

Prepared Remarks before the Small Business Capital Formation Advisory Committee



Chair Gary Gensler

Washington D.C.

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Good morning. I'm pleased to speak with the Small Business Capital Formation Advisory Committee. As is customary, I'd like to note that my views are my own as Chair of the Securities and Exchange Commission, and I am not speaking on behalf of my fellow Commissioners or the staff.

Today, I understand the Committee will discuss alternative methods of capital raising in our markets, particularly crowdfunding and angel investing. The Committee will hear about crowdfunding from Dr. Melody Chang, Assistant Professor at the USC Marshall School of Business.

Small and early-stage businesses often start out raising money from friends and family. Success, though, often means eventually outstripping those friends' and families' available capital. That's why alternative methods of capital raising can play such a critical role.

Angel investing and crowdfunding have helped develop our vibrant private markets alongside our robust public markets. I believe the U.S. economy has benefitted from capital formation in both the private and public markets.

When it comes to the public markets, Congress has required companies to register public offerings of securities with the SEC and include specified disclosures to investors. At the heart of those disclosures lies a basic bargain embedded in our securities laws since the 1930s: that investors get to decide on their investments based upon full, fair, and truthful information material to their investment decisions.

Meanwhile, Congress and the Commission also created certain exemptions from those requirements, including smaller businesses with smaller pools of investors. These exemptions have formed part of the private markets as we know them today.

Congress and the SEC have repeatedly revisited them over time—with a careful eye toward protecting investors on one hand and facilitating capital formation on the other. For example, in Title III of the 2012 JOBS Act, Congress expanded the exemptions to include crowdfunding. The SEC then adopted Regulation Crowdfunding, which you'll hear more about today.^[1]

When Regulation Crowdfunding first went into effect in 2016, we saw 22 new crowdfunding offerings per month on average.^[2] Firms were allowed to raise a maximum of \$1 million under the exemption. By 2022, we saw an

average of 135 offerings per month.^[3] The funding cap also had risen to \$5 million annually. The number of U.S. counties with crowdfunded companies more than doubled between 2019 and 2022^[4].

These trends are part of the SEC's ongoing work on behalf of the businesses that seek to capitalize on opportunities and the investors who participate in them.

Separately, I understand that Val Szczepanik, who leads the SEC's Strategic Hub for Innovation and Financial Technology will share some thoughts on the landscape concerning crypto assets and crypto token offerings.

As I've said in the past, the Commission acts within the law and how the courts interpret the law. Without prejudging any specific crypto asset, I believe that the vast majority of crypto assets are investment contracts and thus subject to the federal securities laws.

Full, fair, and truthful disclosure are at the heart of those laws, under the basic bargain I discussed earlier. There is nothing about the crypto securities markets that suggests that investors are less deserving or in need of those disclosures or the protections of our securities laws. To any investors listening: Without pre-judging any specific crypto asset, absent such mandated disclosures, I encourage investors to exercise caution about the myriad risks associated with products whose value is tied to crypto securities.

I look forward to the Committee's thoughts on all of these matters.

Thank you.

[1] See Securities and Exchange Commission, "SEC Adopts Rules to Permit Crowdfunding" (Oct. 30, 2014), available at <https://www.sec.gov/news/press-release/2015-249>.

[2] See SEC Division of Economic and Risk Analysis, "U.S. securities-based crowdfunding under Title III of the JOBS Act" (Feb. 28, 2017), page 8, available at https://www.sec.gov/files/regcf_whitepaper.pdf.

[3] See SEC Office of the Advocate for Small Business Capital Formation, "Annual Report FY 2023," page 18, available at <https://www.sec.gov/files/2023-oasb-annual-report.pdf>.

[4] *SEC Office of the Advocate for Small Business Capital Formation FY 2023 Annual Report* (page 18) and *SEC Office of the Advocate for Small Business Capital Formation FY 2022 Annual Report* (page 18).