our investors are qualified investors, and not that -- we did not have sort of access and a desire by accredited investors, but because of the rules, made intentional decisions about how we would raise money.

And sort of tying this back to intentionality and some of the comments that Rodney made, I think while we are certainly focused on the rules that can be made and changed, holding at center the intentionality of the outcomes that we want is very important.

When you think about wealth creation, typically for black and brown communities that have been left out and overlooked and X, Y, and Z, and if investing in funds in venture is a mechanism or a community is a mechanism for that wealth creation, but they are not "allowed," because a fund like mine is sort of penalized, so to speak, if I structurally take money from that individual.

There's a systemic issue that's at play, so I just wanted to hold the intention as we talk about the rules and regulations, and specifically what Youngro stated, the topic here, our black and brown founders, black and brown communities, and women, and that has to be held as the intentionality in order to



get outcomes that are more fair and just.

MR. SOLOMON: Yes. So, I think -- I'll leave it up to the staff, but I think certainly addressing black and brown communities and women is the thrust of the conversation today. I'm not exactly sure how it works from a regulatory standpoint to do specifically targeted groups, but I think it -- you know, we should be intentionally trying to angle whatever recommendations we're making to those groups in particular because that's really the topic that we're going after. I just don't know how to frame that language correctly. Maybe there are others who have some suggestions, but your point is a good one, and this is part of what we're all talking about in our organizations.

There are a number of minority groups in this moment in time though focusing on black and brown communities is a really critical element of what we need to be addressing directly, because other, you know, other -- when we have -- when we try to solve very big problems, it's not -- those solutions don't -- oftentimes are not applied to those groups in particular, and I think that's part of I think the challenge that everybody is dealing with, is when you talk about minorities broadly, it sets such a broad application that it's missing the target in some instances -- in many instances.

And so, I would ask the staff -- or maybe we should think about asking the staff how we can draft something with intentionality that is broad enough for us to have something that looks like community run investment elements to it, but is -- where everyone knows this is specifically targeted at going after this issue in particular. It's a very good -- a very, very good point, because a lot of what's been tried before was just well intended, missed the mark, didn't really work out, and so let's not -- let's not, you know, make the same mistakes maybe that have been made in the past when people have tried top address this. Is that fair?

MS. CASH: And just, I -- yeah. Yeah, and just one point on that, I think what we at Impact America fund, we -- you know, as an example, we're not exclusive -- exclusively focused on investing in black or brown founders or women. We over index because of the nature of the problems that we're solving for, and within our due diligence process, you know, whoever the founder is, our intentionality is, is this product and business model being designed so that it is inclusive? And we fundamentally believe in what we're



trying to prevail, if you can design a business model and product for the most marginalized, it ends up being a more universal product for all. So, I -- so, I don't think it's a discount to hold intentionality for a certain group, but you may actually get a product that's more universally appealing for all.

MR. SOLOMON: Right. Thank you, Kesha. Greg, you had a comment?

MR. YADLEY: Yeah. Can you hear me?

MR. SOLOMON: Yes.

MR. YADLEY: Great. We keep coming back to the central question, what's really needed to foster capital formation, right, in this underserved and underrepresented segment of entrepreneurial economy, and today's speakers terrifically from different vantage points shared their hands-on, crawl-through-glass, real difficulties, some of which were -- than any entrepreneur has.

They were enhanced, and a lot of it is because they're different from and don't pattern match the mainstream VC community, and we certainly learned a lot and there's plenty of things to work on, and the answer right before lunch about what's the one thing, and there isn't just one thing, but I -- but I do think there's a fundamental issue that we have to



acknowledge that goes beyond the regulatory recommendations that we might formulate as a committee, and that goes to the very fact that we're talking about something that is inherently risky, okay? Investors know this, and they're in the business of accepting risk, and sometimes that risk is going to be unacceptable for a whole host of reasons that we're all familiar with, and the bias that's built into the system is often just that last hurdle that slams the door, but still, these are -- these are things that we're familiar with, and the great the risk and the uncertainty, the more expensive capital is going to be, and strings that are onerous -- and that will be even magnified in follow on rounds, because as typically happens, it takes longer or requires more money to grow to the next step. So, the million dollars that our speaker needed to get to, that can keep moving out there.

And so as we think through this, in addition to Jeff's suggestion that we look at things from a company viewpoint and from an investor viewpoint, I think we can also segment, and many people on the committee have experience here among startup companies, the seed round, and other early stage funding because some of the considerations are



different.

I think the other thing is there's a policy aspect here that goes beyond regulation, and that is, there needs to be more of an incentive for a range of investors to support a new enterprise, and we're not talking about huge amounts of money -- most of the speakers today talked about trying to raise $50,000 or $100,000 or a couple of hundred thousand dollars -- clearly Reg CF and the interstate exemptions don't make it easy for a purely local business where the founder is known to his or her community, welcome back, Sebastian, I'm thinking about the pizza shop that's on the border of one state, and you're trying to raise local investors not through the internet, just with people that backed the founder. I think Commissioner Peirce's ideas about Reg CF and a microfund where there's some investor investment limits can work, and acknowledge the fact that you can lose your money, and as was said this morning, that doesn't mean it's fraud because there was a failure.

So I think what I'm trying to say is from a societal policy standpoint, we're really looking for something akin to in the not for profit world of matching grants, matching investments that will leverage, maybe in a really high way, three to one, four to one, locally-backed, crowdfunded or similar investments, and I think we can talk about ways to involve people, Jeff, like the securities industry, the Commerce Department was mentioned, municipalities alongside all of the universities.

At the end of the day, you have an entrepreneur who has an unproven concept or idea or service or product, and doesn't have a whole company behind her, and she's struggling uphill, somebody has to be a lead and do some due diligence that this is not a wild-haired idea that's not yet ready for prime time, but I think there is an intersection where when -- and Monique I think talked about this -- she's done the work, is willing to invest, and then people aren't lining up to piggy-back on that. So sorry for rambling on, but I think that's sort of a level where making it easier for people to follow on that lead investment, including regular people who are not accredited with small investments. Thanks.

MR. SOLOMON: Thanks, Greg.

Martha, did you want to weigh in here really quickly before we turn to Jason?

MS. MILLER: Yeah, I'm really happy to. I might start with a parable analogy, and if you've spent much time with me you know I love bad analogies,



but that's how -- that's how my brain thinks. So, I have a hardware store that I absolutely love, and you're thinking, well, this is going to be a really bad analogy, but I promise if you stick with it, there's a local hardware store that is a small business that's been in my community forever, and the reason that it survived is because they help you fix the things when you don't actually know what the problem is.

So the number of times that I've walked in and I've brought them a piece that I have taken out of the back of the toilet tank and said, I don't know what's wrong with it, but it makes a really loud noise and I need a different one, and we stand in the aisle, and I stand with somebody who is the functional equivalent of the securities lawyer who is helping me diagnose the problem, but we're doing it in the aisle three of the itty bitty hardware store in town.

And while I'm sitting there describe this, okay, it makes this sound, or the water is coming out over here, and what that person is helping me do is to diagnose the issue, and as I sit and listen to us talking about the practicalities of where money is not flowing, where investments are not happening, or where there were areas of friction, I feel a little bit like



our calling is to be the expert, the -- you know, the hard to find person within the hardware store who can actually help you figure out why the toilet is broken.

In my case -- and this is a -- this is a -- that's pulled from real experiences standing in the aisle with that person, but I think as I look at and analogize what we are hearing, as well as the commonalities.

You know, one of the things that I think we've heard and to boil it down as we look into the next hour of framing up solutions, one of the things that we have heard is a breakdown with who is actually at the table making investment decisions, and has the capital to play, whether that is as an angel, or someone who qualifies as a creditor -- accredited to make investments, you know, whether directly or through a fund, or to participate in a pooled vehicle. That's one piece.

And so, we have heard the rumblings, and are looking at, okay, what is the ultimate issue and breakdown there? And I think we're hearing interesting solutions.

The other one is, how do we actually connect the investors? Both those who are marginalized and often on the sidelines who want to back others, who



pattern match more closely with those within their community, as well as those who may be interested in broadening their pool of investments but not have the connectivity to the potential investment opportunities and entrepreneurs that they want to approach.

And as I think about those, I think that our committee has done an incredible job of synthesizing and taking in a lot of practical market feedback of, here's what's broken. Here is the piece that's not working correctly, and what the committee has done such a good job of I think over the last year plus is to listen to that market feedback, and then to look underneath the hood, or underneath the back of the tank and say, okay, these are the actual pieces that may be at play, and I think as we look at in particular the harmonization relief that the committee has weighed in on in a number of other areas that the committee has provided impact on, I would be very curious committee members' perspectives on how some of the tolls -- I think we've been talking a little bit and I think it's a great conversation that needs to continue about who is at the table as investors, and how do we make sure that we have an inclusive table?

That's one piece, but then there's the other piece of how are investors connecting with entrepreneurs and entrepreneurs connecting with investors, particularly those who may be outside of their network, which was one of the other threads we heard this morning.

I think that Youngro, you know, brought up one of the solutions around that, which is crowdfunding, but I think there's others. We heard a little bit about demo days. We've heard in the past -- in the past, the topic of founders, a topic I know is near and dear to Greg Yadley's heart and many others, but I would -- I would love to hear the committee's thoughts on ways that we can bridge those two different topics as we look at solutions to the group of experts that have fantastic thoughts.

So I just -- I offer that up as a way that I've been thinking about and trying to synthesize how the two issues appear to be breaking down from what we've heard from some of the really wonderful speakers thus far today as well as the committee members.

MR. SOLOMON: So, let me -- let me try to take a quick stab at that. Thank you, Martha. I want to try to focus in on some of the regulations. I know that we have in our own control -- I think, you know, you've done a great job at going out and sort of trying to build the network beyond the SEC. You and



the staff have done a great job at being able to sort of incorporate other agencies to try to promote capital formation.

You know, and I just -- I think we should bring it back to the specific regulatory matters that are in the SEC's purview as, even though we all have all of these other things that we see, and all these other, you know, things that we do to try to promote capital formation, specifically within the SEC's purview, before I turn it over to Jason who's got a question, let me -- let me proffer something, and then for some feedback, anyone can throw at it.

We have Reg CF, and I will just -- I'll declare myself, I was -- when I advocated for the JOBS Act, I was very quiet about crowdfunding, because I was super worried that there would be massive fraud, and that the framework for capital formation, because of how much rhetoric there was on Capitol Hill about the return of Pets.com, which I still hear about over and over again -- for those of you that aren't familiar with it, look it up. It was probably the -- it's emblematic or synonymous with everything that was wrong with capital formation in the public markets in the late 1990s, and it somehow has a life that exists inside the beltway.



I mean, most people outside the beltway have long since forgot about Pets.com, and yet when you get inside the beltway and you have conversations around capital formation, Pets.com comes up, like, in the first 30 seconds of any time you talk about making any changes to 33 Act, or any regulations around public company investors.

So I looked at Reg CF, or what became Reg CF, the crowdfunding portion of this as a -- essentially a backdoor for all of the riff-raff, I like to refer to them, to get involved and start taking people's money and suddenly we're going to be in a position where capital formation became synonymous with frauds, right?

Having said that, I will just admit I was wrong about that, because really the SEC has tried to create a framework where there is regulation around crowdfunding.

And so, I say -- I give you that background only to say that if we hadn't had crowdfunding in the JOBS Act, we wouldn't be talking about it at the SEC, and now that we are talking about it, can we think about ways to refine Reg CF at the SEC by tiering? And this is really important to think about.

Can there be a certain amount of money



raised under Reg CF below a threshold where we don't need to be playing in an accredited investor. Maybe it's small amounts? Maybe it's $50,000, or $100,000, or something where we can limit -- and maybe we limit the amount of money that one investor can put in to any investment, so that, you know, maybe they can only put $1,000 in, or $5,000 in, or something that is commiserate with thinking about that super low tier where we can make it very regulation lite, so that we don't get hung up in all of the other rules once you start to get to bigger sizes.

And maybe we think about multiple tiers as sort of a very low tier, a second tier, and a third tier that helps companies to graduate into a higher more highly regulated environment as they approach the public offering, and think about tiering all the way from really super small private using Reg CF all the way through the private rounds which will get us up into Reg A, Reg A+, or Reg D, or all of these other things that ultimately end up getting into full regulation when you become a public company if that's the path.

And so, I don't know if that's something that the SEC is capable of thinking about all the way along the way, but it seems to me that maybe we have a framework here where we can do that, and do it with some intentionality to go after groups that -- both investors and companies, they can't seem to be finding each other because of the regulation.

I don't know if you wanted to respond to that,

Martha, before we go to Jason, but it's up to you. You're the --

MS. MILLER: Oh, I'm happy to respond to it. We're capable of thinking about anything. The question is really, what do you think we should be thinking about, and that's really what I would love to put to the members of what should we be thinking about, but capabilities, we've got that in spades.

MR. SOLOMON: Okay, so then Jason, maybe I didn't mean to jump in front of you or throw that framework out there, but whatever you want to talk about, and then I'd love to hear your feedback on that, and I'd love to hear everybody's feedback on --

MR. SEATS: Yeah.

MR. SOLOMON: -- my ideas.

MR. SEATS: Okay. I mean, I've got some related feedback to your point, Jeff, and Martha's point and Kesha's points, sort of -- I mean, I feel like we're sort of spinning this thing around in our



hand and looking at it from different perspectives.

I have one suggestion I guess on the intentionality comment, which would be whatever -- I think maybe a small thing we could do -- I don't know how effective it would be, because like, once you get into the details of whatever rule change, you lose the why often, right?

And I think maybe something we could just commit to doing is putting the why into whatever it is that we put on paper and continue to propagate that through so the next person who looks at it and sees it out of context would read the why before they read the rule or the change, and so maybe just a small suggestion.

But I think it's good to keep bringing it back to intentionality, because what I heard -- I think Monique is a fascinating microcosm, because her issues are not necessarily regulatory in nature. They're cultural. And so, I think the challenge is trying to -- it is -- it's hard to try to navigate a cultural change with regulations and rules.

And so, I -- you know, and that -- and I think that's one of the places we sort of butt heads on this to try to figure out how to actually move the ball. So, I -- Martha, I love your hardware store



analogy, and in the hardware store analogy, the person I picture who is in the aisle who is helping is not necessarily us or the SEC or a securities lawyer. I think it's the pooled capital manager. I think it's the VC. I think it's the intermediary. I think it's the -- it's the fundraising platform. It's -- I think -- I think it's the -- it's the person whose role in the marketplace is to help connect the capital with the need, and I think something that I'm -- you know, and I feel like we saw this clearly before, but just this conversation is sort of bringing it into focus for me. I do recognize there's two sides to this.

What are the -- what's the regulations around sort of how those things operate, those intermediaries, those pooled vehicles, and the regulations around how people raise money, and how they take money and accept money, and we can talk about how do those folks find each other, but I don't perceive that to be the problem.

I actually don't think that a black VC has a hard time finding black entrepreneurs to invest in, and it's possible that the inefficiency is not there at all, and that 99 percent of the inefficiency is on the -- on the pooled capital formation side of the



platform formation side, and then addressing that is the -- is where you get maximum leverage.

But in that -- and also recognize we only see things through the world that -- the worlds that we know. And so when I listen to Monique, my -- the first thing I think as well is, the issue is going after QPs, but not being able to raise from institutional investors like the fixes, raise the cap unaccredited for 3C1. Like, that's what the -- that's the limitation.

Youngro hears that back and forth, and he hears a totally different thing. Like, oh, the issue is, you know, a non-accredited investor versus accredited, or raising -- like, I don't know what the fix is, but I think that the -- if we want to zoom up and, like, keep intentionality front and center, I think the thing to maybe say out loud is that, I believe that if people -- if Monique or people like Monique had an easier time doing whatever it is that they need to do to access capital from one side and deploy capital to another it would move the needle.

And so, I don't know how to figure out where those friction points are, and I'm not sure that she can articulate them even because she's just navigating the system that exists. And so, she's -- if it's

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something so high friction she doesn't even think about going that way, it won't look like an option.

And so, I don't know how to think outside of the box on what those other paths are, because I'm limited -- I'm like -- I'm narrow in my scope of what I'm thinking about too, right?

So, I don't know, so I -- I love -- I love the analogies. I love this discussion, and I -- even though it might feel like it's out of scope for the sort of convening purpose of this committee, I think that the biggest lever we might have is how do we create more Moniques and give them more capital to invest.

MS. GARRETT: Thanks, Jason. We may have lost Jeff for a moment. Before, Youngro, I see you have a comment. Just before turning to your comment, I want to just point out some of the recommendations that our committee has made in the past that are actually I think quite relevant to what we heard, you know, today.

For instance, in May with respect to the harmonization release, we suggested creating an exemption from general solicitation for demo days and similar pitch events. I think one of the things we heard today from many of the people was that demo days

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are important.

So, that might be a recommendation that we want to reiterate again. I don't think it would hurt to reiterate some of our previous recommendations if we think that they were relevant to today's discussion, and as Jason said, we can tie them to the underrepresented communities and founders so that we can see that there's a link not only that we think it's good from the harmonization release, but is also just good for encouraging investment in and represented founders.

Some of the other ones that we did in May were increasing offering limits for crowdfunding, 504 and Reg A Tier 2, and we heard -- I think it was Rodney that suggested that today as another point. We've heard about improving the utility of regulation crowdfunding, and in May and also in December we have put forward suggestions with respect to increasing how much people can invest, removing limits on how much accredited investors can invest, allowing investors to pool their funds together in a special purpose vehicle.

Those once again we could tie to today's discussion. Sorry, I just thought I'd throw out a lot of the different fundings we've had in the past.

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Another one we did was we suggested that we adopt a clear framework for unregistered finders. We did that in the May meeting.

We suggested that we provide pathways for retail investors to invest in a wider range of small businesses, and we also in December we talked about the definition of accredited investor, and whether sophistication should be -- you know, we recommended that sophistication be one of the factors, and I think we heard that today from some of the speakers also.

So that's just kind of giving you guys -- in case you needed a little bit of a reminder of some of the different recommendations that we've done in the past, and maybe some of those tie to today's discussion.

So, Youngro? Youngro, do you have something further to add?

MR. LEE: I -- yeah, sorry. I was on mute.

MR. SOLOMON: No, that's okay. Greg, Greg, can you just mute if you're typing? That way we can hear.

MR. YADLEY: Sorry.

MR. LEE: Yeah, I did -- I mean, really, the -- I mean, we were there, whatever -- saying, but I just wanted to kind of respond while we're on point

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with Jeff's comment about different tiers and different things.

So, I believe the answer, like, emphatically is yes. We can actually do that, and in fact the micro-offering exemptions, which we've already talked about in previous I think recommendations, as well as Commissioner Peirce's own comments, it is absolutely possible, and I think in the -- I'm really thinking in terms of incentives, because I think we're all in agreement. We have to incentivize the right people to participate in this, let's say direct investors, or providing capital to, again, minorities and women-owned businesses, right?

So from the business perspective, how do we incentivize the best type of businesses, the high quality entrepreneurs who utilize these laws, and that's basically everything we talked about with harmonizing the rules, and that is -- so, I want to talk more about that, because I think -- I mean, we all know the issues, but I think today's topic was very important, because I don't think we ever really talked about too much about the kind of the direct fund manager perspective, or the, you know, expert VC investor perspective.

I -- this kind of reminds me of -- if you guy's remember Ross Barrett's presentation a few sessions ago. The main point that I want to make here is, again, it really takes a certain type of individual to want to play in this space of investing in very small enterprises, especially women and minority-owned businesses, right?

With all due respect to the big firms out there, the biggest investment funds in the world, and biggest bays in the world is not going to allocate their extremely expensive fund manager to allocate time -- any time to make $50,000 investments in small businesses.

People really want to have to do it. I mean, I love that Kesha is on this committee now, looking at her fund, I mean, she is an example for somebody like her where she could probably make a lot more money -- and I'm going to apologize for using you as an example, but someone with her background, just like Monique, could work a lot of different jobs and make a lot of money, but they're choosing to work in this space because they believe in it.

So the question is, how do we incentivize more people with similar backgrounds to do what they're doing, and then furthermore, how do we incentivize the people that are already doing it to be



more successful, that is capital. That is money.

And so, if you look at the portfolio companies of any of these funds, like Ross Barrett's funds, you know, Impact America fund, and there's obviously key examples like that, the rules right now do not give these -- Catherine as well -- like, I mean, all these individuals who are doing it, the rules as it stands does not allow non-accredited investors to give money to these managers to invest, right?

That's a flat out -- like, a black and white statement. So if possible, I'd love to get -- especially from the fund managers out there, a specific proposal on what can the rules do that will allow you to happily take money from somebody who wants to give you $5,000, right? Like, what will allow you to do that so that you can take that money and invest in the communities?

Because the one final point that I want to mention, specifically for fund managers, it's all about incentives, right? I think it was Charlie Bunger that said, show me the incentives, and I'll show you the results.

Even if I'm someone like Monique that's super accomplished, if I get institutional capital



that's writing me a $100 million check, if I do well, I'm going to get another $100 million check. The incentive is to continue to get that kind of large capital because that results in clearly, you know, certain progression of your funds.

It's a very different incentive structure when your capital provider is your local community, right, who are giving you money to make their community feel better. That's a very different incentive structure, the fund manager -- when compared to the fund manager who is trying to take a billion dollars from institutional capital for obviously, you know, products.

MS. GARRETT: Okay, thank you, Youngro. I think Jeff is -- we've lost Jeff again. So, I think one of the common themes that we've heard is that, you know, we would like the SEC, the Commission to consider possible exemptions to the venture capital fund rules to allow a more diverse group of investors to invest in venture funds.

I'm not sure we need to come up with the exact solution today, but if maybe we discuss -- we provide that was a recommendation to them so that they know that we -- that that is an issue.

The next person I see on here is Kesha.



MS. CASH: Hi, thanks. I'm hearing a lot of feedback. Hopefully you guys can hear me okay. Just wanted to kind of underscore and underline Jason's point around the intermediaries, and particularly that infrastructure -- that ecosystem infrastructure being really important to us as -- really, as an example that's related to this committee's work.

Impact America fund about a few months ago we invested in a company -- it's SMBX, the Small Business Exchange, and it has created under Reg CF a -- the ability to offer sort of small business bonds to communities on behalf of companies that want to raise money, and as you can imagine, during Covid that's really important to keep your local businesses alive, and it's been very careful about its positioning in supporting those companies that have those loyal stakeholders who want to invest in their local businesses.

So, you know, I offer that as an example of, as a diverse -- people of color and female-led fund, our interest to invest in SMBX was two-fold: that we think there is a large market opportunity from an ESG perspective, and sort of thinking about hyper-local, as Rodney mentioned earlier.

But also, we understand the issues and the problems that are facing particularly black and brown businesses as we've seen the stats that Martha put up earlier around how many black owned businesses are expected -- that have closed their doors, and the work -- you know, and I know the Federal Reserve and others are working on that recovery piece of it.

So I just want to kind of underscore using as an example of what Jason said, you know, I don't have a recommendation -- a direct recommendation, but if you are aligning capital with those folks who generally sincerely care about the outcomes -- hence, my intentionality point -- that sort of -- you know, and there's work, and there's obviously practice to it, but the intentionality drives a lot of those outcomes bases on who is at the table, who actually has access to those dollars, and then how those dollars are being deployed, and it's really interesting. Just like this sort of vicious cycle that we're in, and hence, you know, we could keep going around in circles until we're blue in the face because it's such a complicated and interwoven issue that we're trying to tackle.

You know, I think, again, you can create a cycle of good if there's intentionality about who is at the table to deploy capital, who receives that



capital, and then a lot of the work we're talking about starts to take care of itself. So, I just want to -- wanted to share that.

MS. GARRETT: Thank you, Kesha. Catherine?

MS. MOTT: Thanks, Carla. I am going to now speak with my fund hat on versus my angel investor hat. So, my small fund coinvests in -- so, this is more testimonial than anything, so I don't have the data points for this, but I want to address what you were talking about is how we can, you know, change the rules for access to venture funds. And so, we coinvest with, you know, smaller funds in the range of 30 million to 150 million to some -- like, maybe a couple -- 200 million under management, but those are rare.

But I see in the management teams that we speak with, there are women and people of color in the smaller funds, but I don't see it in the larger funds, and so when it comes time for our portfolio companies to access capital from the larger funds, we see all white men.

Now, I'll just give you an example that I had recently with one of our -- we have two pharmaceutical companies in our portfolio, and I'm talking to this very large fund out of Boston who



could invest in both companies.

We have quarterly meetings with some of these VCs, by the way, and so the female founded company, which is further along, and has more data and a larger market opportunity is getting, you know, you know, a modicum of interest from them.

The other one is male, is a male founded company, who is, oh, yeah, we saw him pitch, and oh yeah, he's a great guy, and you know, I don't hear anything about -- you know, it's like, okay, so they're now more interested -- I'm going to use fake names -- they're more interested in Sean than they are in Theresa.

So, but I'm trying to get, like, okay, help me understand. What are the data points that are driving your interest and your decision? You know, and so, I think they got the sense that I was like, driving at, you're, you know, do I see some cultural bias here, and so now they start backpedaling.

But my point is that particularly to what was mentioned earlier by Jason about the cultural issues we need to address, but what -- but -- so, as I think about how can we create funds, we have the 99 investor rule, these have limitations on things like this that, can we create larger funds under which



people who really care about those issues -- and there just is focus on performance of the fund, right? Because if you can't perform in your first fund or your second fund, you're not going to get a third fund.

So, those performance issues are going to drive that, but what can we do with regulations that allows us to expand that, and not cap it at 99? Allow these funds who are raising 30 million who have -- this is their second fund or whatever -- to be able to raise large amounts of capital under people who know them as a group, or as previous -- you know, managing partners.

So, I'm thinking about the rules around venture funds, and how, you know, we can change that, whether it's pooled funds itself, I don't know, but it's just something I'm thinking about, because I just experienced it most recently, and it's just very -- you know, I can see the frustration from the female-founded company being viewed differently than, you know, obviously the all males -- by all males. So, just a -- just a testimony, that's all.

MS. GARRETT: Thank you, Catherine. I appreciate that. Jason?

MR. SEATS: Yeah. I'll make two quick

points. The -- one is, I've heard a couple times this framing of the need to raise $50,000 versus $100 million-plus. I just want to recognize that most of the market is in between those two posts, and the story that I -- you know, I heard listening to Farah this morning was not, how do I access the first $25,000 or first $50,000. She raised a quarter of a million dollars for her business. She couldn't raise the next level after that. It was, how do I raise a couple million dollars? How do I raise $5 million from sort of the traditional VC targets.

And so, it wasn't -- it wasn't that first level, and it wasn't yet the big levels in the middle. And second, Catherine, you're sitting here reminding me of this research.

I can try to dig it up to share it with you all, but I remember seeing a researcher who analyzed and entrepreneurs pitching investors in order to look to -- to look at bias, and what they've discovered was that investors ask women entrepreneurs totally different questions than they ask male entrepreneurs, and when they're talking to a man, the orientation generally is about the upside and the opportunity and the potential, and is much more risk oriented when you're engaging with the woman entrepreneur? What can



go wrong? Have you thought about this? Have you thought about that? And I don't remember the methodology, but it looked like legitimate research and sort of -- and it was really just male/female.

It wasn't about sort of race or any other diversity lens, but you can imagine the same thing, which just sort of points back to the same issue, which is when you graduate out of that initial layer of capital, if it becomes white and male dominated, like, those issues play out. So --

MS. GARRETT: Thank you, Jason. Melanie?

MS. LUBIN: So, I mean, people know that I'm not all that deregulatory in nature, but I am really interested in what could make the system better. The suggestions that I've heard today to me aren't targeted enough, because I think they will take care -- you know, they -- it's almost a convenience that, you know, we wanted to -- you know, the group wants a different definition of accredited investor, or a qualified purchaser or whatever else it is to liberalize the regulations that now apply to this capital raising space. But it seems to me that the solutions are more things along the lines of possible tax breaks for investing in those kinds of businesses or things that are targeted, like in the government



contracting and procurement areas, those kinds of things that really go to what the issue is, because while all these deregulatory suggestions fit the rest of the agenda of the group, but I'm not saying that positively or negatively, it doesn't really target the issues we're talking about, which is, you know, minority investment, women -- you know, investing in women's businesses and things like that.

So if you really want to target that, I think you got to look at incentives that go to those things versus, just like, let's liberalize the regulatory scheme, because then everybody else who is already using that scheme is just going to keep rushing in, and there's no incentive to change these other behaviors we're trying to change.

MS. GARRETT: Thank you for that. You know, I -- you know, I agree that I think there's a lot of different pieces that need to be changed, and tax incentives and other programs that we don't have any, you know, responsibility for would obviously help here. But just to -- you know --

MR. SOLOMON: Can you hear me? Sorry, I --

MS. GARRETT: Yes, we can, Jeff.

MR. SOLOMON: I keep trying to use my phone, but that doesn't seem to be working, so -- and --



MS. GARRETT: It's okay.

MR. SOLOMON: -- nothing is easier than working up here today, so, I'll -- I want to ask Kesha a question and in response to what Melanie just said also, which is -- and maybe you discussed this while I was busy trying to wait for everything to boot back up again.

What -- if we were to look at Reg CF not just by tiering of size, but also with more intentionality towards gender and race, that basically says, if you are in a, for lack of a better word, protected class, or a class that is -- I mean, again, this -- I have no idea if the SEC is even capable of looking at things like this, but if we're going to really think outside the box about intentionality, then maybe we need to think about how we create some regulation for tiering. And in addition to that, a class of individuals where we have a different set of rules that apply, that streamline that flow of capital or allow for there to be a flow of capital. Because, you know, I think we're all -- you know, Melanie's point is a good point. That again, when we look at the framework we're operating in is this committee, it's really about thinking about how to foster regulations that improve capital formation under the

SEC and the Securities and Exchange Act, and within the framework of sort of the rules that we have to play with, that maybe augment some other agencies.

But I would like -- I don't know if Kesha, if you addressed that in your second round of comments. Because unfortunately I was, you know, battling the elements up here in New York. But is that something that you think might make a difference?

MS. CASH: Yeah, absolutely. I gave an example, I think, when you were battling your elements, of a company that we've invested in that actually formed under Reg CF. It's a public bond offering company for small businesses. It's SMBX. And I gave that --

MR. SOLOMON: Right, I heard that.

MS. CASH: -- example to say yeah, so the intentionality matters. So you could imagine, if it was possible, which I think it would be an awesome idea to implement, to say, you know, A, I know that company. It took them almost two years to get registered. So that's -- and it's required capital to do that. So it's like a virtual cycle, right? Like they need it, you know, whatever it was, of half a million dollars, to be able to build something to then go through the process. So there's those barriers in



regards to angel funding to actually build something to apply for the process.

But we invested as a fund into that company. And the question we asked the founder was, of your pipeline of small businesses, are these businesses that would access capital otherwise? Can they go, you know, get a loan from the bank? That's great. But the businesses we care about are those businesses that would have a more difficult time. That are quality businesses but would have a more difficult time, for various reasons, one of them being race, to access that capital.

So in that pipeline we said, you know, let us look at your pipeline. We wanted to understand the percentage of businesses that had already received funding that were from marginalized communities or for some other reason, would have a hard time accessing capital, and then the future intent.

So I do think if there was some tie to hey, we're going to help -- we'll help you. We'll give you more resources to potentially get through this process to create said Crowdfunding platform or what have you, if you know, like some other laws that are put in place or policies that are put in place, if you know, of all the businesses that are set up through this



platform at least 30 percent of them are you know, businesses led by people of color, right?

So I do think there's a way to tie that in that would be extremely helpful, and the right incentive for folks.

MR. SOLOMON: Okay. I want to make sure -- and again, thank you to Carla for jumping back in and helping to facilitate us in doing some more technological challenges today. But I want to make sure. Is there anybody else who has any comments on this topic specifically, before I turn it back over to do the rest of the afternoon?

MS. GARRETT: And just a reminder. I think we only have about 20 minutes, right? We're going until 3:00, correct?

MR. SOLOMON: Yeah. That's about 20 minutes. And that said, Carla, I didn't know if there were other things that we needed to cover. You know, I just wanted to make sure that -- I know this was the primary one. And you know, I think we were going to maybe -- usually what we do -- just sort of the newer members of the group, usually what we do is we circle up and try to take a lot of the commentary of the group. And we work to try to frame that into a couple of recommendations. And then recirculate those



recommendations for comment to the group, so that we can be more formal in our recommendations without just jumping in right away. We take a few minutes to sort of process it all and get it into some format. Recirculate it to everybody for additional input. You know, usually within a week or so. And then make our formal recommendations, you know, based on what we heard today.

So that's, again, just to remind everybody of what -- generally how the process is that we put in place to make sure that we're not just having conversations that don't result in something more thoughtful.

MS. MOTT: Jeff and Carla, one of the things -- I wrote down some of the things that Commissioner Peirce recommended. And I would be interested in -- I know we can't do it today, but at some point in time exploring some of the things that she listed during her comments. So just a thought, at some time.

MR. SOLOMON: Okay.

MS. GARRETT: And we can today, you know, talk about or come to a recommendation today on the call, which I think would be useful for the Commission, to talk about -- we could at least raise the issue of what we see as the problem, and even if we don't have specific, you know, regulatory solutions to fix it, you know, maybe just some bullet points in terms of things that the Commission could be looking at. And so maybe we throw out a couple of -- I know we talked about, you know, changes to crowdfunding. We've talked about changes to venture fund rules. We've talked about incentives to create intentionality in investments and unrepresented founders. We've talked about pooled vehicles. Are there more things that you know, I've missed in taking notes that people would want to add that -- you know, that we encourage the Commission to consider in terms of helping, you know, underrepresented founders access capital?

MR. YADLEY: I think this is one of the things that Commissioner Peirce mentioned, and I mentioned, in my comments after lunch. A small micro-investment offering that would -- with investor limits, for nonaccredited investors, or offerings that we can try and come up with, you know, a local offering. Sort of as Jeff said earlier, the idea of fraud in this area where there's no contact at all between the company that's being invested in and people who are being solicited over the internet.

So a local appeal with a lead investor maybe



piggybacking on universities and the training that was talked about. The day one support. And really push tax breaks, that'll be longer term, but that would certainly, certainly be great. But I think focusing on a small offering, recognizing that there's a high risk of failure and we need to deal with fraud, because I'm the world's biggest fan of disclosure. I think the SEC has done it right for companies. But it is expensive, so we need to deal with that. So in a nutshell, I'll focus on a micro, more local offering that would include nonaccredited investors.

MR. SOLOMON: Yeah. Can I just add, Julie, I think -- to me, you know, yes, we should always be looking at Reg CF because it's a great framework. I would be a little bit more intentional with Reg CF, and say that we should look at the possibility of doing what I call scaled accreditation or scaled capital raising so that, you know, for companies of a certain size, maybe they can be exempted from the private placement rules for certain amounts. Like just thinking about how we have scaled regulation based on a company's size. Similar to what we've done for you know, let's say the analog here is Reg A and Reg A+ for public listings. Well, let's take Reg CF and say for everything that's below Reg A Plus, until



you can get to the Reg A+, let's have a tiered capital formation mechanism here where we can open up to nonaccredited investors up to certain amounts. To kind of give you the exemption, you know, that we'd need in order to foster that growth.

That will -- I think if you do that, that would be, I would say, put a little more meat on the bones in some of our recommendations around Reg CF, as opposed to just, we should just continue to look through and approve Reg CF.

And then I would also say, I would encourage the staff to look a little more on what Kesha was saying. Which was, should we have more intentionality towards gender and race. And the intentions around gender and race in order to create more equanimity. Or among, you know, people who've historically been excluded from the capital formation process. And those two can work together, or not. But I think we should include in our recommendations that some degree of intentionality around the audiences we're targeting. Because otherwise we just, we run the risk of just, you know, having a bunch of advice, again well-intended, that misses the mark. So maybe if we could angle it a little bit more to intentionality, that would be great.



MR. SEATS: I like the suggestion, Jeff. You asked a question, if it was something that was possible. There are -- I mean, so not only this point was great, which is if you just loosen the regulations, you don't necessarily change the mix. You just flood more stuff into the same structures. And there are preferential, you know, sort of purchasing provisions for government for minority or women-owned businesses. And so the question would be, does that set of definitions, is that already tight enough, useful enough that it could just be referenced in terms of creating additional exclusions or things that allow sort of decreased friction?

I mean, I think one of the principles that we've operated some within this committee to date is how do we not invent new things as much as figure out how to put the things that exist together better? And so maybe there's something to look at there, in just how those minority, women-owned business, that definition there, for sort of purchase, you know, sort of -

MR. SOLOMON: You mean federal government guidelines around minority --

MR. SEATS: Yeah, exactly. There's already -- someone's already thought very deeply about how do we help make sure that there's, you know, a more equal playing field for those businesses. And so maybe just apply that same filter to hold capital or intermediaries or whatever else, right?

MR. SOLOMON: Yeah. The only other thing I would also think about there -- and again, I don't want to be too proscriptive. But while we're talking about intentionality, I think adding a regional overlay is important. So one of the things we've heard from a few people in our previous meetings is, you know, a lot of small businesses want to raise money from friends and family or customers who are proximate to their businesses.

And, you know, if you're a -- who's to say who's qualified? But if you're regionally located -- like, if you shop at the hardware store that Martha mentioned, right? And let's say that hardware store wanted to do a $50,000 offering to do an addition on the back to increase its flow and compete with Home Depot. It wanted to go to its customers, who all live in and around a 20-mile radius of shoppers, right? Why are those people not qualified to invest in that business? I would.

I mean -- and I don't know whether or not people would or they wouldn't. And I don't know what



amounts they would or they wouldn't, how that would work. You know. But rather than try to figure out all the problems with it, I would add a regional overlay or a proximity overlay in addition to, you know, to think about it from an investors' standpoint. So that we could increase the sources of small pools of capital that are likely to fund small businesses that they know.

MS. MOTT: And I -- you know, Jeff, I hear you, what you're saying. And what I'm concerned about is that I'm here in Pittsburgh, okay? But I know this great little company that's doing really well, through -- because of my relationship with Greg down in Florida. And I've been down there. I've seen it. I know -- I'm making this up, Greg. But you know what? Why couldn't I participate in that? But I'm not local, right?

MR. SOLOMON: Yeah. So let me -- I broke my own rule, and you've made a very good point. So I jumped to the other side and said here's a way that we can improve companies, things for companies as opposed to investors. So, you wouldn't necessarily be precluded from doing that investment, right? But it's whether or not the company can augment your investment with local dollars, right? It's something that gives



the company an exemption from people who know the business. It wouldn't be meant to say that you're excluded. You're probably not excluded anyway, because you're, you now, filled with QPs and you probably have, you could probably fit under some professional investor organization. It's a matter of opening up the apertures so that local people can invest in local businesses is what I was more going at. So I apologize for not saying -- I moved over to the company side of the ledger, and I should have declared that probably. But it's a point well taken. I like to invest in businesses in Pittsburg.

MS. MOTT: I have a few for you.

MR. SOLOMON: Okay. Melanie, you had -- you had your hand up.

MS. LUBIN: Thanks. I just wanted to mention that a lot of -- in Maryland, and a lot of my colleagues in other states have passed things like that. We passed something called MSB, about six, seven years ago, that honestly was pitched in the legislature as, you know, we can allow people to invest in the bagel shop when they want to expand beyond bagels and you know, start selling you know, pizza dough, or whatever they wanted to expand.

To invest then, they needed, you know,



$100,000 to expand. And I've got to tell you we put a lot of time and effort into it. Got it passed, got the Regs promulgated. It has never been used. So you know, there are things out there, but for one reason or another, it's tough for, you know, really small entrepreneurs to use some of these things. We had made it limited to being basically debt investments so they wouldn't have the headaches of all the corporate responsibilities of being -- you know, to deal with their shareholders. And it still didn't get a lot of, you know, it didn't get any uptake. Nobody has ever used it.

So a lot of the things I think you have to really think through the suggestions. Because, you know, the SEC does have a lot of exemptions for smaller things, and then it's kicked to the states to, you know, figure out how do we want to structure some of these more liberal exemptions. And we have done it. It's just it doesn't get a lot of use, either because -- frequently because the dollar amount isn't high enough.

MR. SOLOMON: Got it. Youngro, you had some comment?

MR. LEE: Yeah, just, I mean --

MR. SOLOMON: And Carla, after that we're probably going to have to wrap, I guess.

MR. LEE: Well, sure. And Melanie, I think that's a perfect example. Like that law was probably amazing. If what you had in Maryland was part of the Regulation Crowdfunding at a federal level, I am 100 percent certain that there will be more uptick. The difficulty of trying to do intrastate offerings is because, like a lot of the offerings that we're talking about, especially the minority or women-owned businesses, they don't have the resources to actually navigate these laws.

Obviously, I know from personal experience. Because we operated actually as a Texas intrastate crowdfunding in order to start. We were virtually, like 90 percent plus of regulation crowdfunding activity -- I mean, intrastate Texas offering when we operated. And then when the jobs that came up, it's impossible to manage intrastate and a federal platform together. So we stopped and withdrew from Texas crowdfunding. Now, I think there's virtually no, probably, Texas crowdfunding roles as far as I'm aware.

So I think this is definitely a need for a centralized, federal-level regulation to do exactly what you're talking about and to incentivize, back to



the hardware. Incentive the hardware, the customer service equivalent of this industry. Whether it's the intermediaries, like the broker-dealers, or the funding portals that are helping companies do direct capital raising, or incentivizing the direct investors like Kesha, like Melanie, like the other speakers today. And there's actually more than one who did that. Like Jason and his colleagues at Techstars.

How do we incentivize them to not be afraid of accepting, you know, a nonaccredited investor? I mean, this sounds funny, but even a company like Jeff's, like Cowen, like a publicly listed company, like what incentive can provide that level of financial use with so much resources, to be not afraid to create a vehicle for nonaccredited investors, so Jeff can hire somebody really smart to run his smart business program, you know, across the U.S.

So, like, I think that's really what I want to really -- I mean, that's really my feedback after today, is incentives to the intermediaries to affect the capital flow into the small businesses. That seems to me a very practical way to think about things.

MR. SOLOMON: Thanks, Youngro. And does anyone else have their hand up? I think we're -- so



before I turn it back over to Carla to wrap here, in the six minutes we have left, Martha or Julie, did you -- you know, did you want to wrap it up here? I just have one comment to make and then I can turn it back to you guys.

And that is, I think as we think about the framework for our advice, these are long-term structural changes we are looking to make. And so the overlay I would say is that we have a chance here. I think a lot of us are recognizing that we were working on these issues prior to the immediate current events of the day. This is the committee, I've said, that has embraced this mission long before it was one that was in the headlines every day. And the virus and social unrest we're seeing, we should be using that as an opportunity to make meaningful -- make meaningful improvements to the capital formation process and equanimity around that process, while we have the public zeitgeist.

So we have an opportunity here for the near term where we can probably get a lot accomplished in a short amount of time, because more people are open to fundamental changes. And so I also think it's really important to put these bedrocks in place that allow for the next decade of growth.



And I feel like sometimes when we look at the changes, we look for quick changes that aren't really sustainable long-term. And in the framework that we put to the commission, Carla, and I'll be happy to work with you on some language, I think we should be making sure that the recommendations we're making as it relates to these issues outlive this committee or outlive the members on this committee. If there's an opportunity for us to take a bigger, more public role in the advice we're giving on how to make real structural change to securities law, to improve how minorities, women, and underrepresented groups can participate in capital formation in the United States.

So that we look back in 2030, and 2040, we can look back on the some of the recommendations that this committee made, and maybe the SEC was able to adopt in this time, to -- as really seminal in the way we changed things around, you know, enabling us to close the wealth gap and the race gap in this country.

And so I wouldn't -- I think we should -- whatever comments we put out that are tangible, I think we need to implore the commission to, and give the staff the impetus to, make these changes at a moment in time when we have the public's support to do those things. That would be my recommendation in terms of the tone and the message we're trying to deliver as an advisory board. I'll turn it back over to Carla. And then -- thank you, Carla.

MS. GARRETT: Sure. I mean, first of all, Jeff, I think what you just said is actually probably a very good starting point for a recommendation. I mean, if it would be a very broad recommendation for this committee. But it sounds to me like most people on this committee are on board that we would like to be making, you know, changes that are going to have a meaningful -- and suggestions that are going to have a long-term meaningful impact. So some of the other -- so I think, you know, I don't know I don't know if we need to vote on that, Julie, in order to make that kind of a finding of this committee. Or -- and then I could also go through some of the other ones I have on here.

MS. DAVIS: I think if the committee's going to make a finding, there should be a vote.

MS. GARRETT: Okay. Does that mean I need to restate what Jeff said?

MS. DAVIS: If you can.

MR. SOLOMON: Yes, but there were a lot of words there. I get it. I'm sorry. I didn't mean to



be so verbose.

MS. GARRETT: Some of the other -- some of the other -- I think I would like to, if we can make at least some recommendations today, so that we don't push this off until a next meeting. I think it's very timely and I want our voice to be heard now. That's what I heard from the Chairman and the Commissioners. That being said, a lot of our comments are a little bit more -- broader than often they are in terms of recommendation.

But one thing I heard is, incentives to create intentionality in investment in underrepresented founders. Another one was improve ways to connect investors with founders and companies that may not otherwise match. Another one I heard was consider rules and exemptions around venture fund rules to allow a more diverse group of investors to invest in venture funds. I heard aligning capital with people that care about the outcome, intentionality. Kind of repetitive, but a little bit different. Looking into permitting small micro-offering exemptions that would include nonaccredited investors. And looking into changes to Regulation Crowdfunding, including possibly tiering Crowdfunding to allow -- to allow non-accredited



investors to invest more and to allow different limits on Crowdfunding. Does anybody have anything to add to those that I just said?

MR. SEATS: The one I didn't hear is any sort of directed focus effort to increase diverse investors. Not investors in funds but the fund managers themselves or platforms or whatever. Sort of the last back and forth with Melanie, Jeff, and I.

MR. SOLOMON: Yeah. I would include, you know, changing the rules around allowing there to be scaled, scaled capital raise or exemptions to allow small investors to participate up to -- with an increased amount.

MS. GARRETT: Jason, is that what you're saying, or?

MR. SEATS: Well, I don't know if we're just getting the broad high-level or a specific recommendation. I think the broad high-level would be that we're supporting encouraging looking for opportunities to specifically help diverse firm managers in the formation of their firms and the raising of their funds, to address the friction that Monique described in her sort of capital raising. Because we recognize the leverage that that will create in the access to capital for small businesses



who are diverse, right?

Now, if we would need a specific recommendation, the idea I had there is that we could lift the accredited investor cap and maybe using the definition for minority-owned business as the filter for the venture firm. That might not be the right path. I don't know what the right path is. But I think the recommendation would be, what are those levers and can we apply them very focused, not broad, to Melanie's point, so that we're not just liberalizing the framework generally, but to create a differential.

MR. YADLEY: Yeah. Carla, I think we've got so many ideas. And what Jason just said, I think we probably need to write them down and socialize them. But I think what we could easily do today is have a sense of committee on that inclusion of all Americans in development of new business and economic growth are important to the national well-being. Regulatory revisions to the capital raising ecosystem that promote diversity of entrepreneurs and investors is possible with the SEC's leadership. And use this as sort of a stake in the ground that we can -- this is important and we can do it and we can help the Commission think through these.

MR. SOLOMON: Great words.
MS. GARRETT: Thank you, Greg. So then, should we, should we have a vote on Greg's words, and if we are all in favor of that recommendation, which is general?
MR. YADLEY: I'll make that an informal vote.
MS. GARRETT: Okay. Okay, so all in favor?
(Chorus of ayes.)
MS. GARREET: And does anybody oppose?
MR. SEATS: I don't oppose. I just wonder if it goes far enough.
MS. CASH: Yeah.
MS. GARRETT: Okay. Julie --
MS. SEATS: Kesha, go ahead.
MS. GARRETT: Kesha, would you --
MR. YADLEY: Why don't we approve it and then get some friendly amendments?
MS. CASH: Well, I just -- I think this is a moment in time for Jeff's comment that I just, I want to make sure. I think I'm here so I can sort of reiterate and highlight so that we don't miss it. And that this is a moment of time when literally we haven't talked about racial uprisings on this call, and I don't think it's the venue for it. But we are



in a country that is very tense right now because of racial issues and because of historical racial issues. And I just fear that if we don't comment on that or address it in our comments, we're missing this opportunity to be bold in a moment that's calling for it. So while I certainly appreciate it, and I'll work for equality for all and opportunity for all, in this moment if we're not specific about those stats that Martha pointed out at the very beginning of the presentation, we're really missing the boat.
MR. SOLOMON: I -- I mean, I -- there's just no reason why we can't take this. This is the moment, and we have to acknowledge that.
MS. MOTT: I agree. Should we amend that? Amend out statement?
MS. GARRETT: Greg, I didn't write down the statement that you had.
MR. YADLEY: Yeah. Here's what I -- sorry. Am I muted, or?
MS. GARRETT: No, you're on. But maybe you can --
MR. YADLEY: Okay. Okay.
MS. GARRETT: -- when you amend it maybe you can, instead of you talking about, you know, very -- us being exclusive, let's talk about being you know,



specific to the underrepresented communities, the black and brown communities, the minority communities, women communities, LGBT communities.
MR. YADLEY: Okay.
MS. GARRETT: Kesha, would that help with the statement?
MS. CASH: Yes. Yeah, absolutely. And acknowledging the moment that we're in as a country is really important.
MR. YADLEY: Okay.
MR. SOLOMON: Is everyone good with that? That seemed fair to me. Is there -- allow to me to just say, is there anybody's who's not okay with that change? Because I think we all agreed to the previous. This amendment I think is a good one. But I want to make sure that everybody has a voice. Great.
MS. GARRETT: Greg, did you want to restate that, or?
MR. YADLEY: Yeah.
MS. GARRETT: Okay, thanks.
MR. YADLEY: So inclusion of all Americans and development of new business and economic growth are important, critical to the national well-being. Regulatory revisions to the capital raising ecosystem



that promote increased diversity of entrepreneurs and investors, particularly women and minorities, is possible with SEC leadership.
MR. SEATS: So I think maybe what I'm craving, hearing Kesha's comment, is that we're missing something at the beginning. Something that sounds like recognizing the structural racism that exists in the country. Like strong words that are like, acknowledging the fact that this is a recommendation made in reaction to a moment in time. And that we are comfortable saying that we're not perfect but we're trying. It's a problem to say that something exists, right? The thing you're trying to fix, if you can't say it out loud, you're not going to fix it, right?
MR. SOLOMON: So let me ask you this question. Is it enough to say -- well, not enough. Is it right to say that we acknowledge that many of the capital formation rules create structural impediments for minorities to access the capital market, or we recognize that the current -- the structure of current regulation precludes in many instances or excludes -- and I'm looking for the right words to really tie this to the fact that we're encouraging the SEC to look at the structural

impediments and revise those structural impediments to ensure that black and brown individuals that they currently don't get access to, but yet make it broad enough so that we have something that will work. Is that -- I'll ask Kesha that question because I think you're probably more well-equipped to answer that than a lot of people, although there's others, I'm sure.

MS. CASH: Yeah. I mean, I see -- I hear Jason. And that's what I want, Jason. But I also want, you know, Jeff and you all are more familiar with the regulations and the rules. So we want something to work. And so it's -- you know, it's acknowledging, historically, if we have the stats that Martha presented at the front of this call, a lot has not worked right. And so acknowledging that there have been system failures and system flaws, and we as a body are trying to address those system failures and system flaws, and through, you know, our role in this committee is through the regulation. But I think the acknowledgement for what Jason said, if we can't say that out loud, we're never going to get to the outcomes that hopefully we all want.

MS. MILLER: I think in a nutshell, what you're -- what we're pointing towards is the fact that access to capital is but one tool, yet a powerful one,



in bridging access to opportunities, wealth creation, and taking steps in the right direction towards racial justice and providing equality of opportunity. That's really the direction of things. But we're, we're trying to figure out how to get the right verbiage around that. And I think we have not danced around that. We've really gone on and discussed that today. But is the, really the why. Jason, what you were saying earlier and Kesha you've been saying as well. Why are we doing it? It is because of the ability for accessing capital to build something or to invest in someone to bridge from where we are right now, which is an imperfect and flawed state, to somewhere aspirational in the future that gets us to more parity.

MS. GARRETT: And Martha, I think that that's a great why. And I think that we should say that and we should also tie it to Kesha's recognizing that there have been, you know, structural and system failures that have existed and that those should be -- that is why we are looking at this issue now. There's two reasons. I mean, there's many more, but.

MR. SOLOMON: Those are good changes. And again, I want to make sure that -- I think Kesha's point is valuable, and this is the moment where we get



to -- you know, this committee's been working on this for a while, and it's not like we just reacted to the moment. It's not that at all. We had many conversations over, since this community has formed, around these issues. But addressing it specifically and tying it to this moment is an acknowledgement that we can lay these important bedrocks to structurally change impediments. That's just really -- so Martha, I thought your words were worth thought on. And of course, since you're going to be the one that quarterbacks this effort, that makes it better.

MS. MILLER: I appreciate that. That's just trying to reiterate what I have heard plenty of other wonderful, thoughtful people say. So I am, I'm sure, plagiarizing someone else's fantastic thoughts on it and also botching it in the process.

MR. SOLOMON: Okay. Do we need to revote or are we good?

MS. GARRETT: Yeah. Greg, did you write out anything else, or should -- I mean, if we incorporate those two main concepts?

MR. YADLEY: I think I've captured a lot of the thoughts. I'm not sure I've got it all perfectly and maybe you get a sense of it. It's sort of like if I was corporate counsel at the board meeting I'd say



okay, this is good enough for the resolution. With such changes as the Chairman and the President can have. You don't want to make -- I mean, this is very important. I think the way to start this is, access to capital is a powerful tool of wealth creation and racial justice for all Americans. Regulatory action to improve the current system in which women and people of color are underrepresented and not adequately supported by the system requires immediate attention. And then into what we said before, that we need regulatory revisions to the capital raising ecosystem, that promote increased diversity, on both sides, both the entrepreneurship and investors, particularly women and minorities, and ask the SEC to take leadership in the area.

MR. SEATS: Sounds pretty good to me. The only thing I don't think there --

MR. SOLOMON: I would change the word "justice." I would change the word "justice" to "equity." It's really about racial equity here.

MR. SEATS: The system doesn't feel defined. Like I think our scope is capital markets but it could be capital markets and support systems for entrepreneurs and small business owners. Versus like, what does "the system," mean, right? But.

MR. SOLOMON: Okay. Is everyone okay with "racial equity" instead of "racial justice"?

MR. SEATS: Equity is the perfect word for what we're doing here, I think.

MR. SOLOMON: Yeah.

MS. GARRETT: And does anybody else have other comments on his words?

MR. TORBERT: Hey, guys. Why not "racial and economic equity" because that's really what we're talking about, period.

MR. SOLOMON: Good point. Thank you, Hank.

MR. TORBERT: No problem.

MS. MILLER: This is what I'm talking about. This is what happens in aisle three of the hardware store when you get the great minds together.

MR. SOLOMON: We just have to figure out how to get to aisle three 15 minutes earlier, because I'm now late to my 3:00.

MS. MILLER: If you figure that out, you can pass it out to every other advisory committee as well, Jeff.

MS. GARRETT: Yeah, Jeff. We've been pretty good. So, you shouldn't schedule calls at 3:00.

MR. SOLOMON: I know. I know.

MS. GARRETT: Okay. Anybody else have



any -- no. Okay. So how about we take another vote on the language that Greg has proposed, and as Greg said we will fine tune it to make sure that it captures the different points that we've all discussed on this call today. So all --

MR. YADLEY: I make the motion.

MS. GARRETT: Okay. The second? And everybody in favor? Okay. Is there anybody opposed at this point? I can't -- if you are opposed can you say, "I'm opposed," so I can hear, since I can't see everybody right now? Okay. So I think that was a unanimous passing of the resolution. Thank you. I think that was a great committee meeting.

Jeff, thank you for leading that, you know, discussion, and thank you to everybody who weighed in on making our recommendation, you know, what we wanted it to be. As we've all mentioned, this is very much a starting point for us. So this topic is something that I'm sure that we will continue to discuss in many other committee meetings in the future. Just, we have gone over time. Just to remind everybody, our next committee meeting is on November 8th. We should assume that we'll probably be virtual like this again. And if anybody has any questions or wants to reach out to any of us, please do so. And thank you, everybody,



for your participation and all of your great hard work. And so with that, I now adjourn the meeting.

(Whereupon, at 3:16 p.m., the meeting was adjourned.)

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In The Matter of: SMALL BUSINESS FORMATION ADVISORY COMMITTEE MEETING

File Number: OS-0804

Date: Tuesday, August 4, 2020

Location: Washington, D.C.

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