

Statement to the SEC Government-Business Forum on Small Business Capital Formation

Commissioner Kara M. Stein

Nov. 20, 2014

Let me add my welcome to those of the other Commissioners.^[1] It is a pleasure to be with you this morning as you meet to discuss the important topic of small business capital formation. I have been particularly focused on capital formation myself, because smart policies around capital formation, particularly for small businesses, will lead to good jobs and healthy investment opportunities across America.

On a recent trip to Los Angeles's "Silicon Beach," I had the privilege of visiting a technology venture accelerator at University of Southern California's Viterbi School of Engineering called the Start-Up Garage. The people I met, as well as their ideas, were truly exciting. I think there actually might be one or two of you here with us today.

Now, more than ever, America's small businesses need smart, well-integrated, and workable rules that facilitate capital formation and ensure healthy markets that give investors the confidence to invest. As I have been saying recently, instead of a careful and thoughtful continuum of capital formation, a jumble of overlapping and inconsistent options for both private and public capital-raising have crept up.^[2] The system has become increasingly complex, is at times irrational, and contains gaps. It both inhibits efficient capital formation at some stages on the continuum, while needlessly exposing investors to undue risks at other stages. We can — and should — rationalize this patchwork quilt; it will benefit both entrepreneurs and investors. I hope that some of that good thinking will be done today.

I also believe that many of the ideas for doing so share broad support from across the policy spectrum. For example, Commissioner Gallagher's idea about venture exchanges and my views about rebuilding regional exchanges may offer, I hope, promise for progress.

At the same time, I also share Commissioner Aguilar and others' concerns about the practical realities and risks when dealing with smaller issuers and less liquid (especially retail over-the-counter) markets. We have to be smart, practical, and willing to both experiment and adapt as we see issues emerge.

In short, I am very focused on working through the issues you're discussing today. As part of that effort, I want to see the Commission move quickly toward finalizing three very important rules related to capital formation — crowdfunding, the new Regulation A (or "Reg A+"), and certain investor protections under Rule 506.

Moreover, as I've said before, we should be able to walk and chew gum at the same time: even as we work to rationalize and improve the entire system, we should move as quickly as possible to finalize the proposals that are before us. These rules arise from laws passed two and a half years ago, and Congress is looking to us to get them done.^[3] Congress worked hard to make sure that the Commission had authority to establish appropriate protections around new ideas like crowdfunding, so that they could blossom into healthy, durable markets.^[4] I hope we can move quickly on these and on all of our Congressionally mandated obligations. Quite frankly, I don't think we're very far away on some of these rules. Let's get them done.

Thank you for taking time out of your busy schedules to come here and participate in this dialogue.

[1] As was announced at the beginning of the Forum, the views I am expressing today are my own and do not necessarily reflect those of the Commission, my fellow Commissioners, or the staff of the Commission.

[2] See "Remarks before the Los Angeles County Bar Association 47th Annual Securities Regulation Seminar," Oct. 24, 2014,
<http://www.sec.gov/News/Speech/Detail/Speech/1370543279728#.VGz3GGPgfIA>.

[3] See, e.g., Jump Start Our Business Startups ("JOBS") Act section 302(c), requiring the Commission to complete Title III rulemaking 270 days after enactment.

[4] For a discussion of several potential risks, see "Remarks at the 15th Annual 'Live from the SEC' Conference," Nov. 13, 2014,
<http://www.sec.gov/News/Speech/Detail/Speech/1370543436711#.VGz6WWPgfIA>.

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