



UNITED STATES HOUSE COMMITTEE ON
FINANCIAL SERVICES
CHAIRMAN FRENCH HILL

Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act

Why Action is Needed on Capital Formation Legislation

Capital formation is the lifeblood of American economic growth and prosperity. From startups and small businesses to large public companies, the ability to raise capital directly impacts job creation, innovation, and long-term competitiveness. Yet today, our capital markets are falling short. The number of U.S. public companies has collapsed from 8,800 in 1997 to fewer than 4,000 in 2024, depriving investors of opportunities to build wealth and limiting retirement security. At the same time, capital flows remain highly concentrated on the coasts, leaving entrepreneurs in the Midwest, South, and rural America at a disadvantage.

Regulatory costs brought on by the *Sarbanes-Oxley Act* and *Dodd-Frank Act* have raised the cost of going and staying public, tilting the playing field against smaller issuers. Meanwhile, rules governing private markets have failed to keep pace, leaving vast pools of capital locked up and inaccessible to most Americans. Without reform, the U.S. risks cementing a two-tiered financial system: one for corporate insiders and institutions, and one for everyday investors.

Current rules use wealth as the chief measure of sophistication, reserving private-market opportunities for the wealthy elite while excluding millions of hardworking Americans with the knowledge and experience to make informed investment decisions.

Background

The last major legislative effort to improve capital formation was the bipartisan *JOBS Act of 2012*, which successfully reduced barriers for small and emerging companies and created new pathways for growth. Since then, regulatory burdens have only grown heavier, falling hardest on smaller firms that lack the scale of Wall Street giants. These one-size-fits-all requirements discourage startups from pursuing Initial Public Offerings (IPO), push companies to remain private longer, and make it harder for local entrepreneurs to attract investment.

The *JOBS Act* demonstrated how targeted reforms actually work. Title I created the Emerging Growth Company (EGC) category, easing the path for small companies to transition to the public market. Title III legalized investment crowdfunding, unlocking new funding sources for startups. Title IV expanded Regulation A, giving small issuers an alternative to costly public offerings. These reforms proved that updating securities laws can unleash growth, but more than a decade later, their promise has been eroded by inflation, outdated thresholds, and a more aggressive regulatory posture at the Securities and Exchange Commission (SEC) in recent years. **The need for capital formation legislation is clear.**

At the same time, investor access has failed to modernize. The accredited investor definition relies on outdated wealth tests that exclude qualified professionals, teachers, engineers, veterans, and others with real-world expertise. Meanwhile, Americans saving for retirement face unnecessary restrictions,

which narrow their choices and increase costs.

In a competitive global economy, the strength of our capital markets is not guaranteed. Unless Congress updates securities laws to reflect modern realities, the U.S. will continue to cede ground to foreign markets and limit the ability of ordinary Americans to share in the nation's economic growth. The *INVEST Act* builds on the success of the *JOBS Act* by expanding access to capital for entrepreneurs, increasing opportunities for investors, and restoring the vitality of U.S. public markets.

The INVEST Act Expands Access to Capital for Small Businesses

Entrepreneurs beyond the coasts and first-time founders face disproportionate hurdles that can be eased by rightsizing compliance and clarifying early-stage fundraising rules. The *INVEST Act* makes it easier for startups to use crowdfunding by raising the threshold that triggers costly accountant reviews, giving small firms greater flexibility to attract early investors. Today, the crowdfunding threshold sits at \$100,000, a level set years ago that forces many startups to bear disproportionate accounting costs for modest capital raises. The *INVEST Act* raises that level to \$250,000, with the potential for further adjustments, ensuring that the law reflects economic reality.

Similarly, the *Investment Advisers Act* exemption threshold for venture funds has remained frozen at \$150 million for more than a decade. Because capital to small businesses often flows through smaller, specialized advisers, the bill raises the threshold to \$175 million and locks in inflation indexing, so small advisers serving niche markets are not gradually regulated out of existence.

The *INVEST Act* also clarifies that company presentations at sponsored events do not by themselves constitute "general solicitation," allowing founders to pitch without inadvertently violating securities laws. These are targeted, practical adjustments, but together they represent meaningful relief for small firms.

The *INVEST Act* also updates the definition of a "qualifying venture capital fund," raising the permissible size of such funds from \$10 million to \$50 million and lifting the cap on investors from 250 to 500. This change reflects the scale of modern venture capital while preserving the core guardrails that distinguish these funds from larger pooled vehicles. By expanding the ability of regional and first-time managers to raise capital, this provision helps ensure that entrepreneurs outside Silicon Valley and New York can connect with the financing they need.

These reforms are matched by institutional changes inside the SEC to keep small business needs front-of-mind. The *INVEST Act* creates Offices of Small Business within the Divisions of Corporation Finance, Investment Management, and Trading & Markets to coordinate with the Advocate for Small Business Capital Formation.

It also requires regular reporting on rural-area small business challenges and directs a study and follow-on rulemaking to update the definition of "small entity," with future rules explicitly considering small-business impacts. Together, this framework ensures that small businesses' concerns are fully integrated into the Commission's day-to-day work.

The INVEST Act Increases Opportunities for Investors

Washington has tied access to private markets to wealth for decades, reserving opportunities for those who already have them. Wealth-based thresholds for accredited investor status have been in place since 1982, with minimal adjustment for inflation.

As a result, a rule originally designed to cover only the richest Americans has ballooned into a blunt instrument that excludes skilled professionals like Certified Public Accountants, Chartered Financial Analysts, and veterans with financial training, while including others whose wealth may not reflect financial sophistication. The *INVEST Act*'s approach corrects this imbalance by tying market access to ability rather than arbitrary dollar figures. It also directs the SEC to create an exam-based pathway, providing a skills-based route for qualified Americans to participate in private offerings.

The legislation widens retirement choice and parity by aligning what 403(b) plans can hold with the broader range of investments available to 401(k)s. It also authorizes electronic delivery of required disclosures with safeguards and opt-outs so investors receive timely, useful information.

To protect the most vulnerable, the *INVEST Act* establishes a Senior Investor Taskforce at the SEC and requires a Government Accountability Office (GAO) study on financial exploitation, focusing resources where abuse is most prevalent. Finally, by removing arbitrary limits on closed-end funds' investments in private funds, the *INVEST Act* expands vehicles through which retail investors can access professionally managed exposure to private markets.

Together, these measures broaden access, protect retirement savers, and democratize wealth-building by ensuring that all Americans—not just a privileged few—have the chance to participate in America's growth.

The *INVEST Act* Strengthens Public Markets

Reversing the long slide in U.S. listings requires making it faster, simpler, and more practical for companies, especially smaller issuers, to go and stay public.

The *INVEST Act* updates EGC provisions by reducing the financial history required in initial filings from three years to two and preserves phase-in benefits longer, ensuring that companies are not punished for their success. Confidential submission of draft registration statements, a process once limited to foreign issuers, is made available broadly, giving firms the ability to refine disclosures without the reputational risk of a failed IPO. By making "testing the waters" available to all issuers, companies can gauge demand before committing to the full expense of an offering. The *INVEST Act* also requires GAO, in consultation with the SEC and the Financial Industry Regulatory Authority, to examine underwriting and IPO fees, shining light on structural costs that deter offerings.

The *INVEST Act* expands Well-Known Seasoned Issuer (WKSII) eligibility by lowering the public-float requirement to \$400 million from \$700 million and enhancing transparency around waiver activity. By increasing WKSII eligibility, roughly 400 more public companies will be able to use streamlined shelf-registration, making it easier to raise secondary capital in U.S. markets.

The *INVEST Act* also updates investment-company disclosure of Acquired Fund Fees and Expenses (AFFE) so investors receive clearer, more meaningful cost information. Current AFFE requirements often distort expense ratios for funds that invest in business development companies or funds-of-funds, discouraging managers from offering products that could benefit retail investors. By reforming these rules, the *INVEST Act* ensures that disclosure remains meaningful while avoiding misleading distortions.

Bottom Line: The *INVEST Act* lowers barriers to capital, strengthens small business financing, and allows everyday investors—not just Wall Street insiders—to share in the growth of America's most innovative companies.