

# Remarks at the 42nd Annual Small Business Forum



**Commissioner Mark T. Uyeda**

**Washington D.C.**

**April 26, 2023**

Good afternoon. It is a pleasure to address this Forum on Small Business Capital Formation. Today's panel will focus on the successes and challenges facing smaller funds, including barriers to entry for emerging fund managers. This topic is not new. In fact, last year's Forum also included a panel on emerging fund managers and their role in diversifying capital.<sup>[1]</sup> One policy recommendation arising out of that panel was for the Commission to "[s]upport underrepresented emerging fund managers – specifically minorities and women..."<sup>[2]</sup>

The Commission responded to that recommendation by stating that it "supports efforts to improve diversity among fund managers and entrepreneurs who raise capital."<sup>[3]</sup> The Commission pointed to its Small Business Capital Raising Hub, an educational resource to assist small businesses in their capital raising efforts.<sup>[4]</sup> The Commission also recognized that its Small Business Capital Formation Advisory Committee had submitted similar recommendations in 2020 and 2021, and that other Commission advisory committees had submitted recommendations on this topic.<sup>[5]</sup>

With such a large number of recommendations, the Commission ought to take concrete actions to support such objectives. One pathway for success is for the Commission to carefully consider the impact of its rules on small businesses and emerging fund managers.

For example, in February 2022, the Commission proposed a rule that would impose significant new burdens on private fund advisers.<sup>[6]</sup> Commenters have noted that private equity is a highly competitive industry, and that the proposal is likely to place disproportionately large burdens on advisers to small funds and first-time funds.<sup>[7]</sup> One comment letter cited data that more women- and minority-owned firms are associated with smaller and first-time funds.<sup>[8]</sup> Accordingly, the proposal may have the effect of stifling the ability of emerging fund managers – including women- and minority-owned managers – to operate successfully.

One change that the Commission could make to ease the burden on emerging fund managers is to have a longer transition period to comply with new rules. For instance, the Commission recently adopted final proxy vote disclosure rules on Form N-PX for executive compensation.<sup>[9]</sup> Under the final rules, emerging fund managers who file on Schedule 13F because they hold more than \$100 million in equity securities would be required to file Form N-PX for the very first time. Yet emerging advisers with several hundred million in assets under management were treated no differently than the largest advisers with trillions of assets under management. Any new rule or modification often requires further clarification to implement. Emerging fund managers should be able to have extra time to allow these questions to be resolved before mandating compliance.

One might wonder how the Commission's expanding private fund adviser regulations comport with its expressed support for efforts to improve diversity among fund managers, especially since the response to the Commission's proposals from smaller fund managers has been resoundingly clear: the increased burdens will make it more costly to operate and will disincentivize institutional investors from allocating capital to emerging fund managers.

This Forum is an important venue for stakeholders to convey thoughtful policy recommendations to the Commission. I am hopeful that participants in today's panel will highlight the likely impact of the Commission's proposals on emerging fund managers.

Small businesses are the backbone of our economy, and private fund advisers play an important role in providing capital to those businesses. Greater diversity in the private fund space can help expand the numbers and types of businesses for which funding is necessary to flourish.

I appreciate the efforts of the Office of the Advocate for Small Business Capital Formation in making this year's Forum a success. I also want to thank the Forum's panelists for contributing to an important conversation, and I look forward to seeing the recommendations that emerge from today's discussion.

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[1] See *41st Annual Small Business Forum*, available at <https://www.sec.gov/oasb/sbforum2022>.

[2] See *Report on the 41st Annual Small Business Forum*, U.S. Securities and Exchange Commission, available at <https://www.sec.gov/files/2022-oasb-annual-forum-report.pdf>.

[3] *Id.*

[4] See Small Business Capital Raising Hub, available at <https://www.sec.gov/education/capitalraising>.

[5] See *Report on the 41st Annual Small Business Forum*, *supra* note 2.

[6] See Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews, Investment Advisers Act Release No. 5955 (Feb. 9, 2022) [87 FR 16886 (Mar. 24, 2022)], available at <https://www.sec.gov/rules/proposed/2022/ia-5955.pdf>.

[7] See Comment Letter of American Investment Council (Apr. 25, 2022), available at <https://www.sec.gov/comments/s7-03-22/s70322-20126669-287340.pdf>.

[8] *Id.*

[9] See Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers, Investment Company Act Release No. 34745 (Nov. 2, 2022) [87 FR 78770 (Dec. 22, 2022)], available at <https://www.govinfo.gov/content/pkg/FR-2022-12-22/pdf/2022-24292.pdf>.