

Remarks at the Small Business Advisory Committee Meeting



Commissioner Jaime Lizárraga

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Good morning, and thank you, Amy, for that introduction. It is a pleasure to welcome the new members of the Committee. [1] Today, you take on the important responsibility of advising the Commission on small business capital formation.

Nearly one-year ago, my first public remarks as a newly sworn-in SEC Commissioner were delivered to your predecessors on this Committee. To reiterate my message from that time, by offering your insights to this Committee, you will have a unique opportunity to improve the quality of our decision-making.

While you will devote much of today to organizational matters, it is encouraging that you will hit the ground running with a discussion of remedying funding gaps for underrepresented entrepreneurs. To me, this is an important priority that warrants increased and sustained attention, especially in light of the unique challenges that are involved.

We share the common goal of promoting capital formation in the broadest, most inclusive way possible. Your service on this Committee is an opportunity to advise us on how best to leverage our resources and authorities to meaningfully achieve this goal.

The fresh, thoughtful perspective that you bring to the table can help us think in more creative, proactive ways about how our agency's authorities can be best deployed to empower millions of entrepreneurs in our most disadvantaged communities.

Historically, these authorities have benefited a range of well-resourced companies and start-ups – the so-called “unicorns” – quite well. But underrepresented entrepreneurs haven't fared as well and could be better served by these same tools.

Some of the findings in the latest Annual Report by the Small Business Advocate illustrate the unique challenges these entrepreneurs confront today:

- 78% report that access to capital is limiting their day-to-day operations.
- 89% say that barriers to accessing capital limit their business growth potential.
- 73% of owners are looking for support in preparing to apply for and use business financing.
- Bridging gaps between entrepreneurs and investors remains the biggest challenge for early-stage startups when raising capital, with 40% of entrepreneurs finding it challenging to find a lead investor.

All of these findings are concerning and speak to the unique challenges in this space.

Many small businesses, particularly those from underrepresented founders that operate outside of established entrepreneurial ecosystems, struggle with navigating our securities laws. Or, with navigating an exempt offering framework that's so often written in impenetrable legal jargon. This tends to favor the many market participants that are already well-resourced and well-supported by the current system – that is, those who need our help and attention the least. It may be one reason why, according to the same Annual Report, only 6% of small businesses seeking external financing sought out equity investments.

I witnessed this challenge first-hand, growing up in an immigrant household with highly entrepreneurial parents who ran a Mexican food business out of our home. Some of you may bring similar perspectives to this discussion, from your own personal experience or that of your family's.

My family's business growth potential was substantial but remained unrealized. It was a time when the barriers to business growth all-too-common for many hard-working immigrant families were difficult, if not impossible, to overcome.

Though some of these barriers and challenges persist for many entrepreneurs now, the optimist in me believes in the power of innovative thinking and of creative solutions to these difficult challenges. The same spirit of entrepreneurship that is the hallmark of American ingenuity and that is represented on this committee can help us better fulfill our capital formation mission on behalf of the investing public.

Because of the insights you will bring to this discussion, our country will be better off. New and innovative solutions can help address funding gaps for the 94% of small businesses that are in need of access to growth capital, but have not sought to do so through equity investments.

And of course, while many of the solutions may take time to develop, there is also low-hanging fruit that can easily be harvested right now. Like improving the availability of Commission information about how disadvantaged businesses can benefit from our securities law framework and thereby reduce barriers to accessing growth capital.

The Small Business Advocate recently developed a helpful online educational resource called "Building Blocks," which helps explain the process of capital raising in our markets. This type of resource has the potential to narrow the knowledge gap between well-resourced and underrepresented entrepreneurs.

I've already recommended some modest steps to the Small Business Advocate Office that could be taken to improve the visibility and reach of this type of Commission resource.

Your insights on how to communicate more effectively with underrepresented entrepreneurs and in ways that meet their unique needs will also be very valuable to the Commission. Our effectiveness in making our capital formation process more inclusive is tied directly to our effectiveness in communicating and marketing the value of our resources.

In this spirit, it is my hope that the Committee's work in the near future will also result in direct recommendations to the Commission on the best ways to maximize access to capital for disadvantaged entrepreneurs more generally. Because in the absence of broad-based access to growth capital for our nation's smallest, most underserved businesses, the fulfillment of our capital formation mission will fall short of its full potential.

Thank you again for your service and for your contributions to today's discussion.

[1] I must note at the outset that the views expressed here today are my own and do not necessarily reflect the views of the Commission or its staff, or those of my fellow Commissioners.