

Speech

Angels and IPOs: Remarks Before the Small Business Capital Formation Advisory Committee



Commissioner Hester M. Peirce

Washington D.C.

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Thank you to all the participants in today's Small Business Capital Formation Advisory Committee meeting and congratulations to Stacey [Bowers] for her first Committee meeting as Small Business Capital Formation Advocate. I am sorry that I cannot be in person with you, but I am looking forward to today's discussions.

A company should succeed or fail based on how well it serves customers, not on whether its founder has a network of rich friends or whether it is located in Silicon Valley. On a recent trip to Pittsburgh, through the kind assistance of former Committee member Catherine Mott, I met with early-stage, regionally-focused investors. Pittsburgh is a lot like my hometown of Cleveland—a city with a proud history of being at the center of the country's economic growth during the industrial era and a promising future being built on a new set of industries, such as biotech and robotics. But getting capital flowing in places like Pittsburgh is key to that future. One important source is local angel networks that fund founders in their communities. Changing the accredited investor definition to prevent more Americans from investing in private markets, as some suggest, could devastate these networks.

More fundamentally, protection that comes in the form of outright prohibitions runs headlong into the American commitment to a person's right to decide for herself. That conflict was on view in our Pittsburgh discussion. In response to support from one attendee for limits on individual investors' access to the private markets, an audience member, an immigrant to the United States, passionately defended the right of people to invest their hard-earned money as they choose. Committee member Wemimo Abbey made a similar point at the last meeting, when he acknowledged the risks of investing in small companies, but reminded us that "this country is also all about the liberty and freedom for people to do what they want to do . . . "[1] As Committee members also discussed at the last meeting, education for investors and founders is essential if we are to build a better capital-raising environment for small businesses. A takeaway from that last meeting is that although investing in young companies is very risky—Erica [Duignan] suggested factoring in an 85% failure rate[2]—empowering decision making with education is better than taking away people's right to invest.

I appreciate that the Committee is pairing the morning's discussion of the accredited investor definition with an

afternoon examination of the initial public offering (IPO) market conditions. This topic deserves greater Commission attention. The number of listed companies in the United States dropped from around 8,000 in 1996^[3] to roughly 4,200 in mid-2022.^[4] During the 1990s, the U.S. saw around 412 IPOs annually, compared to only 248 during the last ten years.^[5] I hope that the Committee will help us identify the causes for this decline and suggest productive solutions. Some causes, of course, are outside the Commission's control, but we have a role in others—such as the rising costs of being a public company and the newly adopted special purpose acquisition company (SPAC) rules.^[6] External reporting costs for public companies have increased by 150% since the start of the century,^[7] far outstripping inflation of 71%,^[8] and could rise more if we move forward with the climate rule.

To aid in the discussion about what we can do to encourage companies to go public earlier so that all investors can share in their growth, I have the following questions:

1. What are the most substantial regulatory cost-drivers for public companies, and what regulations dissuade them from going public?
2. How can we better scale regulations to encourage companies to go public earlier in their life?
3. Given that the Commission's recently adopted SPAC rules are likely to close off that avenue to going public, can we make changes to the traditional IPO process so that it works better for young companies and thus makes it feasible for them to go public before they experience their greatest growth?

Thank you all for your participation today and your commitment to the work of this Committee.

[1] U.S. Securities and Exchange Commission, Small Business Capital Formation Advisory Committee Meeting at 87 (Nov. 29, 2023), <https://www.sec.gov/files/sba-committee-meeting-transcript-11292023.pdf>.

[2] *Id* at 67.

[3] The World Bank, Listed domestic companies, total – United States, <https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?end=2019&locations=US&start=1975&view=chart> (last accessed, Jan. 19, 2024). 2023 data are not available.

[4] Office of the Advocate for Small Business Capital Formation, *Annual Report: Fiscal Year 2022* at 39, U.S. Securities and Exchange Commission (Sept. 15, 2022), <https://www.sec.gov/files/2022-oasb-annual-report.pdf>.

[5] Data calculated from Table 15b of this dataset. See Jay Ritter, Initial Public Offerings: Updated Statistics, Special Purpose Acquisition Company (SPAC) IPOs, 1990-2023 (Dec. 28, 2023), <https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf>.

[6] *Special Purpose Acquisition Companies, Shell Companies, and Projections*, 89 FR 14158, 14306 (Feb. 26, 2024), <https://www.govinfo.gov/content/pkg/FR-2024-02-26/pdf/2024-01853.pdf>.

[7] To reach this estimate, I compared the Commission's May 2002 estimated professional costs per company of completing the 10-K in May 2002 with the number in the recent SPAC final rule. See *Disclosure in Management's Discussion and Analysis About the Application of Critical Accounting Policies*, 67 FR 35620, 35642 (May 20, 2002), <https://www.govinfo.gov/content/pkg/FR-2002-05-20/pdf/02-12259.pdf>; *Special Purpose Acquisition Companies, Shell Companies, and Projections*, 89 FR 14158, 14306, 14310 (Feb. 26, 2024), <https://www.govinfo.gov/content/pkg/FR-2024-02-26/pdf/2024-01853.pdf>.

[8] To reach this estimate, I compared costs from May 2002 to December 2023 using the U.S. Bureau of Labor Statistics' inflation calculator, available here https://www.bls.gov/data/inflation_calculator.htm.

