

Opening Remarks to the 2014 Government-Business Forum on Small Business Capital Formation

Commissioner Daniel M. Gallagher

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Thank you, Keith [Higgins] for that introduction. And a special thank you to Sebastian [Gomez Abero] for his hard work in organizing this conference and, quite frankly, for all of his amazing work generally. His role as Chief of the Division of Corporation Finance's Office of Small Business Policy is probably the most important staff position at the SEC for promoting the capital formation needs of small businesses, which is in turn one of the most important things that this agency should be doing.

I was gratified to see that the Divisions of Corporation Finance and Trading and Markets were able to work together on today's first panel, regarding secondary market trading in securities of small businesses. Promoting the development of these secondary markets is incredibly important. While a robust, liquid secondary market has benefits of its own, it also promotes the health of the primary offering market, which directly benefits small business issuers.

I hope the discussion today will embrace the full scope of the public and the private markets in small business securities. As I've said before, I believe a fully robust capital markets ecosystem for small businesses requires both.

Specifically, there is a need for continued innovation in secondary trading in the private marketplace. If additional guidance from the SEC—for example, with respect to a private resale exemption—would help this market develop further, we should move forward on that now.

I also hope and expect that we will complete our Regulation A+ rulemaking, mandated by the JOBS Act, in the very near future. To fully activate the benefits of this new exemption, however, we need to consider how to create secondary markets in these shares. I am a strong proponent of an idea that this Forum has floated in the past: Venture Exchanges, where Regulation A+ shares could be listed and traded by anyone, not just accredited investors, and could do so with an exemption from state blue sky laws and with scaled listing standards appropriate for Regulation A+ issuers. I believe this could truly revolutionize small business capital formation.

Moreover, there's a long-standing need for better, more liquid markets for smaller post-IPO companies. We should consider better scaling of the periodic reporting regime for small companies, to match commonly-accepted market definitions of "microcap" and "nanocap." Venture Exchanges or exchanges with similar scaled listing standards may help here as well. Companies barely clinging to a NASDAQ or NYSE listing could fit more comfortably at a Venture Exchange, and companies currently trading OTC may be willing to up their game if the hurdle to become exchange-traded wasn't so insurmountable.

Finally, I wanted to touch briefly on the second panel today, regarding changes to the accredited investor definition. Frankly, I have yet to be persuaded that this is an issue that we should be taking up at this time. Dodd-Frank's removal of the value of the primary residence for purposes of the net worth test was already a significant change to the accredited investor definition. But more fundamentally, I am baffled by continued insistence from some quarters that we need to significantly revise the accredited investor definition. Why should we spend limited Commission resources "protecting" the wealthiest 2-3% of investors in this country? This obsession with "protecting" millionaires—potentially at the cost of hindering the wildly-

successful and critically-important private markets—strains logic and reason. Millionaires can fend for themselves. That additional government paternalism could also negatively impact the availability of capital for small companies is a double whammy, and rather than pressing our luck, we should be yelling “stop”—and instead spend our time focusing on actually facilitating capital formation.

As I don't want to take any more time away from what I hope will be a great discussion today, I will conclude with a final thought. This Forum has advanced some truly excellent recommendations in the past, and I'm sure will continue to do so in the future. And yet there is at least a perception that these recommendations are not given their due. So I hope that, going forward, we can commit to respond to each Forum recommendation in writing, as a way of validating that the proper attention has been paid to your voices. If the Commission cannot make that commitment, at least this Commissioner will.

Thank you all for giving us some of your valuable time today.

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