Speech

# Capital On-Ramps: Remarks at the SEC's 42nd Annual Small Business Forum – Exploring the Early-Stage Landscape: Trends and Strategies in Capital Raising

**Commissioner Hester M. Peirce**

**April 24, 2023**

Good afternoon. Thank you to the Office of the Advocate for Small Business Capital Formation for hosting the 42nd Annual Small Business Forum and to our panelists for participating. I am excited for this forum and today's discussion on early-stage companies. My views are my own and not necessarily those of the SEC or my fellow Commissioners.

My most recent visit to Ohio took place during the height of ramp season. Ramps are an edible wild vegetable. They grow spontaneously in large patches on forest floors. During the short growing season, ramp aficionados spread out across forest hillsides to forage as the plant's oniony smell wafts about them and makes their mouths water for the meal ahead. As with all things, ramps make me think about capital markets. Unlike the plentiful ramp patches that are there for the (sustainable) picking,[1] an early-stage entrepreneur in need of funds rarely finds plentiful patches of capital waiting for her to harvest. Foraging for capital can be a discouraging, time-consuming task with little to show for all the work.

The Forum offers us an opportunity to hear directly from founders, investors, and other members of the public about ways we can improve the capital options for small businesses. This panel, with its focus on the early-stage landscape, is particularly important. Early-stage entrepreneurs often abandon a stable job to take on the risks of starting a new business that will meet a need that others in their community have. With a disruptor's mindset, they are ready to take on the many challenges of getting their companies off the ground. Sometimes they fail, and often they pick themselves up, dust themselves off, and start a new business. Such resilient, optimistic, problem-solving people are essential to society.

The least the rest of us can do is offer early-stage entrepreneurs a regulatory structure that gives them a fighting chance. Too often, however, the needs of these fledgling companies get lost in the press of other business at the SEC. Or, worse, the early-stage landscape suffers under the regulatory misconception that it is a bastion of fraud. Regulators who think that failure is synonymous with fraud might not be eager to facilitate early-stage capital formation.

A more accurate picture of the landscape can help form the basis for good policy. Good policy enables a wide range of investors to participate safely in the growth of early-stage companies. An educated, informed, inquisitive investor with realistic expectations, an appropriate mix of optimism and skepticism, and a properly diversified portfolio of investments can participate safely in early-stage investing.

The ranks of investors willing to commit time and capital to new companies are thin, and I hope this panel will help elucidate why. Is the uneven geographic distribution of patches of capital—a problem documented by the 2022 Small Business Advocate Report[2]—a concern to the panelists? How did the panelists or the businesses with which they work find their first investors? As this year's Small Business Advocate Report also noted, "[i]ndividuals with a mentor are 5X more likely to plan to start a business than those" without one.[3] Do the panelists find that having local investors facilitates continuing mentorship as founders build their businesses?

Regulation can prevent patches of capital from growing in places they otherwise might. Wealth and income measures largely determine the eligible pool of accredited investors. I emphatically object to telling Americans that a whole sector of the economy is off-limits, but measures short of discarding the accredited investor paradigm probably have broader appeal. For example, allowing investors who had passed a sufficiently rigorous test, taken high-quality investing courses, or had relevant professional degrees would expand the accredited investor pool. Other potential options include allowing anyone to invest some percentage of her investment portfolio in private companies—a technique already used in the crowdfunding rules—and allowing people assisted by a sophisticated financial intermediary to invest. What would happen to capital availability in their communities if the SEC raised the income and net-worth thresholds for inflation, or otherwise narrowed the accredited investor definition? What do panelists think of expanding the accredited investor pool by adding new measures of sophistication or pursuing one of the other ideas I just mentioned?

In addition to amending our accredited investor regime, we can take other steps to make it easier for early-stage founders. What do panelists think of a micro-offering exemption that would allow companies to raise $250,000 or $500,000 without registering with the SEC or the states? Now that more companies are relying on Regulation Crowdfunding, should we consider ways to make it an even more practical solution for early-stage companies? Or do the panelists think that a sensible regulatory framework for finders would be helpful in matching investors with companies?

Thank you for participating in this year's Small Business Forum. Just as ramps do, the Forum comes around every spring. Whereas the aroma of ramps—strong as it its—does not linger, I hope this week's conversations will waft through the rest of the year and spur continued collaboration among policymakers, entrepreneurs, and investors throughout the year to come. I look forward to the discussion.

---

[1] Anthony Brown, *Careful Ramp Harvesting is Traditional and Sustainable*, Cherokee One Feather (Mar. 21, 2011), https://theonefeather.com/2011/03/21/careful-ramp-harvesting-is-traditional-and-sustainable/.

[2] *See* Office of the Advocate for Small Business Capital Formation, *Annual Report: Fiscal Year 2022* at 16, SEC (Dec. 2022), https://www.sec.gov/files/2022-oasb-annual-report.pdf ("Advocate Report") for a map which shows that in 2022, Washington, California, New York, Texas, and Florida had 24,980 Reg. D deals while the bottom 45 states had 17,392 deals. According to the U.S. Census Bureau, in 2022, the top five states had a combined population of 118,766,674, while the bottom 45 states had a population of 214,520,883. *See* Kristina Barrett, *Growth in U.S. Population Shows Early Indication of Recovery Amid COVID-19 Pandemic*, U.S. Census Bureau (Dec. 22, 2022), https://www.census.gov/newsroom/press-releases/2022/2022-population-estimates.html#:~:text=22%%202C%202022%20%E2%80%93%20After%20a%20historically,components%20of%20change%20released%20today. That amounts to the top five states top five states having approximately 35.6% of the total US population while still having 58.9% of the total Reg. D deals. This was around a 159.3% higher rate of deals per person than those in the remaining 45 states.

[3] Advocate Report at 24.