U.S. SECURITIES AND EXCHANGE COMMISSION

SMALL BUSINESS CAPITAL FORMATION ADVISORY COMMITTEE
ENTREPRENEURSHIP HUBS AND THE IPO MARKET

Thursday, October 13, 2022
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U.S. Securities and Exchange Commission
100 F Street, N.E., Washington, D.C.
Multi-Purpose Room LL-006
and via Webex videoconference

PARTICIPANTS:

GARY GENSLER, SEC Chairman
HESTER M. PEIRCE, SEC Commissioner
CAROLINE A. CRENSHAW, SEC Commissioner
MARK T. UYEDA, SEC Commissioner
JAIME LIZARRAGA, SEC Commissioner

CARLA GARRETT, Chair
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MARC OORLOFF SHARMA

PARTICIPANTS (CONT.):

HANK TORBERT
SUE WASHER

CONTENTS

C O N T E N T S (CONT.)

P R O C E E D I N G S

CALL TO ORDER

MS. GARRETT: Good morning, and welcome to today's meeting of the SEC Small Business Capital Formation Advisory Committee. I'm delighted to be able to convene this meeting in person, at least in part, and thrilled to see so many of you here.

I want to extend a warm welcome to those members joining us here in person and remotely; it's good to see all of you and we appreciate the members of the public who have tuned in to watch the meeting via webcast on sec.gov.

I hereby call the meeting to order.

Julie, do we have a quorum?

MS. DAVIS: Yes, we do.

INTRODUCTION

MS. GARRETT: Great. I would like to spend -- extend a special thank you to the Chair and the Commissioners attending today's meeting. And I also would like to thank the staff of the Office of the Advocate for Small Business Capital Formation who play a integral role in having these meetings come together.

We have a new member of the Committee, William Beatty, who is the new representative from the North American Securities Administrators Association. Bill is the securities administrator in the state of Washington, and is replacing Andrea Seidt as NASAA's representative on the Committee.

Bill, I would like to extend a warm welcome. We appreciate you joining the Committee, and I look forward to working with you.

In addition, I would like to thank Andrea for her service on the Committee.

For our agenda today, in the morning the Committee will discuss entrepreneurial ecosystems, focusing in on what it takes to build a thriving ecosystem to foster small business growth.

And in the afternoon, we will discuss the current state of the IPO market, which will include how small businesses looking to go public have been impacted by the current market conditions, what lays ahead for investors in smaller companies thinking about exit strategies, and how small businesses are considering their own trajectories.

This morning and afternoon sessions may seem like two separate topics, but as you all know, they are linked since every company that goes public starts out as a private company.

We have lined up several great speakers to present on this topic, and I look forward to the

Committee engaging in discussions with them.

Before we turn to our agenda items, we are pleased to first recognize the Chair and Commissioners who are here today for opening remarks.

Good morning, Chair Gensler.

INTRODUCTORY REMARKS

CHAIR GENSLER: Good morning, everyone, and my thanks to Carla and the members of the Small Business Capital Formation Advisory Committee. As is customary, I'd like to note that my views are my own. I'm not speaking on behalf of the Commission or SEC staff, and that's true of all of us that speak today from the SEC.

I, too, want to thank Ohio's Securities Commissioner, Andrea Seidt, and -- who recently concluded her service. Andrea represented North America in Securities Administrators Association, the other NASA.

And I understand that, as you said, Bill is going to be taking that on now for NASAA, and he joins us from Washington State Department of Financial Institutions. So welcome, Bill.

I also -- I want to thank the SEC Staff and the Committee working together, because I know this is -- you're in hybrid mode now. Some of us are still tying in virtually, but some of you are there together, in person, and I want to thank everybody that's helping make that a possibility.

Your agenda today includes the two topics you've mentioned on entrepreneurial ecosystems and on initial public offerings, and I look forward to following the read-outs from both of these panels.

Entrepreneurs and small business are at the foundation of much of what happens in our economy, and over the last twenty-five years, small businesses have created two out of three new jobs in the United States: that's two out of three. So they really are an important part of job creation, but they're also -- substantially promote goods, services and fundamental innovation in our economy.

And even though public companies listed on our stock exchanges get a lot of attention in the daily news cycle, more than 99 percent of U.S. businesses are small businesses. So we all kind of know this is so important and their employees make up nearly half of the American workforce.

I think also about Commissioner Uyeda's grandfather, who ran a produce route. I think about Commissioner Lizarraga's parents who run a Mexican food business. I think about how Mark and Jaime helped their families with the work as they grew up. I think about, also, how these two family businesses based in Southern California led, just one or two generations later, to two new Commissioners seated with us today in Washington, D.C., and I can't help but thinking about my dad, Sam Gensler, and his vending machine business; it was a family business as well.

So small business and entrepreneurs have a seat at the table of our work at the Commission, both literally and figuratively, and that's not only because a number of us in the Commission grew up in families with "the family business," so to speak, it's also because our capital markets are relevant to those small businesses as well.

You see, our capital markets basically affect small businesses and entrepreneurs when they borrow money, their banks and so forth, that are lending them their -- that money are accessing the capital markets. The banks may also be borrowing, you know, from the capital markets as we know, and the loans can be securitized in the capital markets.

Our capital markets also affect small businesses that might be considering whether to seek funding from private funds, whose advisors are registered with us. Private funds now oversee $21 trillion in our capital markets, and some of that are going into loans, and some of it's going directly into venture funding, or mid-stage company funding and the like. So well before somebody might be considering going public.

So as you look at our entrepreneurial ecosystem, please let us know as a Commission, what we can do to enhance that ecosystem. Many companies, like my dad's, I suspect like Mark's and Jaime's families' businesses, they weren't thinking directly to access the capital markets. But even the indirect ways that it influences them, it's really helpful to -- for us to best understand how we can achieve our three-part mission about facilitating capital formation, maintaining the markets as fair, orderly, and efficient, and also protecting investors. How can we help promote entrepreneurship that shapes so much of American economy in economic life.

As it relates to the second issue and discussion of initial public offerings, naturally, there's an ebb and flow. This has been true for many, many decades, that the IPO market will ebb and flow with different economic cycles, different market cycles and the like, and we're living in one of those transitional times right now, shaped by economic uncertainty related to the war in Ukraine, the pandemic, and relevant to the central bank shifting from accommodating to tightening policy stance.

And there's significant uncertainty through the global economy. One can just look at the World Bank IMF Report of this week and read that right throughout that report.

What I'm most interested in, though, is not so much these cycles, which I'm sure will capture a bit of your discussion, but what advice you might have to our Agency about the long-term, regarding not only the traditional initial public offering market, but the other ways that technology has been innovating and competing.

Special purpose acquisition companies, direct listings and the like, and what lessons are there for our Agency? We have a proposal outstanding on SPACs. I appreciate the Committee's prior comments and recommendations, with regard to the proposal. We'll consider those, as well as the public comments. But we will also find it helpful to hear your further thoughts today, and of course include that in the administrative record, around SPACs and other rules that you might touch upon.

So I thank you, Carla. I hand it back and appreciate all the work of the Committee.

MS. GARRETT: Thank you, Chair Gensler.

Commissioner Peirce?

COMMISSIONER PEIRCE: Thank you, Carla. And I'm delighted that you all are there in person. I had hoped to be with you, but I'm a little under the weather, so I decided it was probably better for me to stay away.

But thank you to all of you for convening today. And thank you to the panelists who are joining for today's meeting. And also, a big thank you to Andrea Seidt, from the great state of Ohio, for lending your talents to the Committee, and welcome to Bill Beatty, who will be taking Andrea's place.

I'm grateful that today's discussion will cover two vitally important topics for small businesses: entrepreneurial ecosystems and trends in going public.

On a recent trip to Charleston, South Carolina, I observed how entrepreneurial ecosystems work, outside of the largest cities. An entrepreneurial ecosystem, in a region like that, can be key to fostering the growth of small business, and importantly, their ability to remain in the region rather than being lured away by the bright lights and big dollar signs of New York and San Francisco.

As discussed at this year's Annual Small

Business Forum, different regions can have advantages in terms of cost of living and the ability to find unique talent and work more closely with their customers. While not among the top 20 recipients of investment dollars, cities like Charleston and their surrounding regions can grow in that capacity under the right entrepreneurial ecosystem and regulatory framework.

Historically, just a few regions have accounted for the vast majority of the flow of investment dollars. This trend is loosening, but too slowly. In 2021, according to pitchbook data, almost 80 percent of venture capital went to just three regions: the Bay Area, the Northeast Corridor from Boston to Washington, D.C., and Southern California. Trends are similar for angel capital activity. According to the 2021 Small Business Advocate Report, nearly two-thirds of angel and seed deals occur in the top 10 funding regions.

Entrepreneurs who are committed to a region can change that dynamic. After building successful businesses of their own, many entrepreneurs enjoy investing in other businesses in their communities. In addition to funding startups, these investors draw upon years of business experience to provide sound advice, speak hard truths, explain how the capital raising process works, connect them with the necessary legal accounting and management expertise, and help them navigate the thorny issues that all new companies face.

I heard how that is playing out in Charleston. As discussed at this year's SEC Small Business Forum, one of the biggest resources for new entrepreneurs is having relationships with entrepreneurs who have been through the process. Investors dipping their toes into private markets for the first time also receive needed mentorship. The result is a region that is hospitable to both start-ups and investors.

I hope that this morning's panel explores how the Commission can improve entrepreneurship ecosystems by expanding the pool of investors in a region and fostering the ability of start-ups in the communities in which they were born.

I have several questions. Would expanding the definition of accredited investor help facilitate vibrant entrepreneurship ecosystems, particularly outside of the largest cities? If so, how should the Commission expand this definition?

Second, should the Commission explore ways to make it easier for companies to find investors, particularly by creating a safe harbor from broker-dealer registration for finders?

Should the Commission authorize the creation of a micro-offering safe harbor that exempts small raises of around 250 to 500,000 from state and federal securities registration requirements?

Should the Commission expand the reach of angel funds under Section 3(c)(1) of the Investment Company Act by allowing them to be as large as $50 million with 500 investors, for example, instead of the current 10 million and 250 investors?

I'm also looking forward to the afternoon discussion on the market for going public. This discussion could not be timelier, as the report from late last month found that the U.S. is expected to report the lowest proceeds from IPOs since 2003. In light of this troubling news, I have several questions for the afternoon's panel:

Are these recent market trends a short-term phenomenon or indicative of broader, long-term developments? Market trends should inform Commission action, but they should inform action more if they indicate long-term structural market changes, not flash-in-the-pan trends.

Is any of this drop-off attributable to an uncertain and increasingly costly regulatory environment for public companies, caused by new and pending SEC regulations and guidance?

And third, do these recent market trends speak to how the SEC can properly calibrate rules for traditional IPOs, direct listings, reverse mergers and SPACs, without overly discouraging any particular method of going public or creating unnecessary opportunities for regulatory arbitrage?

Thank you all, and I look forward to today's discussions.

MS. GARRETT: Thank you, Commissioner Peirce, and we hope you feel better.

Commissioner Crenshaw? Thank you for being with us today.

COMMISSIONER CRENSHAW: Of course. Thanks, Carla.

This is strange. I have to say, this is my first time as a Commissioner sitting at this table at a live mic with a hybrid audience. So this is a strange environment for me, but it's great to be here. It's good to see all the faces here, and it's good to have those of you with us on the camera.

And thanks especially to our IT folks, who set up this virtual world. And half-hybrid virtual world, and half-people here, and to the Small Business office for all that you guys do. So thank you, guys.

I also want to thank Andrea for her work on behalf of the Committee, which we value greatly, and also, a warm welcome to Bill.

So it's good to see you. Hopefully everyone is surviving, at least in D.C.; it's very rainy and sort of a miserable morning here, but the bright lights here are making it a welcome morning.

And I also want to thank the Small Business Capital Formation Advisory Committee. I will always get the full -- I always stumble over the full name, but -- for putting together, I think, this important agenda. And as Gary mentioned, all of our Commissioner remarks are our own remarks and do not necessarily reflect the views of their fellow commissioners or staff.

But I'm looking forward to both of the sessions today. I think many of you know that I have a keen interest in the incentives, in the interactions, and the macro-pressures that influence public and private markets. So the work of the Committee is always of the utmost importance and interest to me.

In the morning session, I'm eager to hear from the Committee members about the different factors that allow small businesses to grow and thrive. Chair Gensler mentioned some family businesses here, and I'd be remiss -- I think on my very first meeting I mentioned it, but my brother is working on a very small business: employee of one. And I just got to go visit it out in Arizona a couple of weeks ago and see the shop that he's created for the first time, since he did it mostly over COVID. It was astonishing. I couldn't believe what he'd done by himself. He has huge machines, he's got a pully that lifts them all on his -- you know, with just my brother. And it was fascinating.

But I think it's so important to learn from these small businesses and learn exactly sort of how early-stage businesses access and utilize our exempt offering frameworks. And I -- I would like to just add into that, how do grants play into this? He's not even a size where he's thinking about accessing and utilizing the exempt offering framework or the securities markets at all. He's still just trying to figure out basic grant money to survive day to day. So I want to think about sort of -- as we're thinking about this -- think about all the different types of the exempt offerings within the security law framework, including sort of the very, very early step, and is this sort of pathway working, and how do all those work together?

Are there sufficient and reasonable access to securities lawyers who have experience with offerings? And to the extent you see early-stage businesses utilizing the various exemptions that are out there, which ones are being utilized, and why? What's working and what's not working?

And I think meetings like this are an invaluable opportunity to speak directly to folks that are working in this ecosystem, and to reflect on really, where the troubles are, and really what's working well.

And in the afternoon session, I think we're turning to another very important step in the small business trajectory: the IPO. And I think right now, there's a lot of uncertainty in the world, and I think the markets are reflecting that. But as the market conditions for IPOs might be less optimal, I think this is an opportunity to think wholistically about the pathway for going public. And that's where I go back to just all the way from the individual employee grant process, all the way up through exempt offerings, all the way to the IPO stage.

And I think as part of that we've seen a rebirth of the utilizations of SPACs at the advent of direct listings with capital raise. We can discuss that as part of this and whether that's working, considering, I think, we haven't really seen any of those yet. Maybe I'm wrong. I'm looking at my colleagues here. But sort of, is that the optimal process, and whether we need to think about that in line with SPACs and IPOs.

And I think talking about these different methods of going public all together, allows us to get a more fulsome picture of the pathways to the public markets: both the frictions and the incentives. And I think today is a great start toward that holistic review, and I really hope to build on the work of the Committee and take an empirical look at our going public ecosystem. And I think taking a step back will allow us to use a data-driven approach and will help formalize ideas about how the Commission can best help growing businesses in this whole process.

And it -- just as we discussed, as folks mentioned and Commissioner Peirce noted, a decline in IPOs. I think it's also hard to ignore the flipside of that coin: the growth in private markets. And many more large companies, the so-called unicorns, are choosing to forgo the public market all together. Are we seeing the same with small businesses?

Many of our registered -- registration exemptions were crafted with the small business community in mind. But are small businesses actually using them? Or is it dominated by these larger players? And do entrepreneurs, looking to develop, still see public markets as their end goal? If not, do we need to rethink the balance between the public and private markets and how the onramps are supposed to work?

I think these are not easy questions to answer. And I'm sure that we're going to have many great ideas for how to create ecosystems where small businesses thrive, and for how we should think about sort of the going public process.

I look forward to the discussion today, and to larger discussions on these issues. And again, thank you all for your time and for being here both in person and on video.

MS. GARRETT: Thank you, Commissioner Crenshaw, and it is nice to meet you in person today.

Commissioner Uyeda?

COMMISSIONER UYEDA: Well thank you, Carla. And good morning, and welcome. I've been looking forward to the -- this Advisory Committee finally convening in person, or at least in hybrid, in person, and really grateful that we have the opportunity today to do that. I very much echo Chair Gensler's sentiments about the importance of small business and entrepreneurship in our economy.

But first, I'd like to thank Commissioner Seidt for her service on the Advisory Committee and providing the important perspective of state securities regulators. I know firsthand that state securities regulators play a very important role in the development and implementation of rules governing small business capital formation.

I also take this opportunity to welcome Bill Beatty. I've known Bill, as well as his predecessor, Michael Stevenson, at the Washington Department of Financial Institutions for many years through NASAA. I think Mike served as the chair for a number of years of NASAA's Corporate Finance Committee, and I also know that the Washington DFI has played a leading role in helping with the coordinated review process under Regulation A for a number of years. So, thank you all for your service.

I am concerned by certain market and regulatory trends. First, the number of publicly traded companies continues to go down; the result is a narrower set of economic opportunities for retail investors, who are generally unable to access investments in retail markets and private markets.

According to one recent report, the number of U.S. companies traded on major U.S. exchanges has declined significantly in recent decades. For instance, after peaking in 1996 at more than 8,000 companies, the number of domestic U.S.-listed public companies decreased by nearly 50 percent by 2015, to approximately 4,300 companies.

Although higher regulatory costs may not be the sole factor driving this decrease, we should aim to improve the regulatory balance to incentivize companies to go or remain public. The Commission's current regulatory agenda, if finalized, will impose further reporting and disclosure obligations on public companies. I am particularly interested in any linkages between any proposed disclosures and financial materiality.

For instance, in considering the Commission's proposal regarding climate-related disclosures, commoners have suggested that there may be significant additional compliance costs for public companies without providing significantly better financial information on which to base their investment decisions. So I look forward to all the input that we have on these current proposals as things to think about should we move forward.

The Commission's agenda also proposes to go further and impose additional corporate disclosure framework, such as human capital disclosures. I have similar concerns about financial materiality. A framework that is historically guided, effective disclosure practices, especially in light that we recently adopted rules that require registrants to make certain human capital disclosures to the extent necessary, and it be material to an understanding of the registrant's business.

One rulemaking -- our rulemaking benefits from robust economic analysis. One of the things that I'm particularly concerned about is with all these rulemaking proposals, that they consider the cumulative impact of the entire regulatory agenda.

I also think it's important that we rethink the assumptions that we've used in some of our recent Commission rulemakings that calculate the costs for outside legal counsel to comply with SEC reporting obligations to be $400 an hour, an estimate that has remained static since 2006.

So thank you for your service, and for taking on these difficult issues. While some of it's challenging in the short term, addressing them in the long term will result in more opportunities for small businesses to raise needed capital and grow their business. So I look forward to your discussion and the presentations today.

MS. GARRETT: Thank you, Commissioner Uyeda, and it's very nice to meet you today.

And welcome, Commissioner Lizarraga. Nice to meet you, too.

COMMISSIONER LIZARRAGA: Thank you. Good morning and thank you, Carla, and the rest of the Committee, for your time and input today.

And Chair Gensler, thank you for your kind comments, and I share your sentiment on all the small business matters that you raise. So I share the spirit of that. And it is a pleasure to, again, address this Committee as it fulfills its Congressional mandate of advising the Commission on small business capital formation.

Insights from today's discussion of entrepreneurial ecosystems and the characteristics that make them so successful will be especially useful in informing the Commission's capital formation mission.

In 2021, nearly 70 percent of all U.S. venture capital investment was concentrated in only five metropolitan areas: San Francisco, New York, Boston, San Jose, and Los Angeles. Such a staggering level of concentration raises questions about any steps the Commission could take to serve the capital formation needs of small businesses outside of the -- of these regional hubs which have traditionally received the lion's share of investor capital.

It's my hope that today's sessions will also involve discussion on ways the Commission could -- can focus its attention on the needs of small businesses that aren't connected to the -- to an entrepreneurial ecosystem.

I see these established ecosystems as a mix of formal and informal networks that investors lean on in deciding where to invest their capital and that entrepreneurs also use to exchange knowhow and build relationships. In light of this, here are a few questions for your consideration:

For small businesses that remain outside of an entrepreneurial ecosystem, how can they best navigate our securities laws and exempt offering framework that's often written an inaccessible legal jargon?

Are there Commission resources that small businesses can avail themselves of to find and evaluate the advisors and service providers they will need to raise capital and find investors?

What types of capacity building or technical assistance can the Commission contribute?

What are the most efficient and impactful ways to deliver these resources to small businesses in the investing public?

Is there a role for public-private

partnerships and networks of local institutions, like universities, incubators, or accelerators?

Are they ways in which the Commission can partner with other federal agencies in this space, whether it's the Small Business Administration or the Treasury and Commerce departments?

I also look forward to your insights on the state of play of the current IPO market in the second panel, and in particular, some of the issues that have been raised, but with an eye towards preserving strong investor protections and market integrity.

Again, your exploration of these questions can inform the Commission's capital formation responsibilities, and I look forward to hearing and learning from your deliberations. Thank you for your service and for your valuable contributions to today's discussion.

MS. GARRETT: Thank you, Commissioner Lizarraga. And thank you to all -- to the Chair and the Commissioners for being with us today. We appreciate you being here, and we appreciate your remarks.

M O R N I N G   R E M A R K S

ENTREPRENEURIAL ECOSYSTEMS:

EXPLORING THE COMMON INGREDIENTS IN VIBRANT ECOSYSTEMS

MS. GARRETT: So to turn to our first agenda item, which is entrepreneurial ecosystems: exploring the common ingredients in prosperous ecosystems. I want to offer a potential framework for our discussion. The SEC has on its website, as people have noted, various maps that show where capital is being raised across the country. Anyone who looks at those maps will see that the capital is predominantly raised on the two coasts. The Committee is keen to explore the key elements that underpin a thriving entrepreneurial ecosystem.

To that end, we will hear from two experts regarding common ingredients for building a vibrant ecosystem, including a brief, historical overview of what characteristics have made those ecosystems successful.

We will then discuss various factors that make an entrepreneurial ecosystem work effectively. The sequencing of events and what cities, universities, lawmakers and regulators and other stakeholders can do to support these environments.

It is my hope that today we will hear from all committee members about what works well in your various communities, sharing personal and professional experience, data, and history, to explore ways to continue supporting small business growth across the country.

Some questions that I hope our speakers and committee members will address and including -- this excludes the ones that the Commissioners and the Chair have raised -- is one, what factors are most critical to building a successful innovation hub or region? What role do universities play in creating these ecosystems? What role do other large anchor institutions play? What kind of infrastructure must exist to support these ecosystems, and what can we learn from areas like Silicon Valley and Boston? I also think it's important for us to note how the securities laws, and changing any securities laws, could affect the ecosystems.

Throughout this morning's sessions, I would like for us to be thinking about common ingredients for successful entrepreneurial ecosystems with a view towards setting forth some findings that the SEC could use to foster these around the country. With that in mind, let's turn to our invited speakers.

First, we have with us Dr. Maryann Feldman, a Watts Endowed Professor at Arizona State University in the School of Public Affairs. Prior to ASU, Maryann was a professor in the Department of Public Policy at the University of North Carolina, wearing multiple hats at the UNC Kenan-Flagler Business School, and Kenan Institute of Private Enterprise. Her research and teaching interests focus on the areas of innovation, the commercialization of academic research, and the factors that promote technological change in economic growth. Among her many accolades, Maryann was the winner of the 2013 Global Award for Entrepreneurial Research for her contributions to the study of the geographic of innovation, and the role of entrepreneurial activity in the formation of regional industry clusters.

Welcome, Dr. Feldman.

And we also have with us, Professor Khumawala, who is going to introduce our next speaker. She is the founder of the SURE Program, and she's going to introduce Dr. Charles Becker, who is the managing director of the SURE Program.

Professor Khumawala?

PROFESSOR KHUMAWALA: Yes, I'm here.

MS. GARRETT: Would you like to introduce Dr. Becker, please?

PROFESSOR KHUMAWALA: Yes. Thank you. Thank you for the opportunity to speak and join this prestigious group this morning and present our SURE Program. I'm a faculty member at the Bauer College of Business, Professor of Accounting, specializing in public sector. And as part of my non-profit research, I also ventured into social entrepreneurship, founded this program which basically takes students as consultants and assigns them entrepreneurs.

For our very favorite known as Charlie, Professor Becker, he was a student in the MBA Program actually doing two graduate degrees, concurrently: both a student in the MBA Program at the Bauer College, and also, getting his MA Degree in Applied Economics, concurrently.

Charlie signed up for the course, brainstorming the bank rolling, took the class, took the course. And in one semester, basically pivoted from joining the oil and gas industry, making high dollars, and basically just changed his pathway and finished the course, became a TA, continued working with me on a dime a dollar salary at -- as a student TA at a state institution, and now is a Professor of Practice in leading this -- you know, is a managing director of the SURE Program.

I am so thrilled and pleased to have Charlie as a colleague in the program. He has really taken this program by leaps and bounds to the next level; it was me alone, and now I have Charlie, who has triple the energy and the foresight for this program.

So with that, I introduce you to Charlie Becker.

DR. BECKER: Thank you. Thank you, Dr. Khumawala. Can everyone hear me okay?

MS. GARRETT: Yeah. Dr. Becker, we're glad to have you with us today. And thank you for the introduction. I think what we're going to do right now is we're going to start with Maryann, who is going to present. And then after that, we will have you present.

Maryann?

DR. FELDMAN: (No verbal response.)

PARTICIPANT: Maryann, I believe you are muted.

MS. GARRETT: Maryann? We believe you're muted.

(Pause.)

DR. FELDMAN: Very good. Well, not only is it not letting me unmute myself, but also, I can't share my contents. So it's asking me to open my preferences.

MS. GARRETT: We can hear you now.

DR. FELDMAN: Okay, very good. But you probably can't see my slides.

MS. GARRETT: We cannot.

DR. FELDMAN: Okay. We didn't check that beforehand. Any advice on how I might do this? It says, "Open your system's preferences."

MS. GARRETT: I think what we'll do is we'll have you work with tech support, and we'll go ahead and have Charlie speak, if that works with you.

DR. FELDMAN: Terrific.

MS. GARRETT: Thank you. Charlie?

DR. BECKER: Thank you. Yeah, looking forward to seeing Maryann's presentation.

My name's Charlie Becker. I know we've all, you know, been through this rodeo several times now over the two-and-half years, but I have an eight-month-old who likes to rile up my two small dogs. So please do me a little grace if you hear any ambient noise. Everyone is okay, but I just wanted to apologize in advance if you hear any of that in the background.

My name is Charlie Becker. I'm a Professor of Practice at the University of Houston with Dr. Khumawala, and I'm here to talk about the potential role that universities can play in entrepreneurial ecosystems; specifically, how can a university bring together the civic, academic, and business community to build a vibrant, thriving, entrepreneurial ecosystem.

We, at the Center for Economic Inclusion, have something called the SURE Program, and we think that this is a proven model to take the guesswork out of this process. And I took a few notes before I started talking about the program explicitly, based on the questions that the board members raised. I can fit -- the reason that we've been successful in what we do at SURE is that we start by asking ourselves, "Where do entrepreneurs come from?"

And I think that, you know, socially in society, when we talk about entrepreneurship, we often talk about it as a character trait, or an inherent inclination. But we at SURE think that whether someone starts a successful business or not depends at least as much on their access to resources and informal social networks, as it does any kind of inborn, immutable trait. And we think the same is explicitly -- when we talk about entrepreneurship -- is really important.

And so, before we -- I talk about how SURE works, I want to talk about three different obstacles that entrepreneurs face or three different issues that we should consider when talking about building vibrant entrepreneurial ecosystems:

And the first is access to capital. For huge swaths of the United States, asking an aspiring entrepreneur to raise a friends and family round is kind of a farce. So many people don't have access to someone in their, you know, friend network or their extended family who can cut them a 20,000 or $50,000 check. And so far as our idea of a successful entrepreneur, you know, and kind of our cultural typecast includes someone who can raise a friends and family round, we're perpetuating existing inequalities as opposed to making them better, and we're not doing the best ideas from the most possible people on new and exciting businesses. So we want to challenge people to look at not just the geographic profile of who's getting capital, as we keep mentioning, on the coast, but also the demographic profile of who is getting that capital.

The second issue, after access to capital, is onramps. So we want to talk about how do we build a farm team of small businesses that grow into these larger businesses. At the SURE Program, we aim to work with small and micro-businesses who are grossing 2- to $20,000 a month, so it's much smaller than many people think of when they think of small businesses.

But the thing is, out of the hundreds of people that we train to start these businesses, many go on to then get grants or loans in the hundreds of thousands or millions of dollars and grow larger. So we want to think about not -- like how do we build robust onramps into larger programs.

And then finally, technical support. A lot of people talk about technical support as kind of surgical incisive resources at the point they're needed. But we want to challenge people to look more at long-term ongoing relationships. So with our cohort program, it's actually only 10 weeks, but we find that entrepreneurs will come back years later to contextualize lessons they learned or resources they get elsewhere.

And so with that, let me start talking about how we have developed a model that we think answers this. Can you all see my screen?

MS. GARRETT: Yes.

DR. BECKER: Okay. Okay, so SURE is a program; it's a model within the Musa and Khaleda Dakri Center for Economic Inclusion, here at the Bauer School. And SURE stands for Stimulating Urban Renewal through Entrepreneurship. And so very quicky today, I want to answer nine frequently asked questions, and they come in three buckets which is the big picture of the model, the design and impact of the model, and the broader context for the model.

So the first question is obviously, what is the model? And so SURE connects UH students, under-resourced entrepreneurs, and Houston business experts for a similar educational experience and unmatched community impact.

And why do we do this? Is that today, students have certain human-centered skills at a time when algorithms and machine learning are taking away even white-collar jobs. Training students in how to work with other people and how to solve complex problems more valuable than ever; and likewise, more relevant to the discussion today. We try to economically empower entrepreneurs in under-resourced communities who may have been traditionally denied access to educational or financial resources or informal social networks that come in handy when starting a business.

So why do people participate in SURE? And so the -- we built this model so that we'd bring together the civic, academic, and business communities in a way where everyone gets something out by putting something in. So the students receive real-world experience, develop critical skills, and earn course credit by consulting with five local entrepreneurs each.

So each student in the course is assigned five of the under-resourced entrepreneurs from the Houston community. The entrepreneurs receive a world-class business education, a one-on-one consultant from citizen experts, and key professional relationships by greeting granular, tailored business plans.

And finally, the Houston business community members receive opportunities to make a material difference in their local community by contributing expertise and resources.

So what makes this different is we are flipping the traditional experiential learning model. And many schools talk about experiential learning, but what happens, essentially, is they'll have a team of students work on one project for a large organization that is external to the school for a long period of time.

We've inverted that, where each student gets three to five clients from the community. We've also embedded this as curriculum in a four-credit course. We find that this has tremendous end-run benefits. I can talk to any educators offline about it if they're interested. But chiefly what it does is it takes it away from the mindset that this is some kind of service project, or some kind of one-off thing, and it really encourages the students in the university to build long-term relationships with these entrepreneurs.

We also have as many as 80 professional mentor volunteers every semester, so we try and keep a large Rolodex of people who are interested in advising the students and entrepreneurs. And these combine for unrivaled breadth and depth of intervention, so we're able to train a huge number of entrepreneurs every semester in a huge variety of contents.

And so what does this look like in the community since we've started? Well we've educated over 1,500 current or aspiring entrepreneurs, and we've launched or grown over 625 businesses in the Houston area. 75 percent of the entrepreneurs who have come through the program are Black or Latinx, and the average age of the entrepreneur is 41 years old. 63 percent of these entrepreneurs were at or below the Housing and Urban Development low-income threshold level when they signed up for the program. 93 percent of these entrepreneurs are referrals from past participants in the program. And that's how we know that we're providing a service to the community that it really needs and enjoys. 98 percent of the entrepreneur participants said that the program improved their financial literacy, either at their business or at their household, and most importantly, zero dollars has been paid by entrepreneurs in tuition over the life of this program. So this is completely free to the entrepreneurs in the community.

It's also a huge benefit to the students. I just pulled a couple lines out of two testimonials here that I think are representative of what the students had to say about the program.

Christopher Clark was a Master's of Finance student in 2019. He said, "You'll learn fundamental business concepts on how to advise a client. There's no textbook that will cover some of the on-the-job challenges you'll face as you'll guide your team. And if you're ever in need to describe a time when you blank in an interview, your experience in SURE will provide you with a greater response."

Sharlicia was a Bachelor of Finance student in 2017. She goes by, "Shaz." And Shaz said, "Each assignment takes me out of my comfort zone of imagination and onto a plain of practicality. And this is better than any internship because you have a stellar support system and more encouragement than I imagined even the best of interns could expect."

And so this is not a flash-in-the-plan program. I included this slide just to show the number of people who have kind of really popped the hood and looked at what we do and vetted us as certain was needed in the community in helping the people out.

We've been honored by Houston Business Journal, the University Economic Development Association. Dr. Khumawala received a Piper Foundation Award as a Piper Professor, which is basically a lifetime achievement award for professors in higher education in Texas and is only given out once per year.

And a large part due to this work, we've spoken at South by Southwest, and we've been recognized at the state -- at the congressional, state, city neighborhood and college level.

So how does it strategically align? We try and make sure that when you show people that we are part of a broader context of what is happening, that it's not a simple program that works in Houston, simply because of us. We are -- we designed the program to be experiential learning, which is one of the cornerstones of the pedagogy of the AACSB, which is our university accrediting body.

Specifically, we have significant measurable and societal impact. We have been recognized as key impact for SAX accreditation, which is again, another accrediting student body. We are aligned with the Global Business Schools Network, the Global Building Inclusive Societies, and we meet six UNSDGs, which is no poverty, a quality education, gender equality, decent work and economic growth, industry innovation and infrastructure, and reduced inequalities.

So what is the future of SURE? We have recently raised an endowment and SURE is now housed within the Dakri Center for -- Dakri Family Center for Economic Inclusion. And the plan is to scale operations here, in Houston, but also to spread the SURE model to other schools and to continue taking opportunities to talk to lovely people like yourselves about the needs entrepreneurs face on the ground and how to build vibrant entrepreneurial ecosystems.

We were recognized as one of the only Ecosystems in Excellence in our region by the University Economic Development Association, and we are -- already started a cohort program where professors and educators from other schools are learning from us, how to start a similar program at other schools in the U.S. And we actually have significant interest to propagate the SURE system -- ecosystem globally. We have already partnered with schools in India, Indonesia, and Mexico. We're increasing research in the interception of education, community engagement and diversity, equity and inclusion, and we are increasing course offerings and the difficult mentor certificate programs.

And so thank you. Thank you for sharing -- I just wanted to circle back one more time, now that we've done -- gone through the presentation because the board members were so kind as to lay out their questions so eloquently in advance and talk about the three issues I mentioned at the top of the presentation that we think really bear having us focus on them, and that is access to capital, onramp programs and technical assistance.

You know, I think that we really need to demystify who is an entrepreneur and who can become an entrepreneur and build programs where we cast a much broader net. The -- but that's everything that we have to share today.

They told me to get through that quickly because this was a particularly insightful group so that I could leave room for questions. And myself and Dr. Khumawala would love to answer any questions that you have or speak more specifically on any issues that you think the entrepreneurs that we work with might be facing.

MS. GARRETT: Thank you very much, Charlie.

At this point we'll turn to Maryann to have her presentation and then we'll go to the group to ask you questions, as you just invited, and open this up to the Committee.

But Maryann?

DR. FELDMAN: Very good. So can you hear me and see my slides?

MS. GARRETT: We can. You're a little soft, but we hear you and we see your slides.

DR. FELDMAN: Good. Okay, very good. And so it's my pleasure to talk with you today. And so really, I'm -- sort of spent my career looking at the idea of place-based economic development. And in the economics field, there is a distinction between investing in people; that is upgrading human capital versus investing in places.

And really, we have not had any significant place-based economic development policy since the 1960s. And this overlooks the fact that people live in places and have attachment to places. And entrepreneurs, when they start a business, like to stay in the place where they've been living because it reduces their uncertainty. And right now we're at a moment where place-based economic development is on the agenda in a way that it hasn't been throughout my entire career. And so we have Build Back Better, we have the NSF Regional Innovation Engines, and then also, the CHIPS and Science Act allocates about 16 billion to building place-based assets.

And so I want to talk a little bit about this distinction between clusters versus ecosystems. And so we've been talking about clusters for a long time and have not had much success. And so we notice that actually income and equality has increased across the U.S., and so the idea of now talking about ecosystems is really a new concept. And there are sort of three distinctions.

And so clusters were about just one industry or technology. And ecosystems are defined across industries, and really focus on the initiative that can build new industries and satisfy consumer demands in previously unimagined ways. And while clusters focus on relationships among firms, really, ecosystems focus on the environment.

And Charlie, great presentation. Your program is so exciting. And really your institution, your program, is just one part of an ecosystem that has entrepreneurs and entrepreneurship at the center, and that really then encourages people to realize their potential.

The other sad thing about clusters is that it was really sort of deterministic relationship, it was "Build it and they will come." And policy was not accorded much attention.

But what we see with ecosystems is that the focus is on the process, the temporal development of an ecosystem. And so the sort of emergence of regional-specific dynamics and then the importance of human agency and collective action. Now as sort of someone who studies economic geography, there are a lot of places we say should be ripe for having vibrant ecosystems, but for some reason, it doesn't gel because this aspect of sort of human agency and initiative having local champions is not there.

I want to just sort of mention that for a long time, we have tried to replicate Silicon Valley. We see so many places around the world that are Silicon whatevers. And yet, you know, has been pointed out by many committee members, venture capital has remained geographically concentrated. And I've even heard from venture capitalists, "I will never go there again."

When they come into an ecosystem too early in the stage of development -- Josh Lerner has a 2010 book, "The Boulevard of Broken Dreams," where he really talks about the laugh -- lack of efficacy of public venture capital programs to be able to engender this kind of economic growth that we want.

And also, you know, we've talked a little bit about universities as anchor institutions and what we observe is that they're necessary but not sufficient. So what I mean by that is you need to have a research university because it will be generating knowledge, and knowledge that is available for a large number of parties to use. It will be providing skilled labor and ideas; but while that's needed, it's not going to be sufficient to ensure. What's really important is to have incentives for companies to engage with the university. For the university to transfer its technology outside of its boundaries, and you know, sort of wonderful scholarship that finds that -- actually Stanford University was a reasonable, regional university in the 1960s, and as Silicon Valley grow -- grew, the University also grew in stature.

So this is part of these dynamics of the process. And unfortunately, many -- many sort of policy efforts have tried to replicate without going through the process of building a consensus and developing all of this sort of complementary assets.

I think it's another kind of question to ask is do we really want to replicate Silicon Valley? Is that the model that our society should strive for? And so you know, I always love this diagram from the Kauffman Foundation. And so just talking about, you know, sort of what are the recipes? And you know, it really is a matter of understanding the ingredients that are in a local economy and then sort of adding them in and mixing them and creating networks.

The comment was made about sort of the cashed-out entrepreneurs who reinvest, or we recycle their expertise into the area, either as starting other companies or being mentors or by investing. And so that's critically important. And so we know it is sort of all of these things kind of coming together. And I am looking at successful places, what we see is that the process varies. There is no sort of single process, but it is sort of something that is very bespoke and very creative in a place.

So again, you know, sort of this distinction, I mean, with policy, as we try to understand it, and there's a lot of exciting research going on now, is that we really see what regions do have in common is they go through a developmental pathway. And so that is they start out with just a few firms and then when the conditions coalesce, they hit an inflection point and growth increases and the region then becomes sort of a hotspot and then it grows and cools off. And so this is sort of the commonality.

So these stages of ecosystem, I mean, understanding sort of this early emergence and the idiosyncratic processes. Many times ecosystems, new companies emerge from universities or from large anchors, and specifically, this happens when large companies have layoffs and down-sizings, or they go through mergers and acquisition and then free up talent.

Another sort of question is well how do ecosystems decline and die, so that we want to sort of make sure that we can sort of understand that -- this process and not let them decline.

Also, you know, there are different architypes that go through these phase changes. And at UNC, I was really studying the emergence of the Research Triangle, which is just a wonderful example of what was previously a very poor regional economy that was able to restructure itself and to now become a place that is very vibrant with multiple industrial sectors. And so this was a temporal process, sort of taking about 50 years, and then also recognizing that some of the investments they made didn't pay off, but many of them did. And even when things didn't pay off in the short run, there were relationships that were built, and people understood how to move forward.

And so what are the architypes? The high-tech urban ecosystems are the usual focus. We have, you know, really rural and small-town ecosystems populated by small businesses, and you know, this has really received a boost lately with remote working and with people sort of making lifestyle choices.

We also have these micropolitan ecosystems. So it's very exciting that we are now getting data from the Census Bureau on these micropolitan areas of about 50,000 people. And also, I mean, if some of -- these economies are very resilient and when they decline, they tend to be victims of external shocks.

And really, you know, sort of what we're doing is we try to -- this graphic is from Ed Glaeser, and you know, sort of like what -- he looks at evolution of Boston, and how Boston has been able to remake itself. And so, you know, it was the ability to attract and retain residents, having a high level of human capital and also a diverse industrial history, and then being able to respond to challenges so that as economies go through shocks -- and you know, most recently we've had COVID, before that we had the Great Recession -- is just sort of the policy responses determine the resiliency of the place.

Now I'm going to be a little bit more controversial. I'm going to draw on some recent research, and when we think about what makes ecosystems vibrant, we have what we call Marshallian externalities. And so those are the factors that Glaeser just talked about that coalesce in a place and that make it productive, make it subject to increasing returns. But what we have right now is the situation where these powerful Marshallian externalities in Silicon Valley, in Boston, just a few locations, have really met monopoly power.

And so in several papers I've been working with colleagues to look at the places that are left behind. And so what we see is with investments in the ecosystem, a lot of places are good at generating startups, but the firms are not able to grow there. And it is because we have proffered this model that relies on venture capital financing. And venture capital really has a chokehold on the financing of small firms; it's difficult to replicate and for many small firms, there are just simply no other funding sources available.

And really with the demise of community banking and credit unions, these sort of small loans really make a big difference in the resiliency of local small businesses. This is another paper that I have with Allen Berger at the University of South Carolina, and what we find is that community banks do help with resiliency.

But what we observe is that we have digital startups. Really, they're ubiquitous across the country, but very few of them go on to grow in scale because of this lack of financing. And I think it's a perverse outcome of our reliance on venture capital funding.

And so we use venture capital financing, which promotes exit, rather than growing in place, and the places that try to attract venture capital are only serving up their homegrown efforts because we also witness that firms that get VC investment are likely to move to Silicon Valley. And in anticipation of wanting VC investment, many entrepreneurs will sort of get started and then move to Silicon Valley to be close to Sand Hill Road. And the places that are building these ecosystems and investing in the companies are not able to reap the benefits.

And so, you know, again, I think I just sort of previewed those works, but what we see is that we have a closed system where the venture capitalists are serving up tech companies to the tech giants. IPOs; you guys have mentioned that IPOs are down. We see that most new startups that get VC investment actually do go to being merged or acquired. Many times acquired, and we have this incredible concentration, this sort of rise of the monopoly power. I sort of want to ask this question: are places left behind or are they being kept behind by the way that we finance companies?

And so I think that you have this wonderful opportunity to fix the system. As we are investing in places, I think we need to address competition policy. And we see a variety of different initiatives trying to increase competition, and specifically, among the big tech monopolies, but we also have monopoly concentration in about 80 percent of U.S. industrial sectors.

And also I wanted to sort of mention some work that's being done in the E.U. on mechanisms for financing small firms. So different ways of relaxing, as you guys mentioned, relaxing sort of who can invest in small firms and thinking of new created instruments that will tackle this scale-up gap. Thank you.

MS. GARRETT: Thank you very much, Maryann. We appreciate your presentation; that was very informative. So what we're going to do now is we're going to open up to the Committee to ask questions to Maryann and Charlie. After we've asked them questions, we'll excuse them and then the Committee will resume discussions among ourselves to talk about this topic and kind of hear from committee members' personal experience.

MR. SOLOMON: So I'll ask the first question just to get things started, because first of all, hugely helpful and congratulations on your successes. I think it -- these are both -- the ability to understand, you know, what are -- what's necessary is sufficient and how to build ecosystems, understanding that, and then of course looking at being put to work and practice is hugely helpful.

My question is when you think about the federal level support from a regulatory agency like the SEC, how can the SEC be more engaged around helping things at a local level where they could -- it's probably a challenge, you know, in many respects, but are there partnerships from a policy standpoint that the SEC should be considering? Can we be using or recommending the SEC's power to convene, which it certainly has in many respects to, you know, to try to solve some of the challenges that both of you have highlighted? So I'd love to hear a little bit about your thoughts on that.

DR. FELDMAN: So let me begin. Really, I think that this is not going to -- it's not going to be easy to reform this system, but it is really required, if we want to create this sort of broad landscape of new firm formation. And so I think that your convening function would be critically important.

You know, let me talk a little bit about the Small Business Innovation Research Program which is -- just been reauthorized by Congress. And so this is a program where the mission agencies provide non-dilutive funding to small firms, less than 500, which is a sort of large threshold. But what we see is that this program has been very effective in seeding a lot of technology-based companies across the country. But what happens is that they get to a certain point and then they can't get follow-on funding.

And so I mean, I think that, you know, that this would be an incredible issue for you guys to address full-stop.

DR. BECKER: I agree. I think also, just to -- anything that the SEC can do to popularize, incentivize, or make it easier to do business with CDFIs. You know, whether that's making it easier to put money into CDFIs would be immensely helpful because there's -- I doubt that the problem is that a lot of these discussions don't -- historically, these discussions are light on solutions for the full-spectrum of entrepreneur, you know, and for the full lifecycle of entrepreneurs. And there's so much help that can be done early, and I think CDFIs do a great job of providing like, in like, surgical-level funding for very, very small businesses that can then grow.

And so anything that can be done to make it easier to do business with or give money to CDFIs or your community development financial institutions would be really helpful.

MR. YADLEY: Maryann, you mentioned some

things that are being done with the European Union. Could you talk a little bit about that? And it's sort of a follow-up to Jeff's question about what the SEC might be able to do.

DR. FELDMAN: Right. And so Europe has always had this lack of venture capital funding. And so there are experimentation with a lot of different government voucher programs across the E.U. I will provide these reports to your staff.

And I think that that's a good point of departure. To really talk about this and do it justice would be a whole new presentation that I'm not prepared to make right now.

MR. YADLEY: Thank you.

MS. MOTT: May I ask a question? Maryann, have you examined the Canadian Government's matching of VC dollars to grow their VC ecosystem?

DR. FELDMAN: I have not. But I will actually also put the Committee in touch with some people who have looked at this in Canada. And you know, it again is the problem with VC investment, just in general, is that the model is investing in companies and then being able to harvest them in sort of five to seven years; and it's not about growing companies in place and creating employment and good jobs in communities.

And so, you know, I think it really is important to consider what are the objectives that we hope to achieve? I mean, for me it's -- it is that we need to create more economic opportunity across the Untied States, and specifically, in the old industrial areas that have never really rebounded from, you know, the China shock, from a whole variety of adverse economic shocks, and also, you know, places that are really struggling to restructure. And so that's going to require more patient capital than VC investment will allow.

MS. MOTT: So there's two -- obviously we agree with you on that -- two different incentives. Would it be useful to encourage, with policy and other things, to have a -- because there are some companies that, you know, exit is the, you know, the right direction for those startup companies to go. And there are others that are definitely companies that could expand locally and grow jobs.

And so it seems to me having different investment vehicles with different incentives -- so the challenge with the banks and the bank loans is even if you invest -- get VC capital and it's -- and you want to scale your company, you don't meet the conditions of the bank, therefore, you can't get the funding to scale appropriately and keep it locally.

So there was some -- there's a -- it appears to me to be a big gap there. So it sounds to me it's not just VC, but it's the lending vehicles also that need to be addressed.

DR. FELDMAN: Absolutely. Absolutely. Well put. Thank you.

MS. DeVRIES: Catherine, great comments.

And Maryann, just great presentation. A couple questions for you and some comments. I mean, this is just also salient. Bailey DeVries, I'm actually with the SBA, with the Office of Investment and Innovation; and it's interesting because we've been spending a lot of time thinking about the gaps that we have, given the fact that venture funding typically only goes to four to six percent of new businesses that are started every year.

So what does that mean, right, those businesses do not get funding from banks. Banks can't underwrite those loans, they don't have the revenue history, and so it creates tremendous opportunity for some new investment strategies that we're seeing in terms of the use of income sharing agreements, revenue-based lending, revenue-based investing.

And just would love to hear your perspective on that; I'm gathering that you have one. If it's about having the patient capital, the growth capital, but also capital that is non-dilutive and capital that's not costly as we go into a rising rate environment. And if you're seeing anything or any trends within ecosystems to pool this capital together to support the long-term growth of their local businesses.

DR. FELDMAN: You know, I -- I'm going to make the shocking statement that there's not a lot of consideration. And I was even in a very remote place. I don't want to reveal too many details, but a very small technical college that was so proud that they had now launched an entrepreneurship program and they were going to talk about venture capital financing for their companies. And I just couldn't even imagine that this would ever work under any circumstances.

And so I mean, I think this is -- it's a solvable problem, and it needs some creativity, and it needs for there to be some changes in the law.

So for example, right now a lot of university endowments and pension funds go to venture capital and, you know, their rates of return. I have seen some work that finds that after accounting for the higher fees that are charged by private equity, that the rate of return is just -- is not even that high.

And so I'd suggest, couldn't we encourage public, you know, public unions and universities to invest in other vehicles that would benefit their local communities? And so it just seems like there is, you know, sort of more opportunity changing that sort of what was the Prudent Person Act in 1978 to make it -- to make it more, sort of inclusive, and to then use public monies, not solely running after a rate of return, but improving the quality of the environment and the opportunities in a place.

MS. GARRETT: And Charlie, I saw you shaking your head on this. So do you have some thoughts to add?

DR. BECKER: Oh, I wasn't -- I was chuckling because I agree so strongly with what Maryann was saying. I don't think that -- I think that venture capital is a tremendously robust and effective tool for finding a small number of very, very successful companies. I don't know if the model lends itself well to building a broad base of successful small businesses.

I don't think that I've -- I have not seen it do that anywhere, and I'm not sure that it is -- I don't think that it can be used for -- today. I don't think that you can use venture capital effectively to build a large number of successful small businesses.

MR. SOLOMON: So let me ask this question.

When you look -- we've talked a lot at this Committee about the necessity to create investor ecosystems that match the size and scope of the companies we're talking about.

So one of the things that we've talked a lot about, and you heard it from some of the commissioners' comments, is what do we do with the accredited investor, and how do we make it so that we can bring smaller investors into the mix? Because often times, they have local knowledge or they may have knowledge of operating businesses that make them, in many instances, more -- more qualified to make investments in small businesses, and yet the federal regulations can sometimes inhibit that.

How critical do you think is it -- it is for, in both of your experiences, to open up the aperture to allow for more streamlined regulation that allows for individuals to participate more, with less impediment into the ecosystems? So homegrown ecosystems that invest in their own communities.

DR. FELDMAN: I think this could be a dramatic game changer for many places, and many places that are in decline are faced with an aging population. And that aging population may have money. Well where do they put it? Well, you know, the stock market. But you know,

now mostly it is in index funds, right, because it's -- with current share prices, it's hard for people to buy in. And if you could imagine vehicles where people could invest in local companies, it's almost sort of going back in history where we had local stock exchanges and stocks were locally changed -- excuse me -- traded. You know, sort of this idea of investing people in a community, meaning, it does create this idea of sort of what is possible and what are the opportunities that I think would be a win-win.

A lot of companies now bootstrap, and let me mention, I have another paper that looks at stages of the ecosystem and financing of bioscience, life science firms in the Research Triangle. What we found is that early venture capital investment did not help at all with survival or growth of the firm long term, but that once you get to a mature stage, that's where venture capital is really able to help individual firms.

At the earliest stage, what was most important was government funding, government grants, government procurement contracts, and then also small amounts of state funding, you know, sort of a hundred thousand dollars to build a prototype to be able to then subsequently apply for an SBIR -- for an SBIR Award were really sort of game changing.

And so I think to me it's kind of humbling to think of the sort of small amounts of money that might encourage more people to start companies and sort of do this, you know, sort of the broad example, do something in your spare time just because it's interesting. And then if you have some modicum of success, being subsequently able to scale that and to have a variety of options.

MS. GARRETT: Thank you, Maryann. I'd like to have Charlie also answer that question.

And then Kesha, we see you have your hand raised. So after Charlie answers, we'll go ahead to your question.

DR. BECKER: Thank you. This is sure a comment I agree, I think that retail investors have, as Maryann said, a tremendous appetite for index funds and in reasonable long-term growth. And they also have a huge appetite for investment of businesses which they intimately understand, you know, as we've seen with some of the stocks that have gone through the roof over the last few years because they've taken off among the populations who feel -- who have a kinship to that.

And so I think that making it easier, or incentivize old people to invest in like their local community, will have a tremendous boon on these communities. Because who that -- it satisfies both of those needs of, you know, of like the reasonable long-term returns, as well as being able to invest in businesses or state. I intimately understand, which they could actually walk up to you and go participate in and talk to the owner of. So I do think that would be a tremendously productive move.

DR. FELDMAN: Mm-hmm.

MS. GARRETT: Oaky, thank you. And Kesha?

MS. CASH: Yes, hi.

MS. GARRETT: Hi.

MS. CASH: Maryann, thank you. Maryann and Charlie, thank you for your presentations. I have two questions. Have -- Maryann, have you done any research on the Community Reinvestment Act dollars in regards to that pool of capital being a resource designated for underserved communities?

DR. FELDMAN: I have not.

MS. CASH: Okay. Thank you for that.

And Charlie, I guess similarly related, the 625 businesses, which is an impressive number that you all have supported in launching, can you give us a bit more information on the demographics of those businesses? Their business models, the industries they're participating in, how many people they're employing, et cetera?

DR. BECKER: Yes. So the businesses largely -- the businesses reflect almost exactly the demographics of the people that we have educated. And that has been over 50 percent African American, over 3/4 women, over 1/4 Latinx. And as I said in the presentation, 63 percent were under the federal loan income threshold. The -- this is not a statistically sound way to say this, but just to give you a idea, the average profile of an entrepreneur is a 41 year old African American woman from a low-income, 3-person household with some college, but no degree.

And that's kind of our wheelhouse of entrepreneur that we work with the most often. One of our foundational principles is that we look at the person's dedication to their idea as a much stronger proxy to whether the business will succeed as -- than what their idea is. We try not to be materialistic and say that these communities need these businesses, because if we knew that, we'd probably be starting those businesses ourselves, right?

There's a community around the university that we like to use as an example where, when people will talk to us, we say, you know, this is a traditionally African American community, it's got a long history, is low income, it's -- it lacks access to a lot of resources. What kind of businesses do you think would do well? And you know, we'll ask people that we're talking to, and they'll suggest things. Then I say, "Would you think that four vegan restaurants would really take off in this neighborhood?"

And the people almost never say no. But that's the case, is that there's four thriving vegan restaurants in that neighborhood.

So we work with almost any businesses. We have a few rules. We don't allow in franchisees. We don't allow in independent contractors who sell like products for a larger company, whether that be physical products, you know, or financial instruments, you know, or financial advisors.

So these are generally people who have a business, and they want to start an either brick and mortar or a service business in something that they know. A lot of these are people who have been working in a career for 10, 20, 30 years and want to do it on their own or recently got laid off, or they've been doing something on the side. And maybe they make extra food every week and sell it to their neighborhood, and they want to pool all the correct papers and start a catering business, you know, we've all different kinds.

We are in the process right now of building out our research apparatus and data vendor apparatus because, you know, entrepreneurs, in general, and entrepreneurs in this population are tremendously hard people to keep in touch with over long periods of time without some kind of incentive, simply because they're busy and they have a huge number of demands on their time.

But from the research we ran what to do, we did an impact study before -- we did a pretty in-depth impact study before the pandemic, or just before the pandemic started in 2019, and the results were very positive. We saw that something like -- I think it was over 90 percent of entrepreneurs were able to increase -- or over 90 percent of entrepreneurs who reported a -- an increase of $5,000 or more annually attributed that increase to their participation in the SURE Program.

Beyond that -- and that doesn't sound like a lot. You just -- people will say, "Oh, that's not very much, $5,000."

But we're talking about people who are replacing salaries, not really people who are, you know, trying to enter the Fortune 500 any time soon. And so that is actually a bit amount. And to sit -- to see that number of people, it was really gratifying. And we hope within a year to have built out our research apparatus and to have a more robust way of gathering data on, on the -- on the long term.

But that's -- that's about as much as I can offer right now. If you have other specific questions, I'll answer what I can, but that's -- it's kind of hard to get into the inner workings of like their finances once they leave our 12-week cohort. It's hard to come back and get people to continue reporting to us.

So those kinds of deals. So we're building out different processes for gathering that and for incentivizing people who return back and give this -- give those to us so that we can track that data.

MS. CASH: Yeah. No, that's great. Thank you.

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

MR. FOX: I did. A two-part question, actually.

One, I'm curious. We've talked a lot also about crowd funding, and some of the rise of the crowd funding platforms and the regulations that the SEC has been placed there. Curious if any of the panelists here have actually done any studies or had experience with eye tremors going through crowd funding.

And then the second part of the question really relates to -- you mentioned credit unions, community banks. Seems like more and more of the banking regulators are requiring securitization -- or not securitization, but security. You kind of have to have assets or cashflow to get a loan, which turns into -- it's almost anti this patient capital concept you both have been preaching. Curious if you have thoughts about, you know, if -- is that really a long-term avenue or is there something needed in the banking regulations as well to be changed?

DR. FELDMAN: I think that really, talking about how to really refine banking regulations, and sort of bring them up to the sort of current needs would be needed. And so with crowd sourcing, I mean, what we see is even though this is done on the -- over the internet, right, and it's available to everyone, people have a preference for investing in local companies.

And so you know, the -- the sort of success, I think, of some of this crowd funding money demonstrates that there is, first of all, both a need and a supply of entrepreneurs who would be willing to do this. And that also, investors are willing to demand, or you know, have demand for this, that there are -- there is sort of some -- there are people who are putting resources into crowd funding.

But I think that, you know, we could imagine a whole different variety of loan instruments, sort of loans that go to equity and investing in -- excuse me -- investigating. I'm in Sweden; it's getting to be late here.

And so investing in sort of alternative kinds of instruments, I think that, you know, there is just such great potential. And I would -- you know, my biggest fear is that we now are going to engage in place-based economic development. And if we don't reform the system, we're really not going to see the impacts that we're looking for, and then we, you know, we'll move away from this again. And I think that would be really unfortunate.

MS. GARRETT: Thank you, Maryann.

Greg, did you have a question? We're going to try to wrap-up our time with the speakers so that the Committee has some time to talk among ourselves.

MR. YADLEY: Great.

This is for Charlie. Could you describe the geographic boundary requirements for the applicants for the SURE Program and when people hear about it, who are located outside of those boundaries; and therefore, you're not available to fund them. Are you seeing other universities or community organizations where those people are located that are calling you and saying, you know, "How can we do what you're doing?"

In other words, has there been some spin-offs as a result of your limitations?

DR. BECKER: Yeah. So yes, that -- great question. So you know, Houston is huge. I'm not sure how many of you all are familiar with Houston. It's, you know, 3-1/2 hours, 3 hours, to drive across the Metro area. And so we just use the fact that it's an in-person class as a filter to get local people in.

However, we've served over 60 zip codes in the Houston Metro area. Every-other semester we'll find out that someone in the class is actually from Louisiana or Austin and is driving, you know, three to six hours every week to come to class.

When the class was online, we actually had people showing up -- you know, because of COVID we were online for three semesters -- and we actually had people showing up to the class from like California and Philadelphia, who -- I'm not sure how they found about the course, because we advertise mostly locally. But they were showing up from, you know, California and Philadelphia, and I think someone from the -- I want to say Minnesota was taking the course. So actually didn't find out until five or six weeks in when we were reviewing, you know, where they wanted to build their business, and were like, "This is Philadelphia."

As far as people reaching out to us because they like the model and they want to try it, or they want to do something similar, we actually -- when we received our endowment, someone on our advisory board asked former Secretary of Housing and Urban Development, Henry Cisneros, to come speak at our event. And after kind of listening to what we do and vetting it, he gave us the very high praise of saying that, you know, in the 30 years he's been looking for programs to, you know, invigorate local economies and small businesses, we're the only one he's met that's cracked the code.

And so because of that, we are working with several universities in the San Antonio area to do our first, full expansion. Dr. Khumawala has also worked with colleagues from as far -- far away as Indonesia, India and --- and I've worked with colleagues in Mexico where we basically supplied the materials and some of our proprietary stuff for their back end so that they can build programs.

What we're building now is a cohort program, which we're funding, where educated grads will actually meet with us virtually once a week and attend a few of our classes for a semester. And then the following semester, we give it a playbook for launching a similar program at the -- at their own university. So that's actually being started now, and San Antonio is the pilot program.

In so far as who is doing work like this, or who is doing interesting work that the locals have people I found who are doing the most types of similar work has been the participants in the University Economic Development Association. They just had a conference last week and we've been a member there for three years now, and the people there are doing a lot of very similar work.

But when I first started working here, as Dr. Khumawala mentioned, I was actually a graduate student who was going to work at an energy trading firm. And I took this class in my last semester and it just, you know, kind of shocked my system. I was like, "Wow, this is the future of education and small business. All these things that are near and dear to my heart."

And my first two years working with Dr. Khumawala, my job was to try to find programs who were working with as many people at the level of depth and also for the length, you know, for 12 weeks, once a week. So the level of depth and breadth that she was doing at the time, which we have since increased.

And I've really had a hard time finding programs that were doing the same kind of work at that breadth and depth. I could not find programs that had that combination similarly benchmarked. And it's because we're at a university and there are students working with each entrepreneur that we're able to both give that level of attention, and also, give it to the, like, the variety of businesses that we do.

So I hope that answered your question.

MS. GARRETT: Thank you, Charlie. I have just a quick follow-up question for you. It's actually two-part. One, for the companies that are in your program that are -- that receive funding, I'm interested, where are they getting their funds from? How -- who is investing in them?

And then second, I just wanted to maybe -- if you could give us the maybe three elements of what you think your code is that, you know, you've cracked.

So thank you.

DR. BECKER: So we actually, at the end of the semester, have something called, "Pitch Day." We call it "The Aquarium" because it's like Shark Tank, but we coach the judges to be very friendly, right? And so it's actually Houston's largest pitch day. We have upwards of 80 entrepreneurs pitch every semester, and we are explicit about we do not give out money on that day; however, we do bring about 40 bankers and funders from different institutions. And I think the shortest turnaround time, you know, that we've had, is someone met someone on pitch day, and four days later, they were in their office and got a $35,000 loan.

And so we actually see a large spectrum. A large number of entrepreneurs get SBA funding from local banks in Houston; however, there are traditional commercial loans, and we do see people that choose CDFIs and micro-lenders as well.

One thing that we're trying to do is we currently, the last few semesters, we have a negligible grant that we give at the end of the semester to get them started. It's varied from like, $100 to $1,000, depending on the funding we can raise that semester. We'd like to build that into the program permanently, just to have like a micro-grant that comes with completion of the program, because we felt that would be huge in getting people started and then shaving some funds to match the funds that they're going around to ask for.

And so to answer your first question, it's everywhere from micro-lenders, CDFIs, SBA loans and traditional commercial loans. We did not --

MS. GARRETT: A real quick follow up. Do you also see friends and family investing equity in these companies?

DR. BECKER: Yeah, so -- actually, the main reason many of the entrepreneurs tell us that they come to us is because they go to other places to learn about how to raise money. And they find out about the friends and family loan, and they're like, "I don't have a friend or family member who could cut me a $40,000 check."

And that's how they end up in SURE. You know, so we actually see a lot of people who are doing rounds and have these tremendously innovative, successful businesses and they want to do these great things. But they're like, "How do I crack that code and raise that money to show that I can raise money if my entire," you know, "kind of social circle and family that," you know, "that I've grown up with just doesn't have the money between them to do that for me?"

And it's also a little bit of a Catch 22 because if you somehow are able to put together, you know, 50,000 or $200,000 from $1,000 here to $2,000 there from family members, and then you go to a venture capitalist, they look at you funny because you don't have a very -- because your cap table is not clean enough, right?

And so it's kind of like a -- it's kind of a Catch 22 where, you know, venture capitalists are assuming that, you know, in order to be a successful entrepreneur, not only do you have to have the grit and the know-how, but you need to know one person, you know, who's willing to send out a flier on a $30,000 check for you, or else you don't have a clean enough cap table or you don't have what it takes.

And so that's why a lot of people end up in SURE, is because they cannot raise that friends and family round. They have -- there are institutional barriers for them to do that.

As far as the three things for the code, I think that the first thing is that we have -- the students we -- I haven't talked about -- very much about the students, because we're talking about the entrepreneurs today, but we are actually -- talk a lot about, you know, innovations and pedagogy and in how we work with students.

And essentially one of the reasons that this works is because it's not -- it's not expert to audience, which is how a lot of educational programs are. There's a very important intermediary level, which was at the students, and the students formed these very deep bonds working with the entrepreneurs, you know, 10 hours a week over 12 weeks. And not only is that doing a lot to increase the students' idea of who an entrepreneur can be and demystify an entrepreneurship in the students' mind, it's also very helpful to the entrepreneurs because there's so much that we can't assume about what they know when we teach a lecture.

And so instead of trying to overfit every single lecture, and every single lesson to all the various possibilities of what people may or may not bring to the classroom, the students are there to fill in that gap. So it's a very value-added work -- very value-added experience for both the student and the entrepreneur. And so that's the first.

The second is getting people from industry into the classroom whenever possible. And a lot of people hear this and they think that we mean to give lectures, and that's the -- actually not what we mean.

So people from industry do come in and give lectures, but we find that we use what's called "the inverted classroom," where they will consume materials during the week, and then they'll do a lot of work in the room during class. And we find that getting people in industry with the entrepreneurs and students to do the work in classroom, not just to say, "This is how I might do something," or "This is how I" -- "how you should do something," in kind of a sterile PowerPoint, but to work through exercises with the entrepreneurs and the students. Not only do the students and entrepreneurs get a lot out of this, but then the businesspeople, these bankers and experts that have been in, feel personally invested in the success of the students and entrepreneurs. And as a result, what we've done is we've -- our biggest supporter is actually our own homegrown alumni network and booster network because we introduce these people and then it just takes on a life of its own outside of the classroom. And so now, any time I go to a entrepreneurship or small business event in Houston, without contacting anyone, I can count on running into at least, you know, a dozen or two-dozen people who have been through the SURE ecosystem in some way. And so that's -- so there's running into the students, and then there's getting industry in the classroom.

And the -- and the last one is to Kesha's question earlier, is to start out to look at Community Reinvestment Act funds, if you'll -- if you want to, and that's what we coach other people -- educators to do, you know, is to look at Community Reinvestment Act funds. And the first time around you won't be able to get any, but to partner with a community partner who's already working with the type of people that you want to work with, providing business or financial literacy lessons, and then collecting data on those people so that you and them go to banks and say, "I am servicing this population with the technical assistance program, and I would like part of your Community Reinvestment Act funds bucket in order to fund this program, to work with these people." And that has been successful.

So sorry if that was too long, but the three kinds of ways of getting the code is work with students, get industry in the classroom and pursue -- like, collect data and pursue Community Reinvestment Act Funds.

MS. GARRETT: No. Thank you very much. I think that was quite informative and congratulations on the success of your program.

I want to thank Maryann from Sweden; and Charlie, for all your information; and Professor Khumawala for joining us today, and for your insights. And we think it's been very useful.

DR. KHUMAWALA: Thank you for the opportunity.

MS. GARRETT: Thank you.

DR. BECKER: Yes. Thank you. And I would be remiss to say -- if I didn't shout out all the students and entrepreneurs who really make the program possible and to the leadership of people at University of Houston, my regard. Chancellor Khator and Dean Paul Pavlou, who have really made our jobs a lot easier and made it easier for us to do things like this.

And for the people like Julie and David at the SEC Office, who we did an event with last summer, who are really doing great work. So thank you for having us today.

MS. GARRETT: Thank you.

Now for the Committee, I'd like for us to discuss as the Committee, some of the different topics that we've talked about today: common ingredients for creating entrepreneurial ecosystems, importance of access to capital, what can the SEC do, not do, to help/hurt these ecosystems.

Just so you know, the people that are present, there are a number of committee members that are on the video that -- you aren't seeing their names, but we do have a number of people participating via video. So if -- for people, if you're participating via video, if you can please raise your hand if you have a question. And we really would like for the different committee members to join in and talk about what they've seen that has worked in their communities for creating these ecosystems.

MR. FOX: Carla, I'll --

MS. GARRETT: Bert? Thank you.

MR. FOX: Yeah, I thought this was super helpful, but one of things that struck me was the continuing -- some of the continuing themes, you know, going back to some of our original meetings, you know, kind of the need for more permanent access to capital. But also some of the things around wow, there's a lot of legal and other administrative traps: the fundraising that can actually then hurt growing companies. And you know, I still think, as I'm trying to think through the lens of what could the SEC do, right, and what's it -- within its mandate. I still think that some sort of safe harbor or some sort of way to, you know, get passed the sins of the past, right, in terms of, you know, maybe some of the things you did as bootstrapping your way up, friends and family, things like that, to be able to get past it to be able to then access more sophisticated capital as you're growing, definitely seems to be something within the SEC's mandate.

I also think that Jeff's point, whether it's looking again at accredited investor, or allowing more broader participation in capital raises below a certain level of dollars, right, also I think would be --

another thing I think well within the SEC's mandate that seems to fit with a lot of the themes we've heard today.

So --

MS. GARRETT: Thank you, Bert.

Greg?

MR. YADLEY: I agree with Bert, and also as Commissioner Peirce remarked, working on the finder's proposal, which is -- which has been dormant. There's always been a mismatch between the capital and the investors, and as Charlie mentioned earlier, some people don't even really have friends and family. But there are people in the community that may know that person, or there may be people who are very knowledgeable about the business or the product or the service that's being offered by the entrepreneur and being able to be introduced to somebody like that would really be helpful.

MR. SOLOMON: Just as an add-on to that, and I -- while we're talking about the finder. So I think one of things I've heard from a number of the firms that I know that are in community, so we're not -- but there's a number of folks that, in the ASA for example, that have very large branch networks. And I think they would be more than happy to figure out how to be doing the advisory work, except they're concerned about being dragged into a bigger regulatory framework, and potentially increasing their liability as such.

So if we're going to address, you know, relaxing around finders, I think I would advocate to the SEC very -- be very specific about what -- what qualifies as finder activity. And then if you're engaging in a safe harbor, doesn't matter whether you're a small firm or a larger firm, registered representatives can engage in finder activity under a safe harbor. Now you've opened up, you know, nationwide networks who are in communities. As long as they're following very specific rules around what it means to be a finder, you can -- not only at the SEC -- you could create that safe harbor, but you can also hold them accountable for doing that activity.

And so I would make that argument we should not only relook at that, but also in the context of having a broader group of potential finders.

Sorry, I know that's -- there were a few people that -- I know, Sara, did you have a --

MS. HANKS: Yeah.

MR. SOLOMON: I'm sorry. Go ahead.

MS. HANKS: Okay, yeah. I would just like to raise a really technical point. Building on what Maryann said, what Bailey said and what Bert said, there is a need for alternative instruments. One of the things that we run into in the online world is there are some really technical issues, especially related to the '40 Act that if we were to use ISAs -- revenue shares, less of a problem. ISAs, huge problem. And you know, we've had discussions with IM on that. And so there could be some technical fixes to just remove the uncertainty and permit those things to be used in the online capital raising formation. Yeah.

MS. MOTT: I thought it was interesting, because I think it's really relevant, what Dr. Feldman said about, you know, we can start. We can give them these base fund foundations of how to grow a business, but if we don't address the -- what you were just mentioning, Sara, the, you know, the financial ecosystems for that pathway to success, whether it's a lifestyle company or a company that's going to, you know, achieve an exit, that's really, really critical.

And also, I think that -- like, everything's based on human behavior. Entrepreneurs go where the capital is. They will find it. And -- but also, I think a really relevant point that Dr. Feldman brought up was that a lot of people want to stay right where they are. They like their home base. The don't want to move to Palo Alto where, you know, they'll have to pay three times the amount of rent. So you know, so I would like to address the accredited investor definition again, if we could, please.

I think Jeff, you brought that up earlier. Because expanding that to local people -- being able for local people to invest in their local companies and keep them local would be, I think, a really relevant thing for us to address.

MS. DeVRIES: So agree with all the comments that have been shared. You know, I'd love to just share a couple points and things that I think a lot about. And if I go to two guiding questions: One of, how do you make the capital scale? And then also, you know, what is the SEC's role here?

I'd go back to the saying of, you know, capital will flow where it's easiest to go and it gives the highest return, right? So let's just accept that is the structure that we're operating in.

And so if that is the case, then, you know, where is it easy for capital to go? It's easy for capital to go into retirement plans. And that's where money is going. We have, let's see, $13 trillion in IRA accounts. We have about $10 trillion in defined contribution assets in the country. We've got over $33 trillion in total, just between those two areas of retirement assets. But if you include the DB side, you have over $40 trillion in assets -- retirement assets.

So why does that matter? You know, that's where the capital is flowing. And since the PPA in 2006, it is flowing at an ever-increasingly fast rate into 401(k) because of automatic enrollment.

So what does that mean? If that's where the money is, then I'd ask the question around what can the SEC do in terms of making it easier for private investments? Not just in venture, but also in private credit and in new types of securities to flow into target date funds and other types of retirement income vehicles. So that way we're having a discussion, more about how is the retail investors' money being prudently managed by somebody with a fiduciary responsibility to diversify it and have access to these companies.

So I'd spend a lot of time thinking about evergreen vehicles, how to provide liquidity, looking at RICKs, looking at BDCs, and modernizing some of these vehicles.

MS. GARRETT: Thank you.

MR. SOLOMON: To that, I just wanted to echo, and I think -- I don't know if anybody's ever tried to a put a private investment into a 401(k) or an IRA, it -- it's, I mean, you -- it's a heck of a navigation, including a one-on-one negotiation with your trustee, whoever that trustee happens to be, who is -- no incentive to approve the eligible -- eligible investment.

So it -- that's a great idea, thinking about how do we tap into retirement accounts as potential places. I think we might want to think about limiting the amount of the -- that can go in a private investment.

So the SEC also has the ability to think about, okay, you can invest, but only a certain percentage can go there. Or there are rules you can put in place to ensure that everybody doesn't start plowing a hundred percent of their retirement assets in private securities. But it doesn't have to be all or none. And again, if this idea is we can open up an aperture and protect investors, you know, from doing things that might damage their long-term ability to, you know, put their retirement assets in the wrong places, we could certainly look at steps that do that.

And so I think there's probably a lot in there on accredited investor. But also in just creating places -- creating a regime where you can do -- you can have IRAs and 401(k)s and self-directeds participating in private securities.

MS. HANKS: And Jeff, it -- building on that, if it could be easier for people holding private securities to get them into their brokerage accounts, not just, you know, into their IRAs and the like. Just getting them into a regular brokerage account is incredibly difficult.

MS. GARRETT: Greg.

MR. DEAN: We had also talked earlier about funds of funds and going down that way. And taking along the tax route, Congress, over the years, has established -- and whether empowerment zones or hub zones for these kind of designated areas. I know that Dr. Feldman had mentioned that as part of hers, and it seemed that Charlie, with the SURE network, they seem to be focusing on different aspects of Houston.

And I was wondering where there's a combination of doing what Bailey had said about the using, whether the 401(k)s or IRAs to help, let Congress kind of reconfigure whatever these empowerment hub zones to allow this type of capital flow into that; therefore, you are having that flowing back to the community of itself, and I don't know if Dr. Feldman had produced any studies or was aware of any studies. And that maybe something that -- go back and check with her on these type of tax advantage. Both community and infrastructure, but also the individual investor side as well.

MS. MOTT: So one of the things I'm thinking about is, you know, whenever you're counseling angel investors, you encourage them to only invest about 10 percent of their investible assets into startups, into the early-stage companies. Something along that line may be -- could be guided by no more than 10 percent, right, of your -- of your assets going into this asset class, so --

MS. GARRETT: Do people have thoughts on -- just to kind of pivot a little bit -- to the different common factors that they have seen in non-coastal entrepreneurial ecosystems that have helped them flourish? I'd love to hear. You know, we obviously heard what Charlie had to say about Houston, but I'd like to hear what some of the other committee members have -- have to say about communities they've seen.

Bailey?

MS. DeVRIES: I can give a little bit of perspective through SBAs. Our Growth Accelerator Fund competition and SBIR Catalyst Program. So these are grants that we provide to accelerators and incubators across the country. And with SBIR catalysts, in particular, what's so interesting and what we're seeing worked quite well, is that it's -- it seeks to address the death by a thousand cuts that we sometimes hear about when you have lots of little accelerators competing within a community, where it brings together different incubators and accelerators to all pool their resources and coordinate and collaborate. And also, there's a requirement that there be assistance around navigating the SBIR Grant application process which can be quite, you know, quite a bear.

So we are finding that the communities that have these clusters, where there's a lot of coordination and focus, seem to be thriving. And I certainly am hopeful that we'll see lots more of that to come.

MS. GARRETT: Does anybody else have other thoughts on that?

MR. SOLOMON: So again, I think -- so what Greg was -- maybe try to bring this into some forms of recommendation.

I think, Greg, I just want to make sure I understand. We've talked at a number of these meetings about having mechanisms where professional investors can create pooled vehicles that enable smaller investors to aggregate, to be able to make more meaningful investments. So that's really -- it's been a recommendation -- pretty consistent recommendation, actually, from this group.

And then the SEC can hold those professional investors accountable, right? We've talked about, again, whether or not it's -- you know, you can't allow it to be a first-time fund manager. The fund manager has to have a particular -- a track record of positive returns. Like, things where you can create a bar that's high enough so that you just don't have people creating pooled vehicles and then, you know, scamming away with people's money. Like, you can't have that happen, right?

And so I think if we can put some recommendations around, or make recommendations around this idea of allowing -- even if it's exemptions to Reg D for community reinvestment vehicles -- and putting some -- encouraging the staff to develop the right kind of frameworks for invested -- that enable investor protection, but also allow for people to put their money to work in their own communities or in strategies where focused on smaller businesses. That's really what you were going -- is that --

MR. DEAN: Yeah, that's exactly what I was --

MR. SOLOMON: Right. Okay. So we've made that recommendation. I think we can go back to maybe --

MR. FOX: Yeah.

MR. SOLOMON: -- some of the prior recommendations --

MR. FOX: Mm-hmm.

MR. SOLOMON: -- and reiterate that it's been something that's up for the last, you know, three years. We've made that recommendation a number of times.

MR. FOX: In fact, I think I even read an article, maybe even yesterday in the Journal, about a CE fund that was creating -- a closed-end fund that would house -- I mean, I think some of the larger shops actually are, you know, going down some of that route. I mean, not exactly the pooled vehicle, but they are creating closed-end funds under the '40 Act that would actually hold some of the -- you know, be another party to their investments, right?

And so, you know, maybe we'd even get the staff to come in and give us some update on some of the actual ones that have happened and give us a little bit of landscape of what that looks like now for their next meeting, so --

MR. DEAN: Yeah. And I think the wrinkle in this is going to the tax-preferred or tax-deferred accounts. Because we were talking about fund to fund in general for accredited investors. But when you're dealing with tax-deferred accounts, you have certain IRS and employee benefit security administration rules that you have to abide by, even if it's in a 401(k) or an IRA.

So I think we need to think about it in that context, and if there are all -- Congress has these types of zones that are developed already for tax benefits for reinvesting in the community, maybe there's a melding of some of those, so it's just a wrinkle in our earlier recommendations.

MR. SOLOMON: Got it. Got it.

MR. BAIRD: Everybody --

MS. GARRETT: Real quick. I wanted to check. Does Donnel -- are you --

MR. BAIRD: Yeah, I want to -- I just want to waive-in quickly. Then I have to do a meeting for 30 minutes and then I'll be back for the latter conversation.

So a couple things. No one hates Silicon Valley venture capitalists more than me. We raise about $40 million from them at our company. We probably should've raised four or five times that by now, but have been fortunate that we're based in New York and have been able to raise from Wall Street instead. So that's one part.

We actually won the National Venture Capital

Association, like, Startup Innovator of the Ward -- Startup Innovator of the Year Award this year. And so the venture capital industry like, likes us even though we hate them. And I cursed at them from the stage, and I told them how racist and sexist that I think they are, which they are.

But there's three or four nuances that I think are really important that can impact not just like, new policies, but like, how we can take existing programs like SBIR that we have and change them operationally so that we can achieve our goals of sparking entrepreneurial ecosystems.

One, Peter Thiel told me that the difference between Silicon Valley and New York venture capital ecosystems is that Silicon Valley is far more nurturing and takes a longer-term view than New York. And so I think it is interesting that he would differentiate between venture capital investments on the coast because he sees a remarkable difference between the two. And I think that the nuances of this are important.

So second, I would say in Silicon Valley, it took me like, six years to learn that there's two kinds of venture capital investors: there's lead investors, and then there's followers, and like, 90 to 95 percent of venture capital is composed of followers, and the lead investors are the only investors who truly make independent decisions about which businesses get funded and which businesses don't. And then the remaining venture capital ecosystems follows those lead investors. And so we're -- we've been fortunate to have three lead investors. We have Andreessen Horowitz, we have Mitch Kapor at Kapor Capital, and we have Goldman Sachs.

I think it's really important to note that lead investors, who actually drive investment decision-making on the coast, we need to be very nuanced and study the subtleties of what kind of profile that successful lead investors have, because it may be that duplicating the profile of successful lead investors is what can drive change versus trying to think about Silicon Valley more broadly.

And so what I've observed, is that successful lead investors are often second- or third-time successful entrepreneurs who have successfully exited, and before they entered venture capital, had built a business as an entrepreneur and an operator that IPO'd or was acquired, and then they entered venture capital. So that changes the kind of investment manager that we need to be focused on as we make SBIC allocations or SBIR allocations to new fund managers.

The importance of -- the last thing I'll say is -- the importance of second-time founders or third-time founders in Silicon Valley is paramount. If you are a first-time founder, you just have a -- it's ten-times harder to raise capital, even in Silicon Valley, than if you are a second- or third-time founder, because one of the important nuances is Silicon Valley rewards second- and third-time entrepreneurs.

And I think when we are thinking about government policy that can drive change in entrepreneurial ecosystems across the coast, we also need to similarly prioritize second- and third-time successful entrepreneurs. Those are the people who should be making SBIR decisions. Those are the people who should be given SBIC funds. It is not someone who has the profile, whatever that is, of a venture capitalist or, you know, someone from Wall Street who -- or private equity, which is where a lot of the SBIC funds go.

We need to start thinking about prioritizing second- and third-time entrepreneurs who come from the heartland and have moved to Silicon Valley and -- incentivizing them with, you know, two-million bucks, five-million bucks, ten-million bucks to make geographically tied investments in the communities that they come from in the middle of America.

And last, if we form a registry of those kinds of people, that, in some sense, will kind of provide first-time entrepreneurs in the middle of the country with the kinds of network that Silicon Valley prides itself on providing with this entrepreneur so they can scale and be successful.

So I just wanted to try and offer that before I jump into my next thing. And I'll look forward to rejoining the conversation in about 30 minutes.

MS. GARRETT: Thank you, Donnel. Just so you know, we will break for lunch in a bit, and I think we come back at one --

MS. DAVIS: Thirty.

MS. GARRETT: One-thirty.

I wanted to go through a couple of concepts that I think may be -- one of the elements that we heard today is making sure people had access to capital. And some of our different findings over the years have -- I think are important to just reiterate today and people can agree or disagree.

But in December of 2019, we, I think it was with respect to the harmonization release, we talked about Reg D. And we said, "The elements of the current exempt offering framework that are functioning well should be maintained, and therefore, the Commission should do no harm to Rule 506(b) of Regulation D."

We also said, "The exempt offering framework should be clear, concise and effective for small businesses to raise capital, and simple and easy to understand, thereby making it less complex for small businesses to raise capital."

I think -- I mean, if you're -- what I'm hearing today is that we probably feel the same way, that we would not -- we would hope that the Commission would not make Reg D more stringent in some way, possibly by increasing disclosure or -- well putting additional burdens on people that are using Reg D.

Is there anybody on the Committee that disagrees with that or are we in agreement that we agree with our prior recommendation?

MR. YADLEY: Agree with prior recommendations.

MS. GARRETT: Okay, great. Thanks.

I'm going to go through just a couple more, and then I'm going to let Jeff turn it over to the fun stuff. In February 2022 and November '19, we made recommendations with respect to accredited investors. And we recommended, "Do not increase the current financial thresholds for individual investors to qualify as accredited. Going forward, consider indexing the financial thresholds for inflation on a periodic basis.

And given the imperfective proxy that financial thresholds provide for measuring investors' sophistication, provide alternative methods for investors to qualify as sophisticated, which could include investment experience, knowledge gained through work experience, or membership and associations, education credentials, additional professional certifications or test to demonstrate sophistication."

MR. SOLOMON: Yeah, that was pretty encompassing for sure.

MS. GARRETT: Okay.

MR. SOLOMON: Are people still in favor of that, I guess, is the -- reiterating that?

MS. GARRETT: Yeah.

PARTICIPANT: Yes.

PARTICIPANT: Yes.

MS. GARRETT: Reiterate. Okay.

MR. TORBERT: Yes.

MS. GARRETT: Another one that we talked about in --

MR. SOLOMON: Somebody may have said -- oh, I can't -- we can't see everybody, who's on the --

MS. GARRETT: No.

MR. TORBERT: Yeah, it was Hank Torbert. I said, "Yes."

MR. SOLOMON: Oh. Oh, thanks, Hank.

MR. GARRETT: Thank you. In February 2022 we talked about the micro-exemption. And we said, "Given the impact of early-stage investors who tend to invest within local communities, as well as regional differences in income and wealth, the Committee recommends that the Commission consider creating a new exemption for local and/or micro-investments that would not be limited to accredited investors."

In favor, people, of reiterating that one?

PARTICIPANT: Yes.

PARTICIPANT: Yes.

PARTICIPANT: Yes.

MS. GARRETT: Okay, thanks.

MS. HANKS: Just the --

MS. GARRETT: Yes?

MS. HANKS: The one thing that I would add is that in the Senate proposal for JOBS Act 4.0 there is a proposal for a complete exemption for offerings up to 5 million. And I think that might be problematic. So I would temper the advice to say if we have such an exemption, there have to be some guardrails, not just a free for all.

MS. GARRETT: Thank you, Sara.

I'm just going to say two more things. In

November of 2020 we talked about finders. We said, "In order to promote small business capital formation, especially under-represented businesses and businesses that are not in regions with robust capital-raising networks, the Committee supports a framework to permit certain finders to engage in limited capital-raising activities involving accredited investors with certain principles in mind."

And we set forth those principles in a long detail in November of 2020. I heard some of that today, again. Yes?

MR. SOLOMON: Mm-hmm.

MS. GARRETT: Okay. And the last one I'm going to talk about is in December of 2019 and May of 2021, we talked about pooled investments, and we stated that "The SEC should take steps to facilitate capital formation and exempt offerings through pooled investment funds," and whether "Retail investors should be allowed greater exposure to private growth-stage companies through these pooled investment funds."

And now I'm going to turn it over to Jeff.

MR. SOLOMON: All right. So I think we, as we reiterated a number of things, and we're going to reiterate, some of the things we've already said, there's a few things that I think that we have also extended upon.

So access to retirement accounts is a -- as a pool of capital, and encouraging the SEC to create a framework or maybe other agencies as well, whether we need to -- we talked about IRSA in the IRS and encourage people beyond the SEC, maybe that's -- even though it's beyond the scope of this Committee, to consider opening up private -- making it easier for private investments to go in retirement vehicles.

Again, picking up on Sara's theme, we should also recommend that is limited. We're not suggesting that people take a hundred percent of their or even a meaningful -- anything more than minority of their retirement assets.

And so in thinking about the encouragement, we should be doing that and stating that's it in a limited fashion, and maybe by prescription. Is that something that everyone feels comfortable extending and recommending?

A PARTICIPANT: Yes.

MR. YADLEY: Yes. Thanks. Not just monetary limits, but you know, minimal disclosures about conflicts of interest, compensation. And then, you know, those sort of normal traps, but not rigorous prescriptive detail, required information.

MR. SOLOMON: In order to have those, in other words, so soon?

MR. YADLEY: Yeah. And as part of the framework to limit in terms of amount of these offerings. I mean, the micro-, however defined, and a percentage of assets. Rather than get involved in all of the disclosures that could be required, which we recognize are important disclosures, some of the obvious things: like conflicts of interest, and compensation of the principals, and any advisors that are involved, including finders.

MR. SOLOMON: So let's pivot to finders, because that's a -- that's been a big part of it. We'd made the recommendation prior that we -- that the SEC create a safe harbor for finders. I put forth maybe we should extend that to the action, like, define what qualifies as finding activity, and then you open it up for everybody to be able to provide finding services under a safe harbor.

Again, it can be relatively narrow because the functions that finders provide are that, is a certain amount of disclosure that may be required around compensation and compensatory elements of finders. But I think people would deal with that. But it creates a lighter regulatory framework for engaging in that activity.

So again, both -- I would say continuing to move forward, exemptions for finder activity, not just for firms that engage in that, but also for firms that engage in everything from finding, all the way through underwriting. And just clearly defining finder activity so as to create potential incentives for people to help small businesses find capital.

Is that a fair assessment?

MR. DEAN: Yeah. Also -- and just recognize, I am pulling back on my experience at the SBA early in my career, that there are unscrupulous people that will act as finders to prey against these small businesses. So there has to be some kind of framework, at least to understand who these people are, what they're doing, how they're being compensated, and the ability for -- I know state regulators play a huge role in this and NASAA had a big comment on this to -- making sure that that's available to them as well.

MR. SOLOMON: Yeah, so it's interesting because, you know, I've been a big proponent -- and I'll throw this out to the Committee.

I've been a big proponent of having the SEC use its enforcement capability in order to make sure there's not bad behavior or -- and so there's a difference between creating an exemption that allows people to engage in a certain amount of activity so they don't get buried in sort of the regulatory maze, or labyrinth on the one hand.

On the other hand, it doesn't mean that they should be completely outside the scope of the SEC for their activities. And now, I think the Committee should be very clear that creating exemptions doesn't mean you shouldn't be regulated by the SEC. It actually means -- there's a framework for engaging in activities that the SEC deems to be acceptable. And if you violate those, then Enforcement can come after you the same that Enforcement comes after anybody who violates SEC rules.

So it's just creating a lighter regulatory framework for those that engage in certain activities, as opposed to getting them into activities that are a little bit --

MR. FOX: Actually, it's not even a lighter regulatory framework. I think it's actually providing a playbook or rulebook. In order for people to do what they want to be able to do, I think right now it's actually they -- they're afraid of getting in trouble, right? And so they're not even engaging in the -- in the activity at all.

And so I think it's actually -- to me, I'm not sure if it's a lighter regulatory framework, or if it's just actually providing the regulatory playbook in order to actually engage in these activities. But again, if you violate one of the rules, you should be in -- Enforcement should come after you, right?

MR. YADLEY: Right. Yeah, I think in tying both of those last two comments together, for 25 years, I and others involved with the American Bar Association have been promoting this because we want people to be identified so that if they do something wrong, the SEC and the state regulators know where they are.

And the other part, we just have to recognize is even though it's wrong, even though it violates the rules, it's happening every day, all the time out there. People come into my office, and I tell them they can't use people and compensate people to help them.

And they say, "Well, that's not what So-and-So told me."

And somebody else is doing it and I never get them as clients because I tell them they can't do it. But they're doing it. And similar to the cap table issue that Charlie brought up, when people then want to raise money because now they've proven their business to be viable and they have these potential regulations because they have done private offerings that don't qualify for the exemption, it's the real issue.

So I think there will be bad behavior, Greg, and we want to have the rules be clear as Jeff says, and we want to know who these people are. And if they violate the rules, then they should be prosecuted. But right now, it's really a free for all. People are doing it, and because they're doing it in small scale, in smaller companies, they're not being policed because the regulators don't know about them, and that just fosters disrespect for the system and perpetuation of a bad thing.

The SEC, as we know, has proposed finder rules. One -- two tiers that are imperfect. We've commented on them, and other people have, but they're dead in the water as far as I know. And I think that's a good starting place for the Commission, which I know has competing priorities. But in terms of capital formation, they really ought to turn to those rules as proposed and tinker with them if they want, and repropose them, but just to do nothing is not a solution.

MR. SOLOMON: Bailey, did you have something you wanted to add?

MS. DeVRIES: Thank you, Greg.

Oh, I was going to -- a lot of what I was going to say was said, so I appreciate that. But that it is going to happen no matter what, and it is showing up in the form of very messy cap tables as the form of compensation many times.

But you know, I really think it's a great point around having a framework. Having a playbook gives you a way to actually regulate, to examine, to enforce. And it will give people greater comfort, and it actually will professionalize many of the activities in mid-market and smaller cities. And so the barriers that are present outside the coasts won't be as prevalent if there's a comfort and a framework and professionalized business of doing the placement.

MR. SOLOMON: So this a theme and maybe this is a good place to wrap-up this particular session. But this is a theme that we're going to continue on in the second session, in particular, which is using our Committee to advise the SEC on how it can do rulemaking that promotes capital formation and investor protection. I think it's really critical that if you don't actually promote rules that give guidelines and frameworks, what we're hearing is people are circumventing them. Or they're left to their own interpretations, which can often times lead to really bad results for investors. And once you have bad results for investors, it becomes a self-fulfilling -- you know, becomes self-fulfilling in that people don't come back to the well.

So if we can create rules that make it safer for investors by holding intermediaries accountable, or creating a framework where people know that if they engage in a certain type of activity that it's permissible, then they will do that. And they will crowd-out others who would otherwise circumvent rules.

And that's -- that's one of the things we've seen, and the -- that's well within, you know, our purview here as a Committee to recommend, and well within the Commission's purview to do it -- to do that.

So I think we've got a bunch. I don't know if there -- if -- I'm going to turn it back over to Carla and we're going to --

MS. GARRETT: Yeah. I wanted to say first of all, does anybody have any other thoughts, recommendations that Jeff and I did not reiterate?

MS. MEHTA: I think we talked about it at one of our previous meetings. But has there been any additional thought into creating some sort of carve-out or safe harbor from the accredited investor definition for some de minimis amount so, you know, anyone can invest up to, say, $10,000 into a company every -- you know, maybe you can put guardrails around that, around every year so it's not in a bunch of different companies and then they haven't ended up investing $100,000 without being an accredited investor? But is there some sort of amount -- have we given any additional thought to doing that, or is that --

MR. SOLOMON: I don't think we've done anything specific, like in terms of numbers, but I think in our previous -- we did say there should be a carve-out to some degree for people who are non-accredited.

And I think we were encouraging the staff and the Commission to come up with what they thought was appropriate. If you think -- by the way, if we think that there are -- if the Committee thinks there are certain numbers that -- then we could certainly -- I think we're free to make those recommendations. I just -- the last time we did it, I think we had this whole conversation around what constitutes material. I remember at least one person said, you know, "If I could get $200 that'd be great."

You know, and I -- and so I think for me, I step back in trying to project what we thought was the exact amount, you know, and I would encourage the Commission to work with other agencies to maybe identify what those appropriate amounts are.

But certainly having a safe harbor where there's a certain amount that individuals can invest without being accredited is something we've -- we recommended in the past and I would feel comfortable continuing that recommendation.

MS. GARRETT: Yeah, that's the -- that's our February 2022 micro-exemption where we asked the Commission to consider creating a new exemption for local and/or micro-investments that would not be limited to accredited investors.

We did not put a dollar amount on that. And as Sara said, she said that, you know, she would make -- temper that worth 5 million and then possible new JOBS Act would be a little too high for her.

So the -- anybody else have other recommendations?

(No verbal responses.)

MS. GARRETT: And are people comfortable, at least voting in terms of accepting the recommendations that Jeff and I have set forth that -- and for us to be putting these on paper for -- for us to look at going forward?

MR. SOLOMON: Yeah, someone should make a motion just to --

MS. MOTT: So -- yeah. So moved.

MR. YADLEY: Second.

MS. GARRETT: And all in favor?

(Voice vote.)

MS. GARRETT: And is there anybody opposed?

(No verbal response.)

MS. GARRETT: Okay. Well thank you. Thank you for the great discussion this morning and for the recommendations.

And at this point we're going to break for lunch and the webcast will resume at 1:30. So we will see you then.

(Whereupon, from 12:27 p.m. to 1:40 p.m., a luncheon recess was taken.)

A F T E R N O O N R E M A R K S

UPDATE ON THE GOING PUBLIC MARKET: A 12-MONTH LOOKBACK AT THE STATE OF PLAY OF THE IPO MARKET

MS. GARRETT: Welcome back from lunch, and sorry for the brief delay. If we have any members or other people that are on the Webex, if it’s possible for you to turn on your cameras, we would appreciate that. Our afternoon agenda topic is an update on the Going Public Market, a 12 month look back on the state of play of the IPO market. And during this session, I hope that the committee can begin to understand the current public market and what it means for small businesses and their investors.

As people know, IPO activity has dropped significantly in the first half of 2022. This afternoon, we will explore why that may have happened, where the market is, the factors and conditions that contributed to this sharp decline, and following what was a period of heightened IPO activity. The committee will examine the state of play in the IPO market over the last year, particularly in light of macroeconomic conditions, including inflationary pressures, a tighter investing environment, and numerous recent SEC rulemakings.

I would like to invite our invited speakers, who will share their market data insights on the state of play of the public markets, and address how the various pathways to going public have been impacted, including traditional IPOs, reverse mergers, SPACs, and direct listings. First we welcome Matthew Toole, who is the Director of Deals Intelligence within Refinitiv’s investing advisory division.

Refinitiv is an American-British global provider of financial market data and infrastructure. Matt is responsible for communicating broad M&A, capital markets, private equity and venture capital industry trends through research reports and the financial media. Prior to working at Refinitiv, Matt was the director of deals intelligence for the financial and risk division of Thomson Reuters. Welcome, Matt.

And next, we welcome Michael Bellin, who is here with us today in person, a partner in consulting solutions and the US IPO co-leader at PWC. Mike advises clients looking to access the capital markets, providing technical and project management advice on accounting and financial reporting issues associated with the SEC registration process, IPOs, SPACs, direct listings, debt, and equity offerings. Mike has worked on hundreds of IPOs and similar transactions in his career. And welcome, Mike.

So, Matt and Mike, thank you very much for being with us today. We look forward to your presentations. And, Matt, would you like to begin?

MR. TOOLE: Certainly. Should I share my screen, or will the screen update?

MS. GARRETT: If you’re able to share your screen, that would be great.

MR. TOOLE: Okay.

MS. GARRETT: If you’d like for one of us to do it instead, I’m happy to -- to do that if that would be easier for you.

MR. TOOLE: -- can do that. Okay. How’s that?

MS. GARRETT: Looks great.

MR. TOOLE: Great. Well, thanks -- good afternoon everyone, thanks for having me this morning -- or, this afternoon, to -- to walk through some of the key trends that we're seeing in the IPO market. We've spent the last number of weeks tallying a number of transaction related volumes across equity capital markets, debt capital markets, and M&A, as we ended the -- the third quarter, and so here with a real baseline for -- for some of your discussions, particularly for US -- for US IPOs.

So, to start, you know, from a very, very high level, probably not a surprise to anyone in the room, or anyone who's been following the financial press, we have seen a full kind of pullback in overall equity capital raising across all products so far this year. And this is a very high level introduction looking at all of our equity products -- so, traditional IPOs, follow-ons, convertible bonds, SPACs, reverse mergers, and the overall number of all of those, which surpassed one thousand for the first time last year, across all the products.

And last year we saw probably the most diverse way for companies to access the public markets, through a variety of different transaction types. The traditional IPO certainly, the advent of SPACs, or the return of SPACs in a very major way in the first half of the year, reverse mergers, and also some direct listings, which are a small handful, and wouldn't really show particularly well on this slide, but we have seen the direct listing route also utilized over the -- over the last two years.

Following the beginning of -- of this year, with, you know, kind of major upheaval in the geopolitical landscape, certainly volatility across stock markets around the world, inflation, fears of recession, interest rate hikes, we've seen the number of US ECM offerings decrease quite significantly compared to a year ago, down 73 percent compared to 2021. And the overall capital raised across all products is down 80 percent compared to a year ago, so, you know, looking at the market -- the -- you know, that we -- that we currently see -- you know, the market volatility is certainly -- even today, some of the, you know, amazing swings in -- in the -- the stock market indices, you know, following some of the news this morning, not a great time to be bringing companies public. So we are in this resetting stage, which I think is a really interesting time to evaluate.

For much of the previous ten years prior to

2021, I was part of many conversations around, is the IPO market broken? Is the traditional IPO market -- you know, is there something that needs to be fixed as far as, you know, getting companies to be able to use that as a -- as a route to raise capital, to exit, you know, certainly to -- to list publicly? And, last year we saw 318 US companies go public on US exchanges, which is the strongest number of deals since the year 2000. And so the conditions that we saw last year are, you know, certainly -- were -- were -- you know, kind of -- so favorable for companies across the spectrum.

You know, certainly the traditional IPO route, which -- this is this chart here, looking at the traditional US-listed IPOs. We saw, you know -- you know, record levels of capital raised -- all-time records since we began tracking IPOs in -- in 1980. And then, as I mentioned, the strongest number of offerings for traditional IPOs for US-listed offerings since the year 2000. And, again, that has now, you know, kind of fallen significantly to under a hundred, and we'll see how the rest of the year, you know, may kind of continue to -- to impact the overall -- the overall numbers.

But it is, from a US-listed perspective, the slowest nine-month period since 1990 by proceeds. We've seen just 6.6 billion in proceeds raised, and a 94 percent decline compared to a year ago. And by number of deals, it’s the slowest period for US IPOs since 2009, since the financial crisis. We also did see a significant amount of non-US companies listing last year as part of the mix, so on top of the US companies that -- that I’ll get more into in a moment, we did see a mix of both non-US and US companies. Last year we saw 40 percent of companies -- 40 percent of proceeds raised by non-US companies, 32 percent of number of deals by non-US companies, most of those Chinese companies, which were certainly in the news last year as well, with major regulations in China and around the world.

Here’s a look at a rolling, kind of, two years plus of US company traditional IPOs -- so this is just US companies, not US listings. And you can see, you know, the sheer impact of the beginning of this year and -- and -- and the complete slowdown in -- in the number of offerings that we’ve seen compared to what was, as I said, a very strong 2021, and in even the latter half of 2020, where we began to see corporate finance activity really begin to kind of rebound quite sharply after the pandemic quarter of 2020 -- the first quarter of 2020.

SPACs, a huge phenomenon. We have seen SPACs a number of times before, particularly in bull markets, particularly when private equity is having, you know, kind of a -- a big impact on the world of just overall, kind of, capital flow from an M&A perspective, from a -- an IPO perspective for private equity firms exiting. You know, many, many of these special purpose acquisition companies formed in the first quarter of -- of 2021.

We broke the all-time annual record for SPACs in -- just 11 weeks into 2021, but saw a very sharp decline in April, with -- you know, kind of, obviously quite a bit of supply -- regulatory concerns began to emerge, and we also began to see a number of combinations take place, and then also potentially -- or, not potentially, but combinations take place, and then, you know, certainly restating of -- of certain activities, and -- and -- and, you know, certainly shareholder voting, and -- and a lot of, you know, kind of very specific and -- and -- and detailed cases, along with the SPAC offerings.

But we did see a rebound throughout the year of -- of 2021, where we did see, you know, a good number of SPACs continue. We do estimate that there are over 400 SPACs that are still active, or potentially looking for business combination. But the overall capital raising has slowed dramatically over the -- the course of the last six months or so.

You know, IPO activity certainly -- and IPO investment is often, you know, very much driven by performance, and -- and this is a look at kind of vintage IPOs for US companies since 2020, and the performance of each -- and this is based on the -- the issue date, or the month where the -- you know, the company listed. But almost all of the most recent vintage IPOs are certainly in pretty deeply negative territory. You know, the overall average IPO performance for companies that have gone public since 2020 is down 39 percent, with the S&P 500 down 25 percent so far this year.

And so, you know, the overall performance of -- of the most recent vintage obviously has been dragged down by the market volatility and the performance of -- of -- of the overall indices around the world, and -- and certainly will affect the story, you know, particularly on, you know, anything of roadshow, or any kind of discussion around, you know, kind of comps, or -- or -- or kind of similar types of companies looking to -- looking to list. But, you know, certainly a -- a deeply negative picture for overall performance for our most recent vintages.

From an industry perspective, technology really leading the way from an overall proceeds perspective. Technology, healthcare, and industrials accounting for just about, you know, kind of, 75 percent or so of overall proceeds so far since the beginning of last year, and 70 percent of -- of all offerings. You can see that the healthcare industry leading the way by number of offerings, led mainly by -- by biotech. But a very, kind of, you know -- obviously concentrated to three sectors, but, you know, also seeing, you know, a good amount of activity over the course of a number of sectors, around real estate, consumer retail -- and this is, again, traditional IPOs by industry, but technology leading the way from an overall capital raising perspective.

And, for a bit of outlook, we -- we’ve been looking at the overall pace of -- the pace of filings for overall IPOs, and so looking at, you know, overall market conditions for filings, you know, certainly down to single digits for much of this year, but we have seen in September the largest month for US IPO filings since the beginning of the year, as companies potentially look to reengage with -- with their advisors, with the investor community, potentially thinking about an on-ramp for an IPO, potentially this year or into next year.

You know, obviously there are many companies who are in that later stage category -- you know, obviously a number of -- of potential events from an exit perspective, that, you know, certainly companies are looking to prepare for potentially this new environment, as they begin to -- begin to reset. But a bit of a -- a bit of an outlook based on -- on US company IPO filings, and -- and, again, you know, not a -- a very large number compared to some of the previous months, but the largest number so far since January.

And with that, I'll turn it back to you.

MS. GARRETT: Thank you very much, Matt. We appreciate that. Mike?

MR. BELLIN: Yup. Good afternoon. Thank you for the welcome, and thank you to the committee for your time today. It's a pleasure to address the SEC advisory committee for the first time. I should note that the remarks I deliver today are my own, and do not represent the views of PricewaterhouseCoopers, its staff, or its partners.

As an introduction, in my role as a partner at PwC, I lead PwC's capital raising practice, where we advise clients on the path to go public, and their preparations to be public. Through that role, I speak to hundreds of pre-public companies, along with advisors of such companies from across the country, and across sectors. In preparation for today's meeting, I summarized my notes taken through discussions with various marketplace participants, including the C-suite of many pre-public companies, executives from numerous companies that have recently completed a traditional IPO, a direct listing, or a SPAC merger, and advisors to companies considering or who have completed a going public transaction.

Through these discussions with marketplace participants, it is evident that the efforts of the staff over the past decade have facilitated the effective capital-raising by many small and midsize companies. The JOBS Act created an on-ramp for companies looking to access the public markets in a more efficient and effective manner, and as a more recent example, the staff's 2017 expansion of its nonpublic review of draft registration statements for non-EGCs.

As highlighted by the data presented by Refinitiv, 2020 and 2021 were record years for the IPO market, as companies executed traditional IPOs and direct listings, coupled with the feverish capital raising by SPACs, and subsequent number of de-SPAC transactions. As we turned to '22, we saw several in-flight SPAC mergers near completion. However, the volume of such de-SPACs is significantly lower when compared to those of 2021. SPAC IPOs have retreated as well, and during Q2 ’22 and Q3 ’22, SPAC IPOs have returned closer to the historic norms, a far cry from the SPAC IPO volume seen from Q2 2020 through Q1 2022.

And finally, traditional IPOs and direct listings. We’ve witnessed an IPO drop thus far in 2022 compared to the run of the last decade. Many marketplace participants attribute much of 2022’s decline to global macroeconomic events such as tighter monetary policy by central banks across the globe, most notably the US Federal Reserve, geopolitical concerns, continued supply chain disruptions, labor challenges, and also reassessment of growth scale profitability and valuation multiples. Notwithstanding the fact that markets appear to be closed or extraordinarily slow from the outside, because of the time it takes most potential registrants to be public company ready, if and when the markets do reopen, many potential registrants continue to work on their preparedness to be public, unseen to the general public.

Accordingly, despite the 2022 IPO drought, the pipeline for companies looking to access the public markets at some point in the future remains strong. We have worked alongside many companies that have filed confidentially with the staff, and as a matter of time of when not if, these companies publicly flip the registration statements and look to go effective. Further, we continue to advise numerous private companies on public company readiness who are looking to confidentially submit a draft registration statement in Q4 2022, or during ’23. Many marketplace participants are evaluating their options for that launching their IPOs in ’23 into ’24.

Through these experiences, I wanted to share some of the general themes that I have heard from the various marketplace participants as relates to going public through traditional IPO, a direct listing, or via SPAC merger. With regards to SPACs, marketplace participants do not expect the SPAC volume -- SPAC -- the volume of SPAC IPOs or SPAC mergers that occurred during 2020, 2021, and into the early part of ’22 to return. In fact, during Q3 ’22, many SPACs have decided to liquidate and return their cash to investors.

With that being said, marketplace participants do believe SPACs will continue to be a part of the going public ecosystem, as the SPAC product has been around for decades. However, the peak of SPACs is likely behind us. As it relates to the staff proposed rules regarding SPAC mergers, the feedback that I have gathered from marketplace participants includes -- the overwhelming majority are supportive of the alignment of financial reporting requirements for a target company undertaking a SPAC merger with the corresponding requirements for a traditional IPO.

In certain instances today, a target of a SPAC merger that otherwise qualifies as an emerging growth company, and thus would only be required to present two years of audited financial statements, and a traditional IPO may be required to prepare and have a third year of PCOB audited financial statements to undergo a SPAC merger, which is incremental to the requirements of the very same emerging growth company if it was undertaking a traditional IPO. In some cases, the incremental requirement has prevented a deal from being executed, or has led to a deal being delayed. Similarly, the SOX reporting required by companies that qualifies the emerging growth company undertaking a SPAC merger may be more accelerated than if that same company was undertaking a traditional IPO.

Marketplace participants believe the aligning -- the timing of SOX reporting for a company undertaking a SPAC merger with that of a traditional IPO would be equitable across the paths to go public, and alleviate certain questions regarding the SEC’s interpretative guidance surrounding the ability of a target company to defer SOX reporting, depending on the timing of the consummation of the transaction.

And finally, most participants do not believe that a reduced timeframe for a SPAC to complete a de-SPAC transaction would benefit the market, given (A) the time it takes to conduct appropriate due diligence across a series of target companies, (B) the preparation time it takes for target companies to prepare themselves to be public company ready, and (C) the potential for haziness of dealmaking, among other points.

Another topic that’s natural with any going public and being public conversation today surrounds climate-related disclosures, and the considerations of climate change disclosures as a public company. Overall, marketplace participants believe the increased transparency provided by quality climate information is important for capital allocation decisions by the investor community. They also believe the greater integration of climate information with broader disclosures about a registrant’s business and financial disclosures enhances value by providing greater context for both climate and financial data.

With that said, marketplace participants have voiced concerns over disclosures for any potential first-time issuer with the SEC. As proposed, the enhanced and standardized climate disclosure rules would apply to new issuer registration statements, notably including forms S-1 and F-1. There are some marketplace participants that view climate-related disclosures as a barrier to entry to the capital markets by a company whose resources are already stretched by the compliance obligations of an initial public offering or acquisition. In addition, although a merger target or a company contemplating an offering would typically have some form of financial statements as a starting point, most -- or most will not have climate information readily available in a format and quality suitable for an SEC filing.

Preparation of disclosures will almost certainly require significant time and effort, potentially delaying or derailing an offering or a merger transaction. Consequently these requirements may dissuade companies from undertaking initial public offering or acquisition using securities. Most potential first-time issuers would prefer excluding new issuer registration statements from the proposed climate disclosure requirements, specifically forms S-1, F-1, S-4, F-4, S-11, except as incorporated by reference from another filing, for example a 10-K incorporated in the form S-3. The initial exemption would allow more time to focus on the preparation of the financial information, including the filing. Further, in the case of a successful acquisition, the climate disclosure would no longer be required on a standalone basis, as the acquired entity’s climate information would be included in the consolidated reporting.

Some marketplace participants also suggest the staff provide transition relief for newly public companies, including de-SPAC transaction, as well as newly acquired entities. These marketplace participants believe that the extended transition time would enable implementation of formal processes and controls over climate related information, thus enhancing the quality and reliability of disclosures once made. If such release is granted, many believe the enhanced climate disclosures should only be required beginning with the first fiscal year after the year of the initial public offering, for example, the second form 10-K, after the initial offering. And the disclosures should be required prospectively starting with the year of initial implementation.

This transition would be a similar transition period afforded newly public companies for compliance with management’s assessment and the auditor’s attestation of the company’s internal control over financial reporting. Some have mentioned that the staff should consider exempting emerging growth companies, but the majority have noted that transition relief for newly public companies better balances the need of investors and preparers while affording this relief to all newly public companies.

The final point I wanted to share from my conversations is the appreciation of the CorpFin staff's consideration of reasonable and substantiated waiver requests, pursuant to Rule 313 of Regulation SX from potential issuers over the last many years. The staff's balanced approach to reasonable requests from potential issuers has undoubtedly facilitated marketplace participants' efforts to efficiently, timely, and cost-effectively raise capital, while providing meaningful information to investors.

As I close my prepared remarks to the committee, I want to thank you again for all your time.

MS. GARRETT: Thank you very much, Mike. We appreciate your time. At this point we'd like to open up for the committee members to ask questions to Matt and Mike about their presentations, or anything else.

MR. SOLOMON: So, Mike, I'll start. Just -- can you walk through a little bit, and sort of dig down on, when you -- you represented, you know, that you talked to a number of issuers, particularly as it relates to relaxing or creating exemptions from, like, the ESG standards, right? Is -- is that your thought, or -- the marketplace is saying that we should treat, you know, new companies -- all new companies and IPOs, regardless of size, as if they were ECGs -- so, essentially using the -- the JOBS Act framework for when companies would be responsible for ultimately complying with the SEC rules?

MR. BELLIN: Great question. Yes. All new public issuers, not just EGCs or smaller reporting companies. You know, the majority of the feedback that I've gathered from marketplace participants was allowing a transition period, similar to what we do for SOX for EGCs, or -- or, I guess, any other going public company for the first time, that second 10-K, provides them more time to gather the data, make sure the data has quality controls around it, and they can prepare that data subject to audit.

MR. SOLOMON: And are you hearing from market participants themselves that they -- have you heard of people forgoing access to capital and public markets as a result of these rules?

MR. BELLIN: I think most of the market participants we speak to, when they think about being prepared to be public, there’s a lot of uplift in any organization. People, processes, systems. So they’re thinking about, do I have the right controls in place? Do I have the right tax structure for my organization? Can I have -- can I give forecasting visibility to my numbers -- to the public street -- do I think about -- am I thinking about corporate governance? So there’s a host of factors that companies are working on today as they look to go public. The marketplace participants were concerned that if we throw another requirement on them, in this case climate-related disclosures, it may be overwhelming in terms of getting ready to be public on their timelines.

MR. SOLOMON: And -- and just to be clear, right, I think there’s a difference between sort of saying we don’t want to do it, and we’re -- we will do it as we get bigger, or we’re --

MR. BELLIN: Yeah.

MR. SOLOMON: -- we’re more seasoned. And maybe -- I’ll turn it over in just a second, but I want to just ask this. Have you seen, in JOBS Act filings, are companies that are using EGCs -- their EGC eligibility -- are they not preparing for any entity level controls already anyway? Like, in other words, is a part of the going process public -- are they preparing to be SOX compliant even before they go public anyway, so that by the time they get to the point where it’s a requirement they’re already there? Or are they waiting until the requirement actually is upon them, in order to prepare?

MR. BELLIN: Yeah, great question. Absolutely. Most companies are preparing for public company SOX requirements by the time they go effective, especially thinking about the -- the CEO and CO -- CFO’s 302906 certifications that are required in your first filing, post-public. So they’re getting those ready. This is an area where they’d have to gather additional data beyond entity level controls, and that’s where the concern was.

MR. SOLOMON: Got it. Sorry. Thank you, Bert.

MR. FOX: Well, no, Jeff, I want to first respond to your point with a couple observations, and then I have a follow-up with Michael and the other panelists as well. But, you know, I don’t -- I do -- I do totally agree with Michael that when I look at our client base and all the companies that I am helping go public, it’s a big lift. I don’t think it’s stopped anybody going public, right? I do think that it’s -- it’s maybe some comfort factor that -- and, because a lot of cases it’s not even getting ready, it’s actually having the history, and actually the -- the length of time the controls are in place.

So I think it does -- on the margin, it’s maybe slightly helpful, but I really don’t know that that’s a big obstacle. I mean, it’s a big lift, and I do think that, you know, there -- it -- the -- the -- going public and not right now has much more to do with macroeconomic -- and, you know, can companies actually, one, demonstrate performance, and, two, get the pricing that they want, which is why I think you saw a lot last year and not much right now. It has much more to do with some of these other things on the margin.

But I guess I want to go back on the SPAC thing too, because, you know, my observation, having dealt with SPACs for a long time is, we actually saw an abnormality in the SPAC market last year, where, for the first time, most of the capital raised in the SPAC wasn’t redeemed. Right -- because, I mean, most of the time, the -- the initial capital -- a huge portion of it’s redeemed, and there has to be an additional capital raise anyway. And it really seemed like the -- the bigger issue, though, was not the ease -- you know, because you’re still having to go through a capital raising process. It was really the ability to do forecasts, and do -- you know, especially for the pre-revenue, the EVs, the -- the -- the more emerging companies, the ability to really communicate in a different manner, right? Which is actually going away.

And I'm curious if either one of the panelists, one, agree with me that -- and, two, do you have any observations on, is that requirement, while important for -- potentially important for investor protection -- maybe actually going to create some issues in capital raising, because companies that aren't -- don't have as much of a track record, and are -- have a -- more of a future story to tell, aren't able to tell it as easily in the -- in a regular IPO.

MR. BELLIN: Yeah, I'll -- I'll jump in first. I think that's it. If you don't have that long track record -- if you're not revenue-generating, if you're -- if you're thinking about bringing a new product or solution to market that's never been tested before, I -- I think putting out certain assumptions on a go-forward basis is extremely challenging, and I think some of the -- the feedback that we read about today -- and as we talk to marketplace participants about the SPAC transactions, that is a concern.

MR. FOX: I guess it's a -- it's a two-edged sword, right? I mean, it's a concern in terms of obviously their statements, and investors may be reliant upon, right? And the auditor in me always hates that, right? Get it. But at the same time I do feel like there’s a lot, even clients of ours, that went public, that were -- say EVs for instance, hadn’t even sold a car yet -- I don’t think they could have gone through a traditional IPO route, because I’m not sure that they’ve been able to tell enough of their story, right, and access to capital, I also think -- and I know, Jeff, your firm does a lot with biotech -- I mean, that market has evolved to the point that they kind of were able to work through the IPO process, but, again, that’s another one where you’re having to tell a big story. The financials aren’t as important. And I -- I just wonder if there isn’t -- as we’re talking about capital formation and small business, that there isn’t something potentially missing of not having the wild west of forecasts that have no assurance, or no, you know, liability -- but the inability to also tell some of those stories, right?

MS. DEVRIES: Thanks for those comments. It just generated a few ideas. You know, it’s interesting, because I think we often talk about IPOs in the context of thinking about, you know, the hypergrowth today, right? And then we think about, you know, what used to be small-cap stocks, right, and not every small-cap stock would grow to be a large-cap growth stock. And I think about where we are in terms of looking at the middle market right now, and looking at manufacturing, and looking at the industrial transformation, and the move to, you know, renewable energy, the adoption of additive manufacturing, all these things that are very expensive, that require raising capital. And just having had the experience of working at a lower middle market company that was acquiring companies, and going public, it was always going to be a small company. We only stayed public for a year and a half, because of the reporting and the costs associated with it. But, you know, I do think that there is a mismatch and a challenge, where we're not solving for companies that are small or midsize, and their ability to access the public markets as a way to raise capital for -- for growth -- to have patient capital available to them. And I do have concerns about, you know, how costly it is, and the data, and other things that just make it very unattractive, and not even possible to have an effective raise for these types of companies today.

MS. SOLOMON: So, I -- I want to -- because we made a bunch of recommendations around this. Maybe we can spend -- we can -- we can bifurcate, if that's okay with the committee, we can bifurcate, in on -- on SPACs, and direct listings and IPOs, and so I want to throw it out to our -- to our guests, are you suggesting that there should be, for lack of a better word, a harmonization across regulatory disclosure for whether you’re choosing to do a SPAC, a direct listing, or an IPO, so that companies can’t essentially engage in regulatory arbitrage -- is that a recommendation that -- that -- I think I heard that, but I want to try to break it into something that’s a little more tangible.

MR. BELLIN: Yeah, from the marketplace, I think that there is confusion, whether you’re undertaking a SPAC merger, whether you’re taking a traditional IPO as -- if you qualify as an emerging growth company, what are the requirements? So, harmonization across those two paths for emerging growth companies and non-emerging growth companies is what I’ve heard from the market.

MS. SOLOMON: That’s helpful. So -- and then I -- say -- I guess I would ask, do we think that -- how much of the -- do we think that the performance of IPOs -- recent IPOs and SPACs is a function of macroeconomic environment versus the caliber of the company or the mechanism through which these companies went public?

MR. BELLIN: My -- I’ll jump in first here. I mean, from -- from what we see out there, there's a lot of quality companies that have been impacted by the general macroeconomy out there, so I -- I imagine there's a mix. I -- I can't answer that specifically, but I imagine there's a mix out there. I think there's a lot of solid companies that, as you raise interest rates across the globe, it impacts their -- their stock price.

MR. SOLOMON: And are you hearing from any market participants a concern that there would be an incremental reaction from the SEC or other regulatory agencies that might make it more difficult for companies to go public as a result of the performance, you know, that we've seen more recently?

MR. BELLIN: I can't say that I've heard any concerns from the marketplace around that.

MS. SOLOMON: Okay. Other questions?

MR. FOX: Yeah, well, just maybe a follow-up under your comment there, Jeff. I mean, in talking with the number of clients we have that are still in the IPO process, and hearing them talk to their bankers and stuff like that, I mean, without a doubt, there's a large number of clients or companies that went public last year at rich valuations, a lot of them -- to the Michael just made, the market's gone down, and therefore they haven’t performed as well. There probably is not as much appetite out there to go public. Again, I don’t think that has anything to do with the regulatory requirements, as much as, again, macroeconomicaly, people overbought last year and one that probably reduced the amount of supply in the short-term into, they’ve gotten burned a little bit, and they’re probably not willing to pay the same multiples. I -- I think that’s what is really driving the decline right now, based on my observations and talking to participants, anything else. So --

MS. SOLOMON: So, to pick up on that, I think one of the things we’ve heard, particularly as it relates to SPACs is that, until the rule-making at the SEC is more clear, nobody really wants to engage. Right? If it’s unclear who’s going to have underwriter’s liability, why -- we’ll just wait until -- until the SEC determines who that is, and then we’ll -- we’ll be back. But I would say, the lack of -- of SPAC new issue is -- at least the IPOs of SPACs, the first IPOs of SPACs is, I think, driven much more by the regulatory overhang than it is the market. If it weren’t for the regulatory overhang, I there would be a number of second and third time SPAC managers that would be trying to get things done, whether -- whether they would get done or not in a volatile rate environment is a different issue, and I think it’s a big misperception a lot of people have, the SPAC IPOs are much more tied to the inherent rate of return of treasuries than they are on the equity -- health of the equity market. So I think, you know, initial SPAC investors would be probably demanding more of a yield on the SPAC when it goes public. There’s no question that there’s a bunch of sponsors that have just said, “I’m going to put it on hold, because I don’t really know where the SEC is on this.” And so I’ve got -- I’ve heard it over and over again, to the point where I think people think the SEC just doesn’t want there to be SPACs. Right? And -- because there’s just not clarity on it. And so they just -- they’ve -- they’ve gone away.

And -- and the knock-on effect of that, by the way, is folks who would be buying aftermarket SPACs after they do the second stage, there’s a taint associated with those companies, because now there’s a view that there’s a regulatory challenge with them, and so people are simply choosing not to engage there because there is a perception that maybe the companies that became public might be under incremental regulatory scrutiny, as well as a challenging macroeconomic backdrop. So you’ve got a lot of things working against it.

And, again, we -- we’ve been public with our comment. Our view is, the SEC should simply lay out the rules. There’s plenty of room for improvements in -- in how SPACs are disclosed, and who’s got underwriter’s liability, and if we could have a -- a -- a harmonization of roles and responsibilities across SPACs and IPOs and direct listings, to -- to eliminate regulatory arbitrage, then companies will just have more choice. And some will choose to do SPACs, and some will choose to do IPOs based on their own individual needs, not based on, you know, what the regulatory framework might be for those. That would be my big -- big comment, and my big recommendation. Other people?

MR. YADLEY: Yeah. I also agree that the harmonization makes sense. I mean, you sort of have -- we’re talking about the securities laws, so the -- the basic question is, what’s material? Right? That’s what the disclosure is -- the material disclosure. Certainly with the JOBS Act, it was recognized that emerging growth companies were going to have less disclosure than traditionally. And there hasn’t been any real issues with the disclosure that’s taken place, and we now have a pretty lengthy track record to look at that. So I think the harmonization, as it has been with the private placement rules, it just makes it easier for people to know what things are, and not look for these ambiguous, many times illusory, advantages in doing A versus B.

And I also believe -- and I'd like to ask our two panelists if they agree with this statement -- that if everybody has -- and let's just call it the emerging growth company standard, once you're public, the disclosures that you're going to make are going to be directed by the market. Because each company is different, and as we were talking about telling stories, Bert referenced earlier, to tell their story, they have to talk. And when they talk, they have to make complete, clear, and accurate disclosure. So once you're in, the marketplace has a better opportunity to judge you, and I think it will come together much more easily, and protect investors, than to have this wall that you have to climb over to go public.

MR. BELLIN: Yeah, I -- sounds sensible to me.

MS. SOLOMON: Yeah. Maybe -- said -- you know, another way I -- we -- we've -- and I answered this publically a bunch of times, but I'll repeat it here. The '33 Act is probably the single greatest piece of legislation that unleashed the growth of the United States as the preeminent economy. And I don't even think that's, like, a -- that's not even a remote overstatement. Right? If you look at the growth of US GDP, and you pin it back to the passage of the ’33 Act, which basically set out this institution, right, that we’re sitting in, as well as fairness in markets, investor protection, and capital formation -- it’s all in there. That’s what enabled capital from all over the world to say it’s okay to come invest in US companies.

And I think, Bailey, you pointed out, we went through a big chunk of time between ’33 and I would say the year 2000, frankly, when we financed a lot of companies that required a lot of capital -- and then we had a really bad IPO market, and a bunch of stuff happened right at the end of the 90s, where a bunch of companies that should never have gone public went public, and investors, particularly individual investors, lost a lot of money. And then there was a whole host of rules, and then there were a couple of big companies, just to remind everybody, that basically broke the law -- and they were super big companies, actually, right? If you think about them -- Enron and WorldCom, and -- these were not small companies.

And that’s what really got us to Sarbanes. Again, all good stuff, if you think about disclosure, but it’s a one-size-fits-all solution. And the companies that bore the brunt of the cost associated with it were smaller ones. Right? And as a result, Silicon Valley -- we talked about that this morning -- and bunch of other venture firms decided they were going to only really focus on funding companies that did not require access to public capital, which meant that we stopped investing in semiconductor infrastructure in this country.

And now we have this -- the CHIPS Act, because we’ve recognized that we’ve ceded ground to other countries that found a way to attract capital to build businesses that are capital intensive. It took 20 years for that to play out. Until the JOBS Act, there was never anybody who focused on the fact that capital-intensive companies could -- needed the public markets in order to build their businesses, and in order to attract private and smaller investors at the beginning -- that hope is -- is -- and so there is absolutely concern on the part of the marketplace that, having gone through the period we just went through -- we had unbridled speculation, largely due to monetary policy and fiscal policy, where people were sitting at home with a lot of money in their pockets and not much else to do, and that could potentially lead to increased regulation and legislation that might do the very thing that we just tried to get around, which is to promote capital formation and investor protection that allows for capital-intensive businesses to be built here in the United States.

And so I don’t want to be making a speech about it. This is a big deal, and so I would ask our panelists, and maybe other members of the Committee, we -- we’re dealing with this all the time. We should -- do you think that this is something we should be out in front on, in terms of encouraging the SEC to put forth rules and regulations that do both on a balanced basis, for SPACs and IPOs, and direct listings, to make it super clear all the various paths that are available, so that when companies and investors want to engage with each other, they know exactly what the rules are?

MR. BELLIN: Yeah, based on the feedback that I’ve gathered, yes. I think the JOBS Act did that for emerging growth companies. I think that opened an easier on-ramp for a lot of the companies looking to raise capital publicly in the US. I do think harmonizing the different routes for emerging growth companies versus non-emerging growth companies does make sense.

MS. DEVRIES: Has there ever been discussion about starting to shift the framework a little bit, to think more about, you know, asset-intensive, or assetbacked securities? So, you think about what happened in the early 2000s, late 90s, you know, and it’s the dotcom bubble asset-light, versus, you know, a path forward for more capital-intensive asset-intensive businesses. You know, thinking about, how can there be incentives as well as a framework and regulations to promote the growth and investment in domestic manufacturing and production? Just a thought. I don’t know if there’s ever been any discussion around just taking a different lens, maybe more on the -- the capital structure of these companies, or the industry that they’re operating in, and shifting the framework around, you know, the regulations.

MR. FOX: A lot to unpack there. First of all, applaud your speech, Jeff. That wasn’t intended as a speech, but applaud it. And as an Anderson alumni, I lived through a lot of the Sarbanes stuff, right, and -- but a couple of comments here. One, I do think that there is a difference between the JOBS Act and emerging growth companies, and what some of the requirements based on the level and size of the company are, versus the just act of actually becoming listed, right, and raising capital. I totally think that there should be zero regulatory arbitrage, right? You should basically -- it should be the same, right, to do a direct listing

-- although in a direct listing, a lot of times there is no capital being raised, right?

But direct listing, IPO, or SPAC, right, and then it just becomes, what is the best path, right, and I -- I think -- I think you can differentiate between that and, gee, you know, if, you know, a $10 billion company went private and went public again a couple years later, I'm not sure they should have to follow -- they should always get the emerging growth company, you know, benefits, right? On your point, Bailey, I think it's -- well, I would argue, Congress considers those things all the time. I'm more of a -- of -- point -- I guess if we brought a bunch of economists in here, they could -- they could show us the history of bubbles in the -- you know, going back to the -- what the Dutch tulip -- you know -- you know -- and everything else -- and I think we're occasionally going to get speculative bubbles. That's what happens in economies, unfortunately.

I think, to me, it's making sure, one, we don't overreact, which I think is your point, Jeff, and two, I -- I personally don't think the regulatory environment should necessarily be in the act of picking winners and losers versus making things agnostic to it, right? And so I would -- I would not necessarily say, gee, we need to make it easier, if you will -- or some sort of favor -- say, asset-intensive companies, versus recognizing that maybe our regulatory environment actually prefers asset-light companies, right? In terms of, they don’t need as much capital, and they don’t have to go through all these hoops. And therefore making it more agnostic in terms of, anybody that needs to raise capital should be able to do it on a fair playing field. So --

MR. SOLOMON: So, just to be clear on regulatory capital, I think -- regulatory arbitrage -- so, the -- the -- I think what we’re all saying in so many words is, using the securities laws as they exist, or maybe enhancing the security laws, and holding, in particular, agents, underwriters, the people that are regulated by the SEC, holding them accountable for delivering companies that are in compliance, right? So it’s not -- this is not about circumventing the rules. It’s actually about taking the rules and making them much more pervasive, so that you don’t have certain market participants that feel they can go around the rules, or read interpretations of the rules as if they don’t apply to them.

And I’ve seen -- we’ve seen this before. It’s not the first time. The SEC has done a phenomenal job, actually, with the at-the-market offering rules, for example. And prior to the release on at-the-market offering rules, there were a number of people who did these things called equity lines. And there were a number of folks who thought those were private placements, and there were a number of people who thought they could short ahead of those deals, and drive stock prices down, and then buy stock off of prospectus. At the number of us were looking at that staying, we -- we just -- we can’t get there, but nobody’s policing it.

And so the -- the fact that the SEC came out with a way for companies to access continuous capital using the at-the-market offering has now become one of the most predominant aspects of the biotech space. So biotech companies always need to raise capital. We -- we have been able, as an industry, the financial services sector, investment banks now can engage as underwriters, where -- where they’re putting up shelves that are -- and doing bring downs, and doing continuous underwritings that enable them to access cash even if the markets aren’t necessarily open for them in a traditional way to do a follow-on offering.

Again, this is a good example, if we want to look at something where the SEC put out rules and cleaned up a lot of bad behavior from people that were trying to circumvent those rules, and put it back squarely on the folks who were highly regulated, to hold them accountable to the investors. Retail, institutional, and otherwise. And I think what we're talking about here is taking -- encouraging the commission to do that here as it relates to SPACs, IPOs, and direct listings. Let's just homogenize it, or -- or harmonize it. And -- and then allow companies and their advisors to figure out which ones best suit their needs, which is absolutely, positively holding those intermediaries accountable for the role they're supposed to play under the '33 Act. And that's -- that would be, I think, a -- it would be a huge game changer for a lot of smaller companies.

By the way, if anyone disagrees, I'm more than happy to hear, but that's sort of, I think, what we're all sort of saying in so many words.

MR. YADLEY: I -- I agree with that, and just amendatorily, the harmonization should -- should also, I think, consider the fact that smaller companies are still different, and, as Bailey said, some of them are never going to grow to be huge companies. So I wouldn't throw out the smaller reporting company, sort of, concept.

MS. MOTT: I would agree with that, Greg.

MR. SOLOMON: Okay, I'll turn it back over to you, Carla.

MS. GARRETT: Sure. Matt, do you have anything to add? We -- we don't want to miss you, since you're on the video.

MS. TOOLE: No. I'm -- I'm -- it's been a really interesting conversation to listen to. I think -- I wanted to provide the -- the baseline numbers, and kind of the -- the current state of the market, and be able to forward the conversation that way.

MS. GARRETT: Okay. Do other committee members have items to discuss on this? Jeff?

MR. SOLOMON: Yeah. I think -- so let's go through some -- let's go -- maybe we already did -- go through some recommendations. So, again, I'd say one of the first recommendations for the Committee, I'll throw it out there, and that we can amend as -- as -- as we often do. So, one would be to encourage the SEC to create a harmonization among access to public capital, among direct listings, SPACs, and IPOs, so as to create a -- a more harmonious application of the '33 Act across all of those, to ensure that there is no regulatory arbitrage happening. That would -- that would also include increased disclosures and holding intermediaries accountable for their primary role as underwriters.

MR. FOX: Can I maybe add on to that? Which is, I think, to the point you made earlier, Jeff, also encourage the SEC to fully clarify some of the potential question marks people currently have about some of those paths. So not only just a harmonization, but come out and state, if you're going to do a SPAC, this is the -- the rules of the road, right, or a direct listing, whatever else, because I think to your point, it's not just the harmonization, it's actually the lack of clarity as -- in terms of how the staff is interpreting some of the existing securities laws.

MR. SOLOMON: Okay. Other -- other -- I mean, I'm -- we had a fairly -- and so maybe Carla -- I don't have it in front of me, but we had a fairly, you know, lengthy discussion on SPACs in particular relating to the rulemaking. I think there's obviously -- and there's a lot in the public domain around comment letters.

I think specifically as it relates to SPACs, it -- I'll leave it up to the Committee, and if we want to make a specific recommendation that the -- to the Commission to move forward with its rulemaking and clarity, like, sooner rather than later, because right now that -- that market is frozen, waiting for the SEC to make some determinations.

I would also say that’s -- that means that a number of SPACs are going to be returning capital, so there’s a lot of capital that’s out there that might otherwise be going to finance companies, especially in a more difficult economic environment, that is going to go away, because these things do go away at the end, so the sooner SEC can lay out guidance on this -- so I would -- I would maybe add a -- a second recommendation, specific to SPACs, that the SEC should move with some alacrity to clarify the rules around SPACs, so that the marketplace can figure out what it needs to do at that point. Is that a second recommendation?

MS. GARRETT: Yeah, I agree with that. I will just point out, in our recommendation from our May meeting of this year, we went through very specific items with respect to SPACs and the proposed rules. We did not say what we’ve just said -- the three things, which is harmonization, clarity, and let’s get -- let’s get some action going now. So those are three actually separate distinct recommendations than what we made in our -- from our May meeting.

MR. SOLOMON: All right. So is there any -- again, I know I’ve done a lot of talking here, but -- so I just want to make sure that everybody gets an opportunity. If there are other -- that’s sort of what

I think -- what I’ve heard from the Committee, or what we’ve heard, but are there other things that we may have missed that people want to -- and certainly for those of you that are on the Webex, please chime in. We can’t see you, so if you’ve got incremental comments, please -- please weigh in.

Okay. So I think we probably should -- should at least have someone make a motion on those two.

UNIDENTIFIED SPEAKER: (Indiscernible).

UNIDENTIFIED SPEAKER: Anyone second?

UNIDENTIFIED SPEAKER: Second.

UNIDENTIFIED SPEAKER: All in favor?

UNIDENTIFIED SPEAKER: Aye.

UNIDENTIFIED SPEAKER: Aye.

UNIDENTIFIED SPEAKER: Aye.

UNIDENTIFIED SPEAKER: Anybody opposed?

MS. GARRETT: Kesha.

MR. SOLOMON: Kesha I think voted yes there. I’m not sure. It -- she put her hand up. I don’t know, is that a yes, or --

MS. CASH: That was a yes. Sorry about that.

MR. SOLOMON: Thanks. Okay. (Laughs). Okay. All right. I’ll turn it back over to you.

C L O S I N G   R E M A R K S

MS. GARRETT: Okay. Well, thank you. That was actually a shorter discussion on our second topic than -- than we expected.

But thank you, Mike, and thank you, Matt, for coming today. Your information was, I think, very informative to the Committee, and we appreciate your time with us today.

At this point, I think we’ve finished with our -- the substantive part of our meeting. I do want to say thank you for the Committee members for being here, and for being remote.

I want to mention that our next meeting is February 7, 2023. Seems like a long time from now. Before I adjourn the meeting, I do want to say --

MR. SOLOMON: Wait -- wait -- yes, let’s go.

MS. GARRETT: Happy birthday.

MR. SOLOMON: Happy birthday to Julie Davis.

MS. GARRETT: Yes. We could not perform our task without Julie’s essential input every single moment. So, happy birthday, Julie.

MS. DAVIS: Well, thank you. I feel honored to spend my birthday with such wonderful people.

MR. SOLOMON: See, we wanted to -- we told Julie we were going to put that at the beginning, and she thought she was going to go away -- make sure that’s in the record.

Can we all make sure that that's in the record, that we celebrated --

MS. GARRETT: Yeah, I haven't -- I haven't adjourned the meeting.

MR. SOLOMON: Perfect. It's in the record, so that we -- we acknowledged, happy birthday.

MS. GARRETT: Yeah, happy birthday, Julie.

MS. DAVIS: Thank you.

MS. GARRETT: Yes. Okay. I hereby move to adjourn the meeting.

MR. SOLOMON: Second.

MS. GARRETT: Okay, thank you.

(Whereupon, at 2:36 p.m., the meeting was adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: SMALL BUSINESS ADVISORY COMMITTEE MEETING

File No. OS-0001

Date: Thursday, October 13, 2022

Location: Washington, D.C.

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

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(Proofreader's Name) 10-20-2022

REPORTER'S CERTIFICATE

I, Lee Ann Tardieu, reporter, hereby certify that the foregoing transcript is a complete, true and accurate transcript of the meeting indicated, held on 10/13/22, at Washington, D.C., in the matter of:
SMALL BUSINESS ADVISORY COMMITTEE MEETING.

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

10/20/2022