



Capital Formation Agenda

House Financial Services Committee Republicans

Ten years ago, a divided Congress came together to pass bipartisan legislation to help entrepreneurs and small businesses access capital. The bipartisan Jumpstart Our Business Startups Act of 2012 (JOBS Act) reduced regulatory barriers and created new opportunities in our securities laws to help entrepreneurs raise funds.

Despite the JOBS Act's success, there is more work to be done. Increased regulatory and compliance costs continue to restrict everyday Americans' access to our capital markets. These costs discourage early-stage companies from going public. They also disproportionately burden small businesses and other job creators in need of capital. At the same time, Democrats have effectively reserved our private markets for only wealthy Americans – shutting out most individuals from additional investment opportunities.

Committee Republicans have identified commonsense, forward-thinking reforms, as described in the JOBS Act at 10 **roundtable** and **report**, that will strengthen public markets; help small businesses and entrepreneurs; and increase opportunities for all investors. These commonsense reforms will produce long term, sustainable economic growth.

Strengthening Our Public Markets

Increased regulatory and compliance costs make it harder for companies to enter and stay in our public markets. The Gensler SEC is making it even more difficult for companies by promulgating rules that impose unnecessary disclosure mandates on companies that are contrary to decades of established law.

Committee Republicans will focus on policies that unleash our public markets, making them more attractive to all businesses. These policies include:

- H.R. 294, the ***Encouraging Public Offerings Act***, introduced by Rep. Budd, which would allow all issuers to test-the-waters with potential investors, either before or after filing a registration statement. It would also allow issuers to submit a confidential draft registration statement for review prior to public filing or within one year after the initial public offering or registration. This will provide the statutory certainty needed to ensure the SEC cannot rescind recent regulatory improvements to the initial public offering (IPO) process;
- H.R. 3448, the ***Helping Startups Continue to Grow Act***, introduced by Rep. Steil, which would extend certain exemptions and reduce disclosure requirements for companies that were emerging growth companies (EGCs) but are still not fully mature. H.R. 3448 recognizes the differences between emerging and established companies and tailors the disclosure requirements accordingly; and
- Other initiatives that would increase efficiencies in filing and pricing for EGCs, as well as reduce compliance costs. This includes ideas like **reducing** the minimum time between the first public filing and IPO pricing; **allowing** a spin-off of an EGC to benefit from the two-year financial statement accommodation that currently only applies to IPO registration; **clarifying** that EGCs can consistently rely on scaled disclosure requirements; and **permitting** the auditor of an issuer transitioning to public company status to comply with SEC and PCAOB independence rules for only the latest fiscal year.

Helping Small Businesses and Entrepreneurs

Regulatory burdens and increased bureaucracy also create barriers that keep small businesses and entrepreneurs from accessing capital and achieving their potential. This is especially true in



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underserved communities. Committee Republicans will focus on policies that support, rather than discourage, small businesses and entrepreneurs. These policies include:

- H.R. 5458, the ***Small Entrepreneurs Empowerment and Development (SEED) Act***, introduced by Ranking Member McHenry, which would create a burden free regulatory regime for small equity offerings without the threat of SEC litigation. Many small-dollar entrepreneurs have trouble raising capital and do not have access to loans from banks. Instead of forcing them to either violate the securities laws or run up credit card debt, a micro-offering exemption would allow non-fraudulent equity offerings of up to \$250,000 without regulatory requirements;
- H.R. 4243, the ***Improving Capital Allocation for Newcomers (ICAN) Act***, introduced by Rep. Timmons, which would expand exemption opportunities for venture capital funds by raising the threshold for capital contributions and increasing the number of allowable investors. These changes would allow venture capital fund managers to take advantage of the ability to induce a larger number of investors to invest by means of general solicitation; and
- The ***Unlocking Capital for Small Businesses Act***, which was introduced in previous Congresses. This bill supports smaller private companies by exempting “finders,” or those individuals who help private companies identify investors but don’t handle funds or securities, from SEC broker registration. It is policies such as this that will better help small private companies to find investors.

Increasing Opportunities for Investors

Committee Republicans believe investing in the most high-growth companies should not be limited to the elite or wealthy. As a result, we will focus on policies that make investment opportunities in our private markets available to all Americans. Our policies that expand investment opportunities to Americans who have historically been relegated to the investing sidelines will facilitate capital formation for a more diverse universe of entrepreneurs and founders. These policies include:

- H.R. 4262, the ***Increasing Investor Opportunities Act***, which was introduced by Rep. Gonzalez. Currently, retail investors do not have access to products that allow them to invest in private companies, where much of the company’s growth occurs. This bill would provide new investment opportunities for everyday investors by allowing publicly offered closed-end funds (CEFs) to invest up to all its assets in private securities;
- H.R. 2990, the ***Gig Worker Equity Compensation Act***, introduced by Ranking Member McHenry. Technology is changing the way Americans think about work. In fact, between 2000 and 2020, the gig economy grew by 15 percent. Yet, states like California don’t want to recognize this transformation and want to turn gig workers into traditional employees. Policies such as H.R. 2990 recognize the new reality of workers and ensure they can participate fully in the growth of companies; and
- Policies that allow more Americans to access our private markets. Barriers such as the arbitrary accredited investor definition keep many Americans from the most high-growth investment opportunities. This in turn keeps smaller entrepreneurs from much needed capital.
 - We should focus on policies such as **expanding** the accredited investor definition to include any person who invests not more than 10 percent of the greater of his or her annual income or net assets, among others. This proposal would increase investment opportunities and achieve greater diversity among startup investors and entrepreneurs without compromising investor protection.