

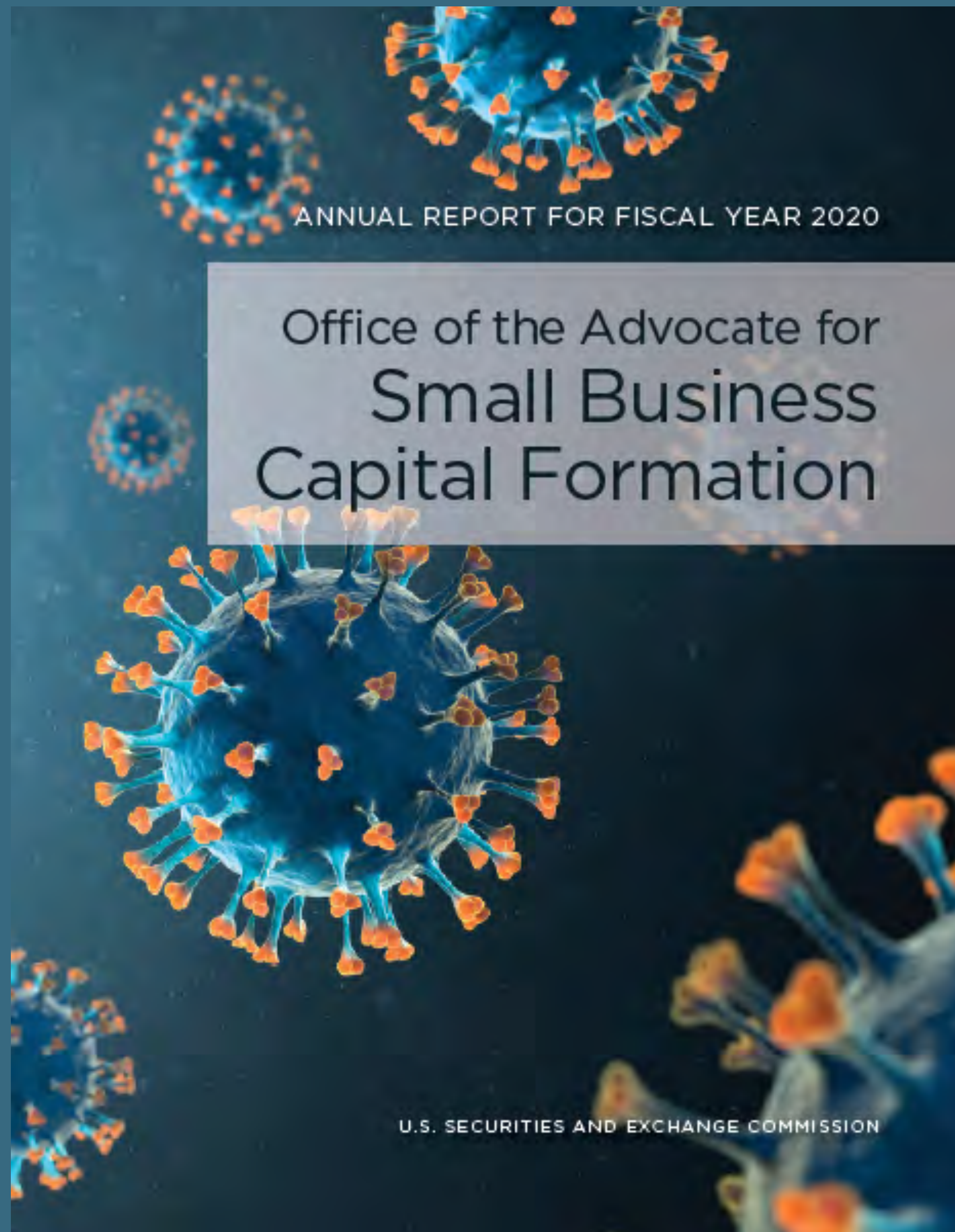


U.S. Securities & Exchange Commission's
**Office of the Advocate for Small
Business Capital Formation**

Overview of FY2020 Annual Report

January 29, 2021

Disclaimer: The views expressed in this presentation are the speakers' own and do not necessarily reflect those of the Commission, Commissioners, or Commission Staff.



Download a copy of the
FY2020 Annual Report on our
webpage at
www.sec.gov/oasb.

Direct report download [here](#).

Presentation Preview

- ▶ Highlights from FY2020
- ▶ Capital Raising Trends
 - Demographic Trends
 - COVID-19 Impacts
- ▶ Policy Priorities
 - Challenges of Offering Complexity and Friction
 - Bridging Networks between Founders and Investors
 - Diversifying Access to Capital
 - Attractiveness of Public Markets
- ▶ Q&A

FY2020 was a busy year...

National Veterans Small Business Coalition. **Keynote address** on trends and opportunities for Veteran entrepreneurs and solicitation of feedback.



Keynote address at National Venture Capital Association's Strategic Operations & Policy Summit.

Joined Institute of Management Accountants Small Business Committee Meeting to discuss top accounting issues faced by advisors to small businesses.

Office hosts its first **Capital Call** styled after earnings release calls to explore inaugural annual report.

Kenan Institute Frontiers of Entrepreneurship Conference. Panel discussion with academics and thought-leaders on JOBS Act and small business capital formation.



Virtual Coffee Break: **Online Investment Capital Raising**. Discussion for small businesses and investors considering new strategies to bridge their networks.

Virtual Coffee Break with National Small Business Association. Discussion with businesses from a wide range of industries on what they are seeing in the market.

Keynote speech at Angel Capital Association Summit. Discussion with angel investors from across the country.

Virtual Policy Discussion: Policy and Business with Middle Market Private Companies & Late-Stage Investors. Discussion on how to lead in crisis and position a company for growth.



Virtual Panel Discussion on Small Businesses in the Public Markets. Discussion on the experience of small, public companies traded over the counter.

WOCStars and Superwomen podcast interviews with the Office air.

Office joins Inside the Icehouse for first podcast recording.

HBCU Outreach Event at Morehouse College. Panel discussion on best practices for minority businesses to attract investment capital.



California Bay Area Listening Tour. Attended AfroTech, met with founders, investors, and other key players in early-stage and growth capital infrastructure.

Roundtable with Miami entrepreneurs and investors on raising capital in partnership with the Miami-Dade Beacon Council.



Brookings Institution's "The Devaluation of Businesses in Black Communities" - panel discussion on challenges faced by business owners in minority communities in accessing capital.



Workshop with iFundWomen to walk through pathways available to access investment capital.



Virtual Coffee Break with National Diversity Coalition and U.S. Small Business Administration. Discussion on how COVID-19 is impacting raising capital.

Virtual Coffee Break with New America Alliance. Discussion with entrepreneurs dedicated to advancing economic development of the American Latino community.

Virtual Coffee Break with the National Association of Securities Professionals. Discussion and solicitation of feedback on inclusion in the financial services industry.

Virtual Coffee Break with StartOut. Discussion of issues encountered by LGBTQ+ entrepreneurs and data on impacts of exclusion.



Entire SEC Small Business Forum conducted virtually.

Q1 FY2020

Q2 FY2020




Q3 FY2020

Q4 FY2020

Small Business Capital Formation Advisory Committee FY2020 Summary




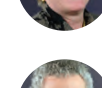
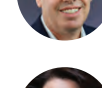









The Small Business Advocate Act established the SEC's Small Business Capital Formation Advisory Committee (Committee).²²⁶ The Committee provides a formal mechanism for the Commission to receive advice and recommendations on Commission rules, regulations, and policy matters affecting small businesses, from emerging, privately-held companies to publicly-traded companies with less than \$250 million in public market capitalization; trading in securities of such companies; and public reporting and corporate governance of such companies. The Office provides administrative support for the Committee, which otherwise functions independently.

In April 2019, the Commission appointed the inaugural members of the Committee.²²⁷ The membership includes companies and investors from across a diverse set of experiences, industries, geographies, and company life cycle stages. In FY2020, two inaugural members of the Committee resigned: Terry McNew and Karen Mills. In addition, Melanie Senter Lubin succeeded Michael Pieciak's service as the North American Securities Administrators Association's representative, and William Manger succeeded Joseph Shephard as the Small Business Administration's representative. The Commission is grateful for their service and commitment to small businesses and their investors. Two new members were appointed by the Commission in FY2020 to fill vacancies: Keshia Cash and Sue Washer.²²⁸ The members of the Committee as of the end of FY2020 are as follows:

-  CARLA GARRETT, Chair
Corporate Partner,
Potomac Law Group PLLC
Washington, DC
-  JEFFREY M. SOLOMON,
Vice Chair
Chief Executive Officer, Cowen, Inc.
New York, NY
-  GREGORY YADLEY, Secretary
Partner, Shumaker, Loop &
Kendrick, LLP
Tampa, FL

-  YOUNGRO LEE, Assistant Secretary
CEO and Co-Founder,
NextSeed
Houston, TX
-  KESHA CASH
Founder and General Partner,
Impact America Fund
Oakland, CA
-  GREG DEAN,
Senior Vice President of the Office
of Government Affairs, FINRA
Washington, DC

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-  ROBERT FOX
National Managing Partner,
Professional Standards Group,
Grant Thornton LLP
Chicago, IL
-  STEPHEN GRAHAM
Co-Chair, Fenwick & West LLP's Life
Sciences Practice
Seattle, WA
-  SARA HANKS
CEO and Co-Founder,
CrowdCheck, Inc.
Alexandria, VA
-  BRIAN LEVEY
Chief Business Affairs and Legal
Officer, Upwork Inc.
Santa Clara, CA
-  MELANIE SENTER LUBIN*
Maryland Securities Commissioner
for the Securities Division, Office
of the Attorney General
Baltimore, MD
-  WILLIAM MANGER*
Chief of Staff and Associate
Administrator for the Office
of Capital Access, U.S. Small Business
Administration
Washington, DC
-  SAPNA MEHTA
General Counsel & Chief
Compliance Officer, Rise of
the Rest Seed Fund; Associate
General Counsel, Revolution
Washington, DC
-  MARTHA LEGG MILLER*
Director, Office of the Advocate for
Small Business Capital Formation,
U.S. Securities & Exchange
Commission
Washington, DC
-  CATHERINE MOTT
Founder and CEO of BlueTree
Capital Group, BlueTree Allied
Angels, and BlueTree Venture Fund
Pittsburgh, PA
-  POORVI PATODIA
CEO and Founder,
Bienna Snacks
Allston, MA
-  JASON SEATS
Chief Investment Officer,
Techstars
Austin, TX
-  MARC OORLOFF SHARMA*
Chief Counsel of the Office of the
Investor Advocate, U.S. Securities
& Exchange Commission
Washington, DC
-  HANK TORBERT
President,
AltaMax, LLC
New Orleans, LA
-  SUE WASHER
President and CEO, Applied Genetic
Technologies Corporation
Gainesville, FL

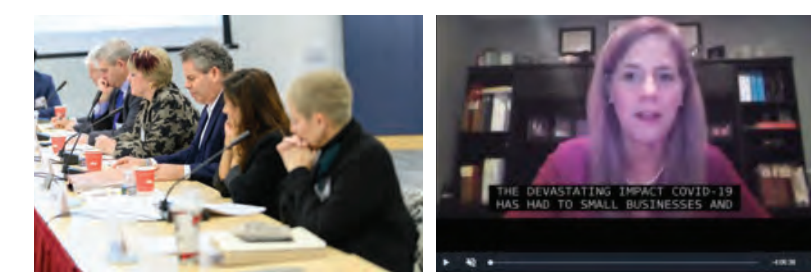
* Committee members include the SEC's Advocate for Small Business Capital Formation and three non-voting members appointed by each of the SEC's Investor Advocate, the North American Securities Administrators Association (NASAA), and the Small Business Administration, as well as an observer appointed by the Financial Industry Regulatory Authority (FINRA).

OFFICE OF THE ADVOCATE FOR SMALL BUSINESS CAPITAL FORMATION

Summary of Activities

The Committee met six times during FY2020: two in person, one telephonic, and three by video conference. Materials from meetings, including agenda, transcripts, and presentations, are available on the Committee's webpage.

Small Business Capital Formation Advisory Committee FY2020 Meetings	
November 12, 2019	Harmonization of the Exempt Offering Framework and Pooled Investment Funds
December 11, 2019	Harmonization of the Exempt Offering Framework (continued)
February 4, 2020	Exploration of Small Business Capital Markets Data and Challenges Faced by Small Businesses and Their Investors; and Local Capital Availability for Early-Stage Companies and the Role of Regional Funds
April 2, 2020	Ad Hoc Meeting in Response to COVID-19 Challenges Faced by Small Businesses
May 8, 2020	Capital Formation Proposal
August 4, 2020	Underrepresented Founders and Investors



[Top left] Members of the Committee discuss the exempt offering framework at the Committee's meeting at the SEC's Washington, DC headquarters on November 12, 2019.

[Top right] Chair Carla Garrett opens a video conference meeting. The Committee focused many of its discussions this year on the impacts of COVID-19 on small businesses.

[Bottom right] Members Jason Seats, Hank Torbert, Greg Dean, and Michael Pieciak engage in discussion.

ANNUAL REPORT: FISCAL YEAR 2020

Committee Recommendations

During FY2020, the Committee put forward the following six recommendations to the Commission:

Accredited Investor Definition

November 12, 2019

The Commission's Concept Release on Harmonization of Securities Offering Exemptions, Release No. 33-10649 (June 18, 2019) (Harmonization Concept Release)²²⁹ included a discussion of whether the SEC should amend the accredited investor definition. With respect to the definition of "accredited investor" as set forth in Securities Act Rule 501(a) of Regulation D, the Committee recommends that the Commission:

1. Leave the current financial thresholds in place, subject to possibly adjusting such thresholds downwards for certain regions of the country.
2. Going forward, index the financial thresholds for inflation on periodic basis.
3. Revise the definition to allow individuals to qualify as accredited investors based on measures of sophistication. In doing so, the Commission should create bright line rules for qualifying as an accredited investor by sophistication, which could include professional credentials, work experience, education, and/or a sophistication test.

RELEVANT COMMISSION ACTION

On December 18, 2019, as part of its broader effort to consider ways to harmonize and improve the exempt offering framework under the Securities Act of 1933 (Securities Act), the Commission proposed amendments to the definition of "accredited investor" under Regulation D of the Securities Act to add new categories of qualifying natural persons and entities and to make certain other modifications to the existing definition.²³⁰

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Recap of FY2020 Work of the Small Business Capital Formation Advisory Committee

Meet our team of advocates:



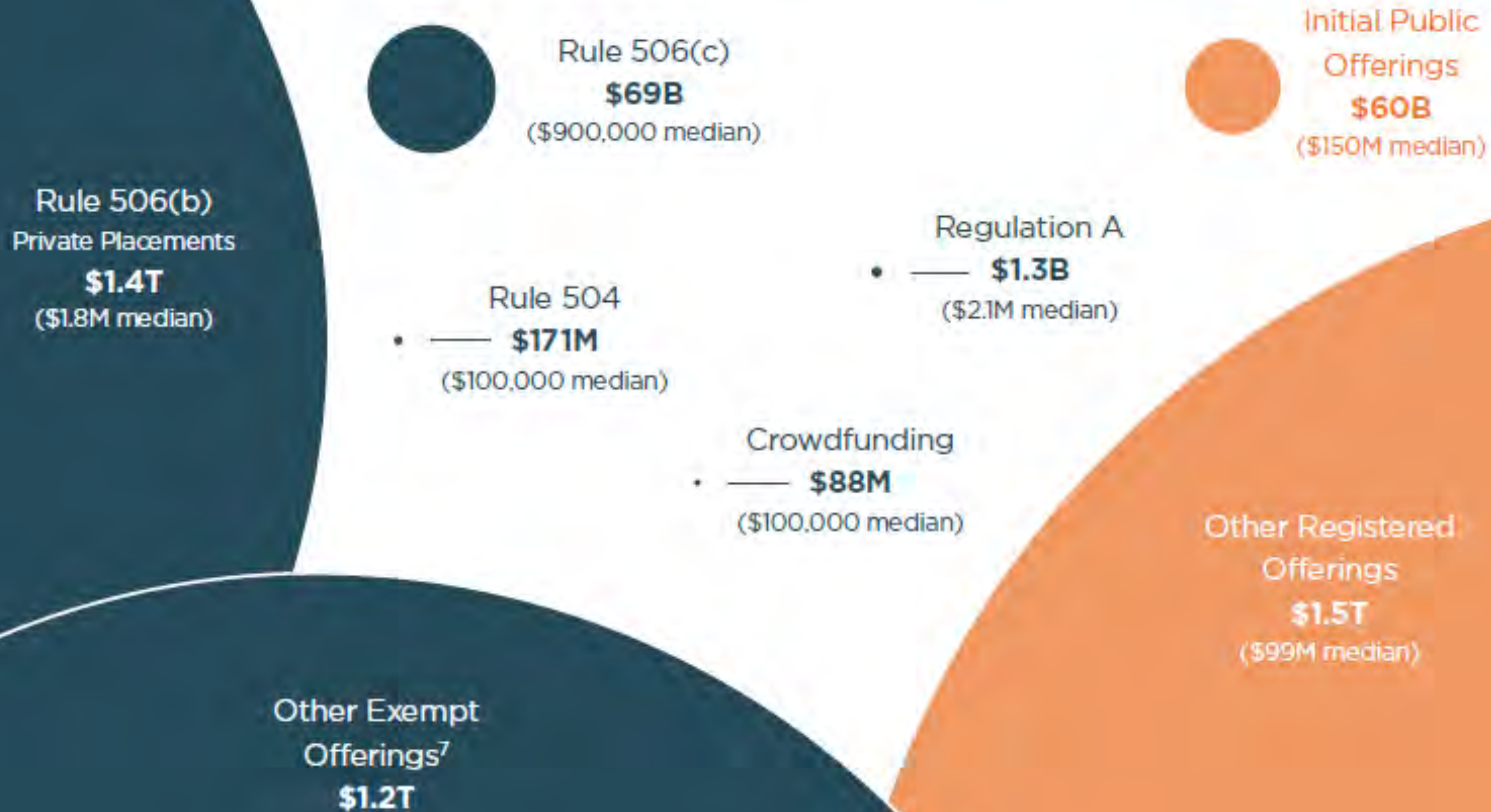
Data Sources

Unless otherwise indicated, data is derived from public filings with the SEC, as analyzed by the SEC's Division of Economic and Risk Analysis.

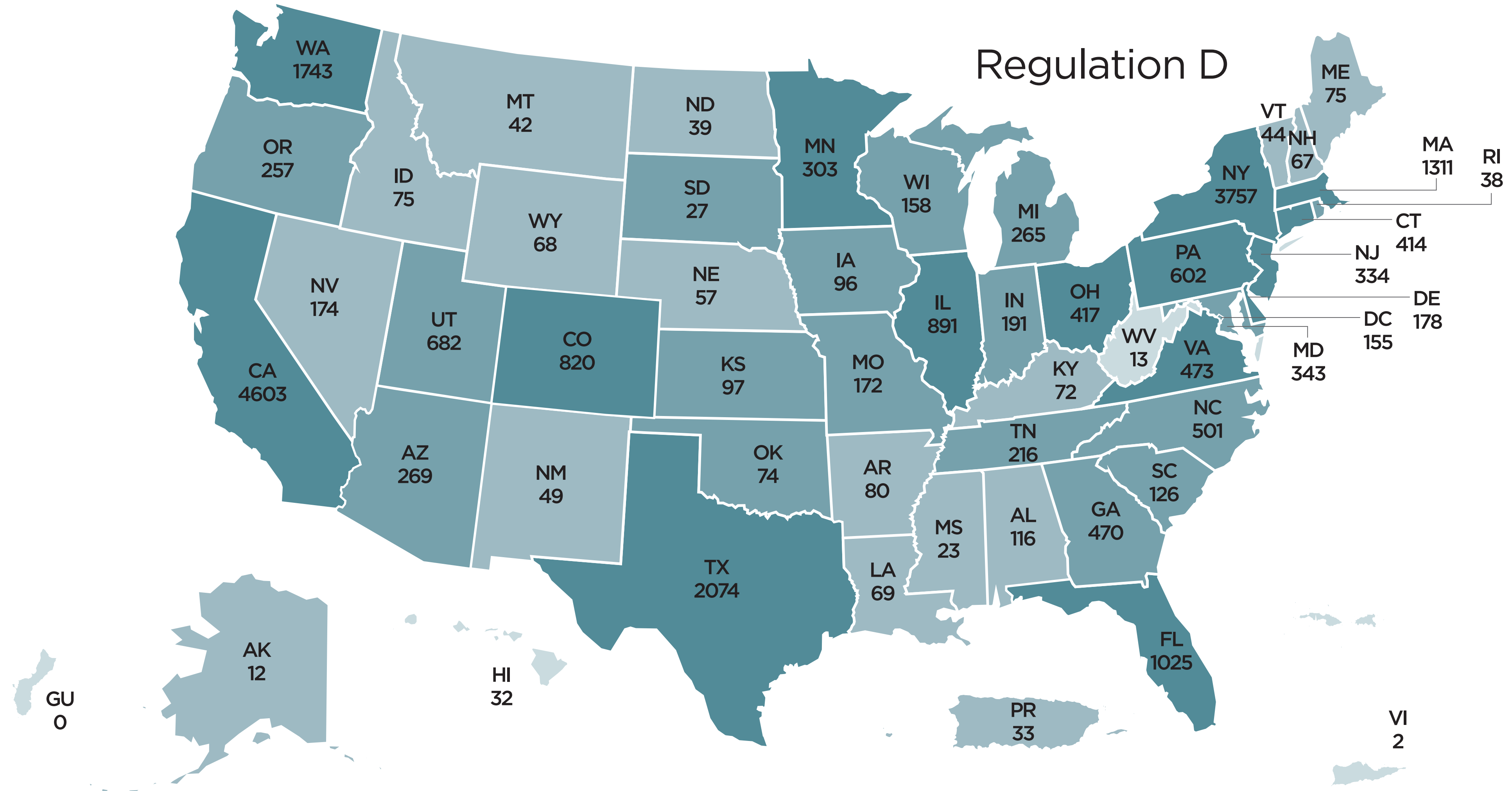
Full citations, explanations of, and links to referenced data are provided in the annual report, available at www.sec.gov/oasb.

CAPITAL RAISING TRENDS

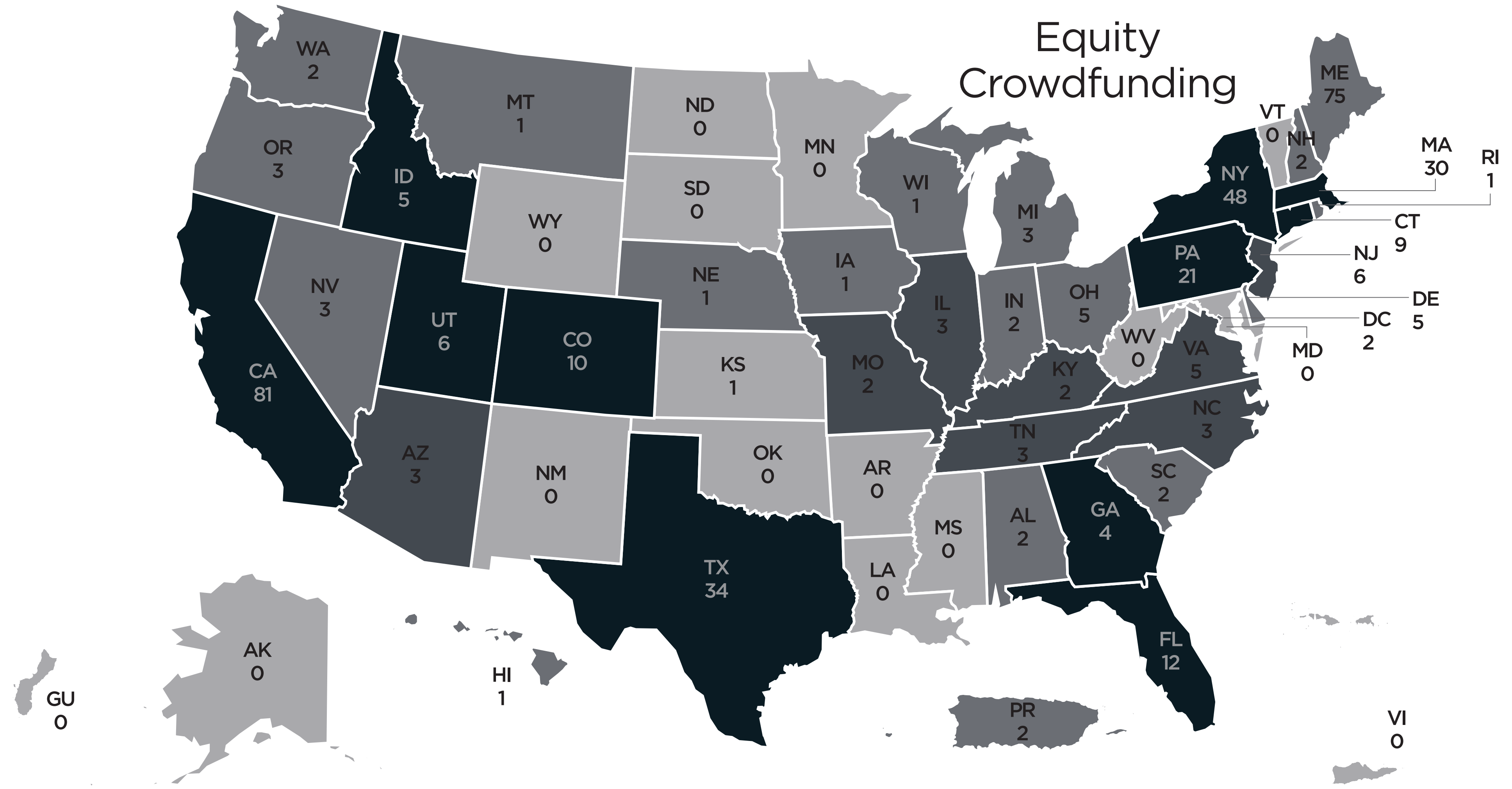
What regulatory pathways are companies using to raise capital?⁶



Where is capital being raised?

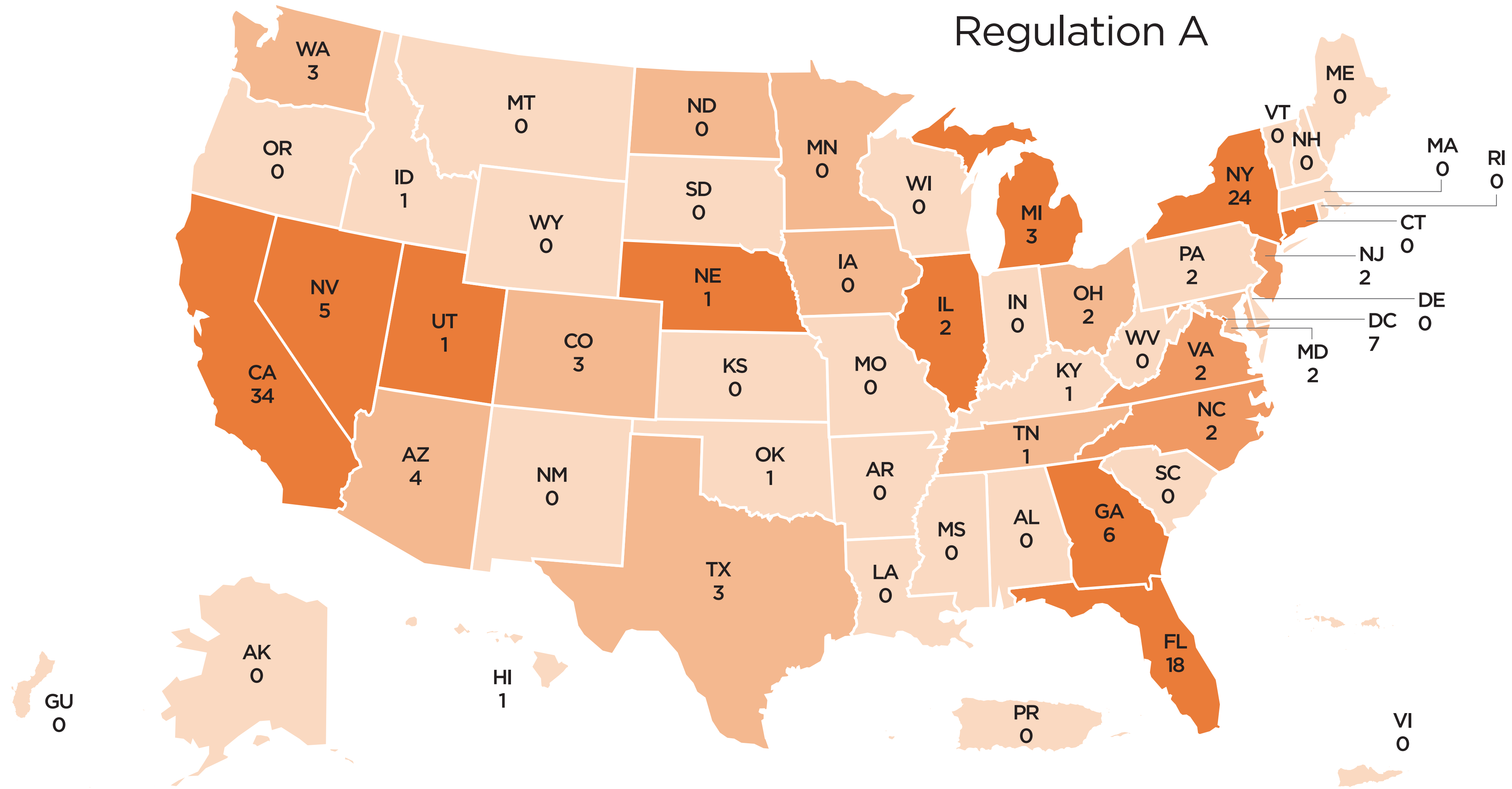


Where is capital being raised?



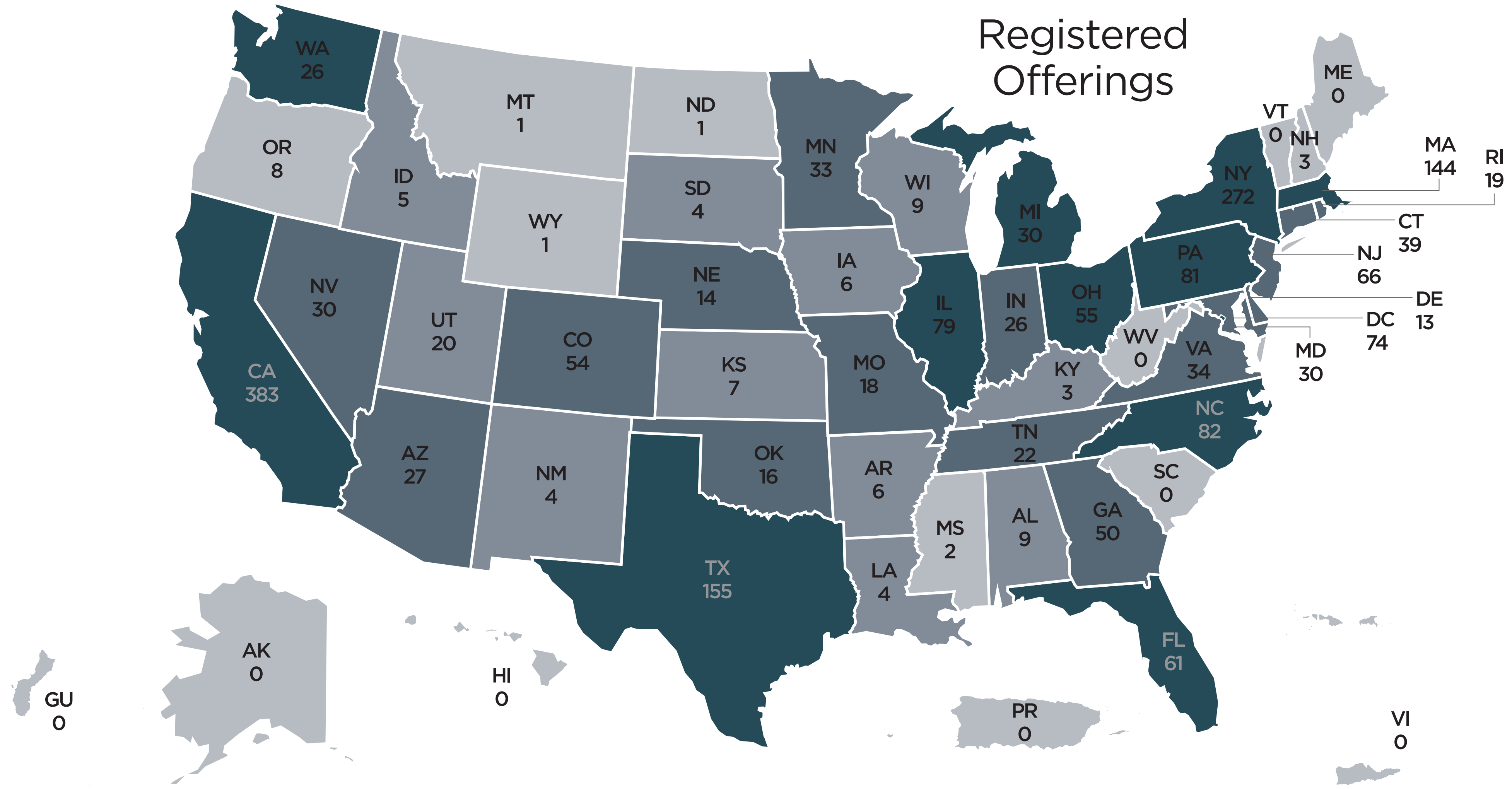
Where is capital being raised?

Regulation A



Source: See FY2020 Report p. 15.

Where is capital being raised?

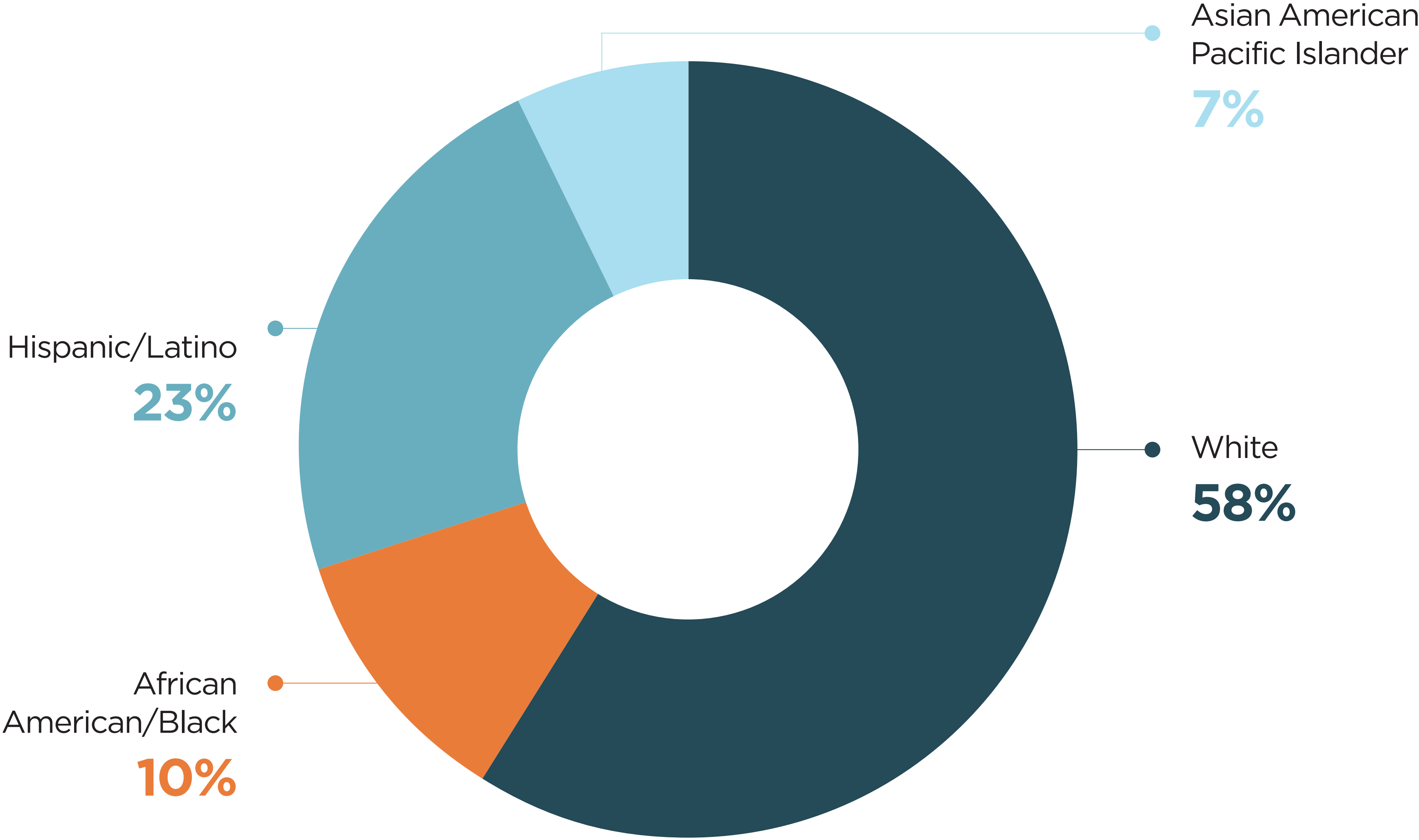


\$0 - \$300 MILLION
 \$300 MILLION - \$5 BILLION
 \$5 - \$20 BILLION
 \$20 - \$150 BILLION



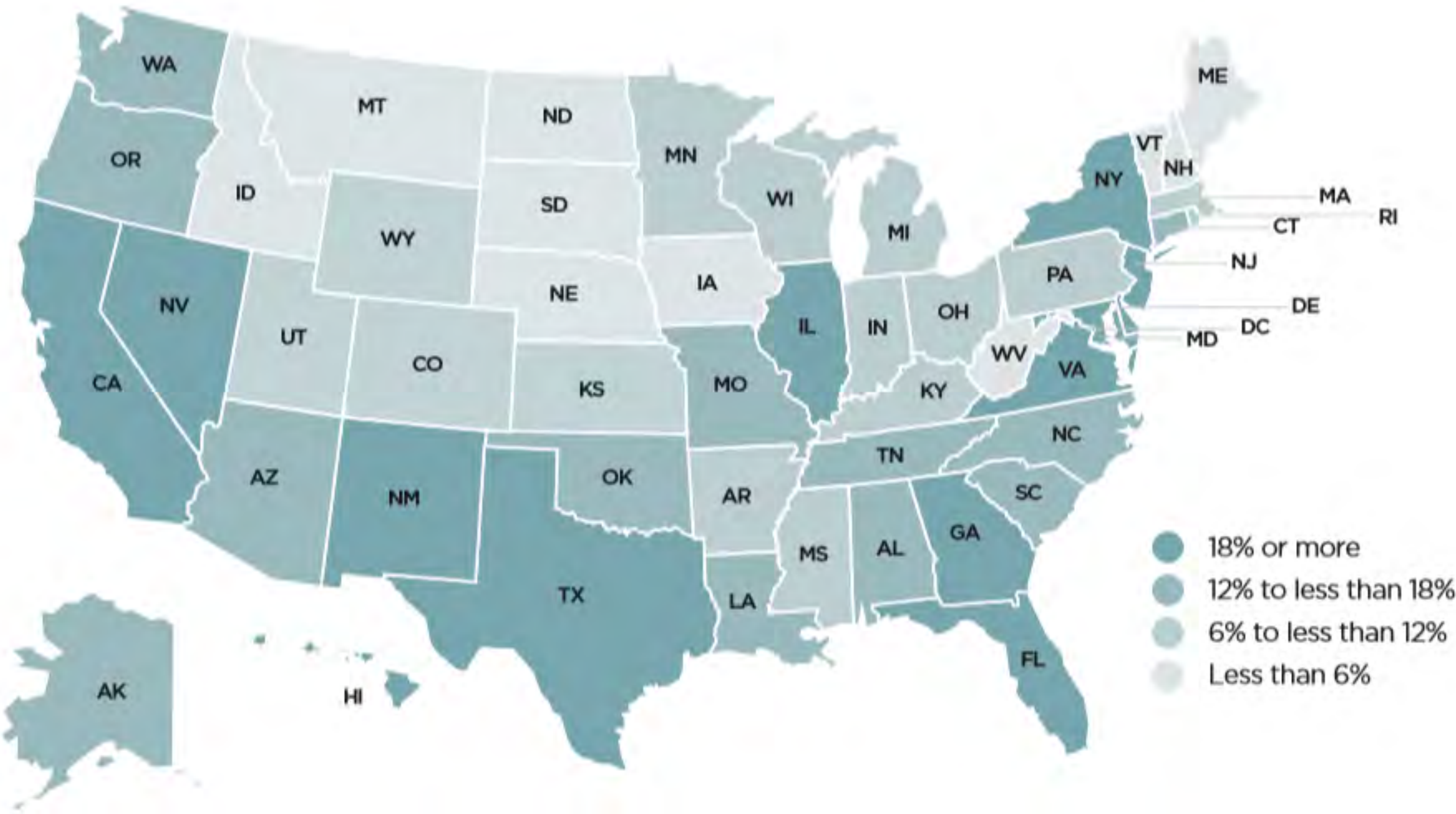
DEMOGRAPHIC TRENDS

Who are new entrepreneurs by race and ethnicity?



Source: See FY2020 Report p. 52; Ewing Marion Kauffman Foundation, "Who is the Entrepreneur? Race and Ethnicity, Age, and Immigration Trends among New Entrepreneurs in the United States, 1996-2019," (2020).

What percentage of employer firms are owned by minorities?



Source: See FY2020 Report p. 52; Small Business Administration Office of Advocacy, "Small Business Facts: Spotlight on Minority-Owned Employer Businesses," (May 2019).

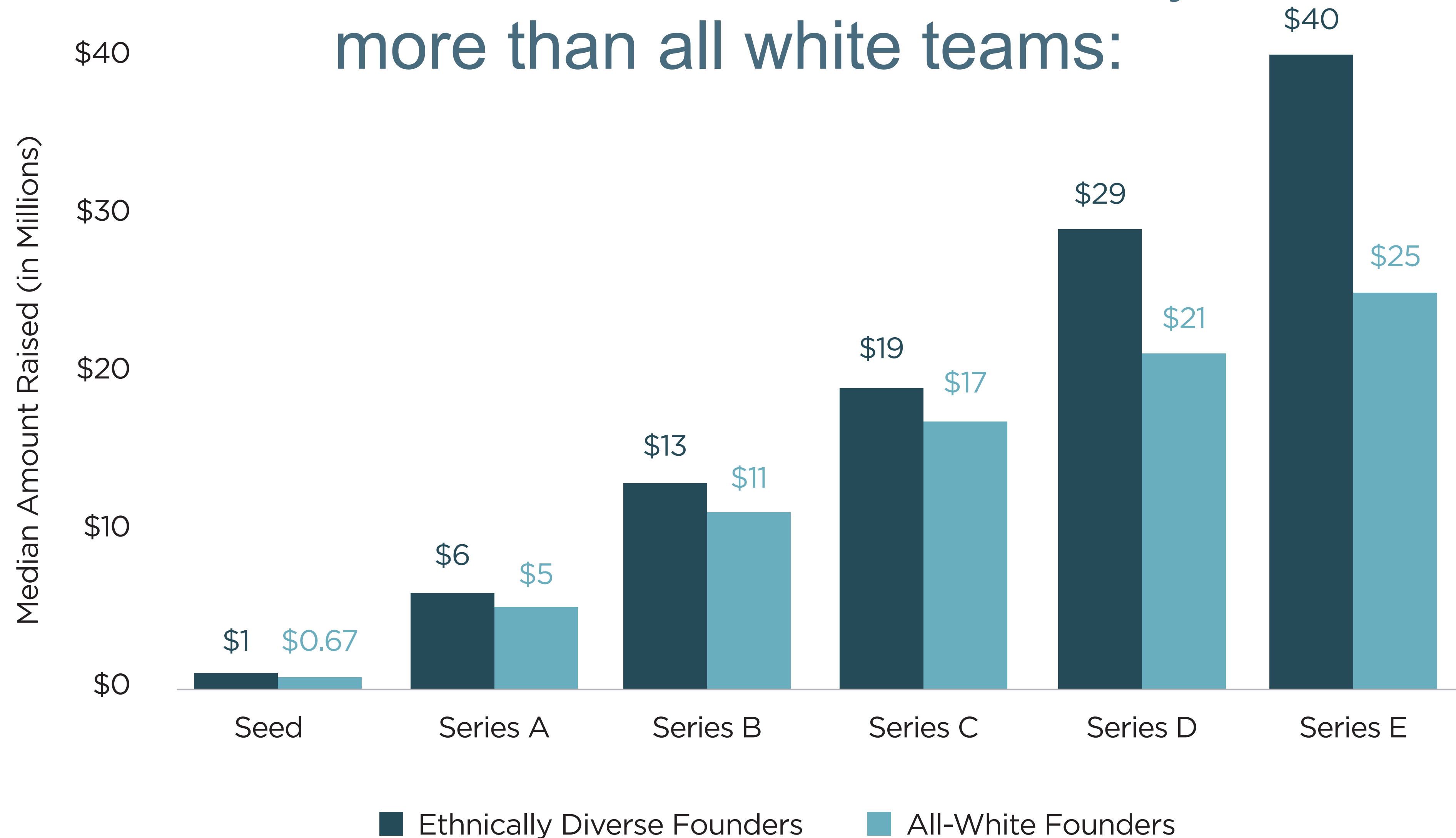
Minority-owned businesses face challenges accessing bank capital, leading to more financial restraints:

- ✓ More likely to use personal funds as primary funding source
- ✓ More likely to use personal funds in response to financial challenges
- ✓ Generally lower credit approval ratings
- ✓ Less frequently approved for full amount of loans

Minority founders raise less venture capital by headcount

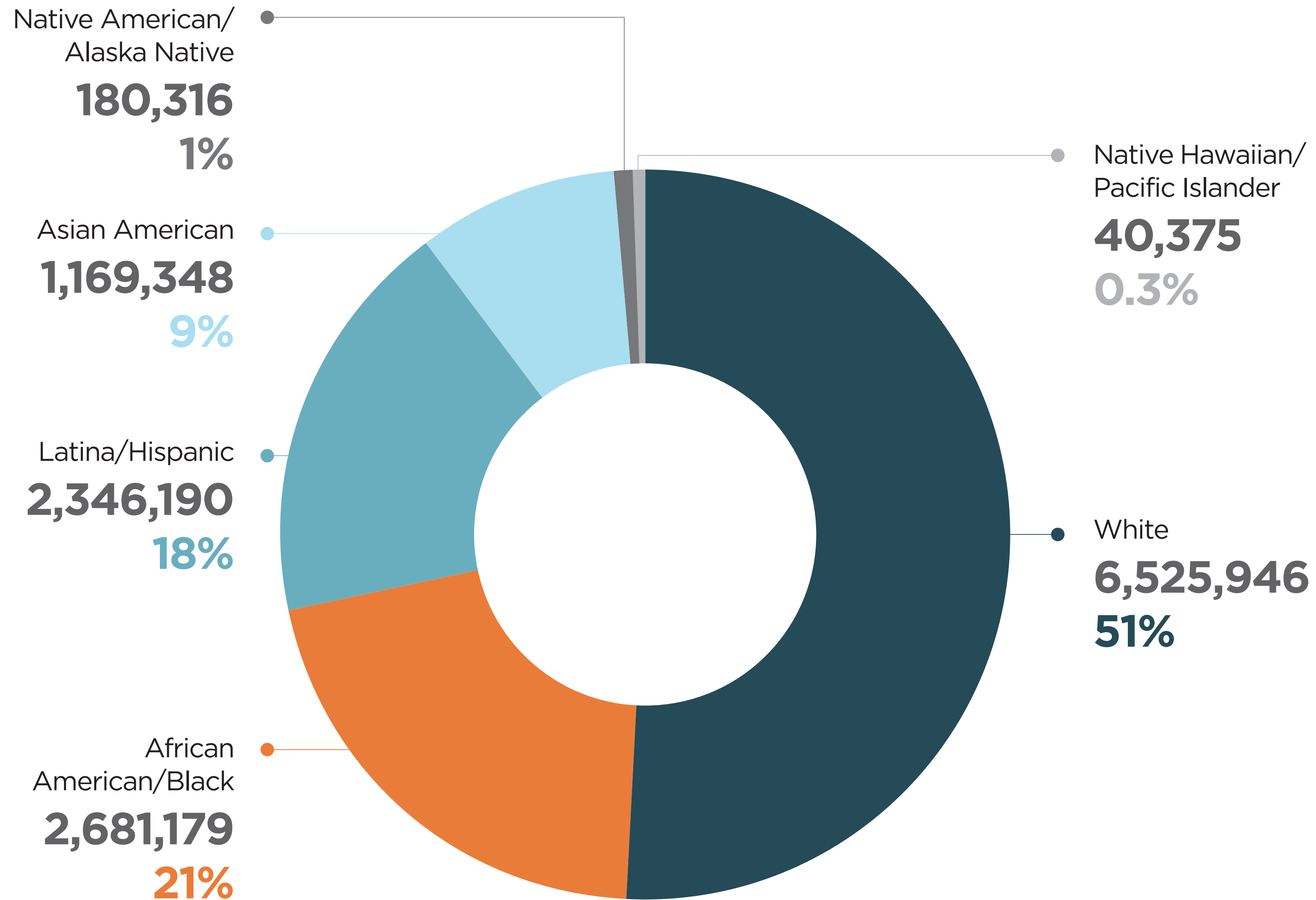


However, when diverse teams do raise, they tend to raise more than all white teams:



Source: See FY2020 Report p. 55; Marlon Nichols et al., “Deconstructing the Pipeline Myth and the Case for More Diverse Fund Manager,” Kauffman Fellows and MaC Venture Capital, (Feb. 2020).

The 13 million women-owned businesses include:



Women founders raise less venture capital by headcount

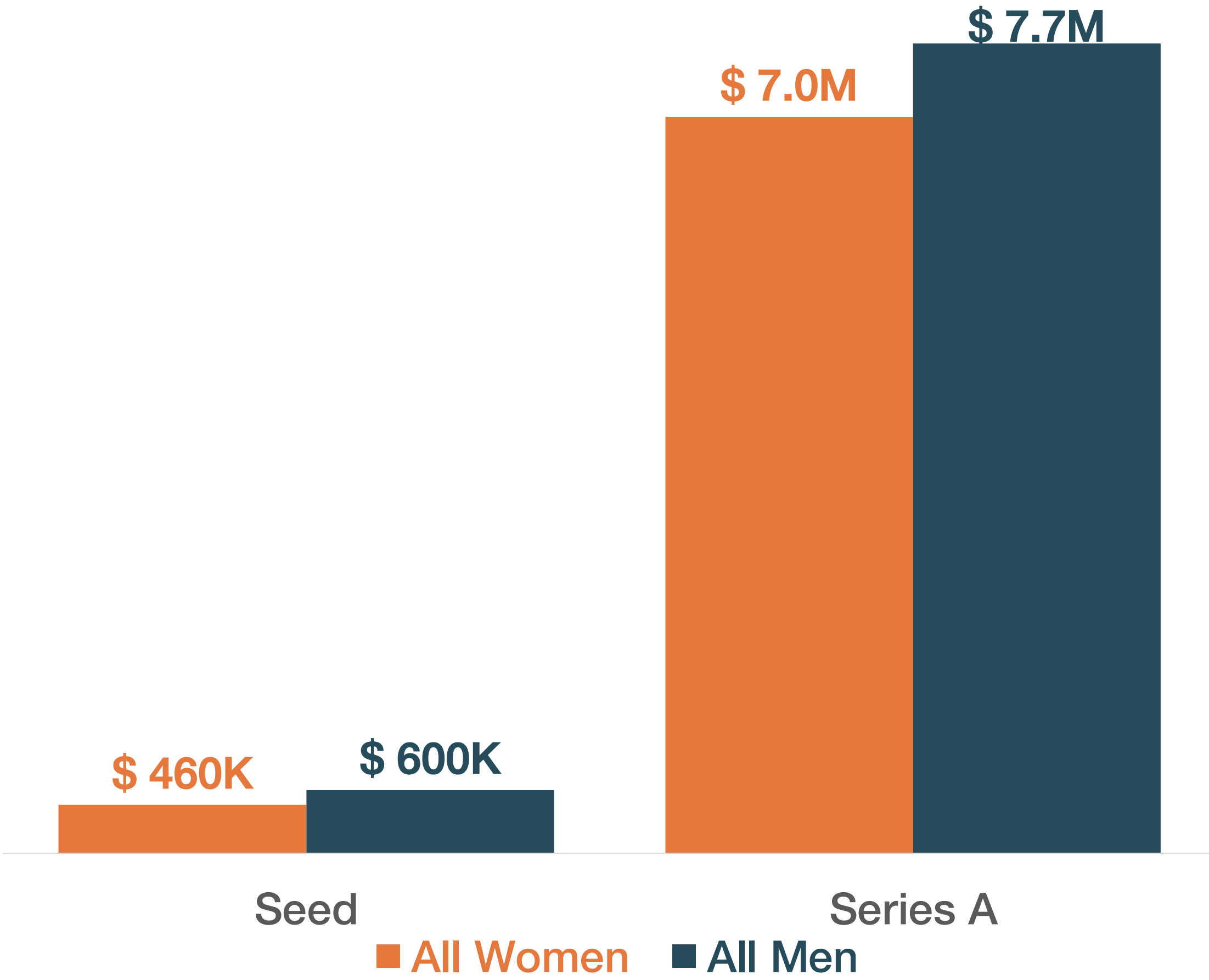


3% of dollars went to women-only founding teams,
and **9%** went to women/men co-founding teams.

Women-led founding teams raise less than their male peers



Lower median VC pre-money valuations in 2019



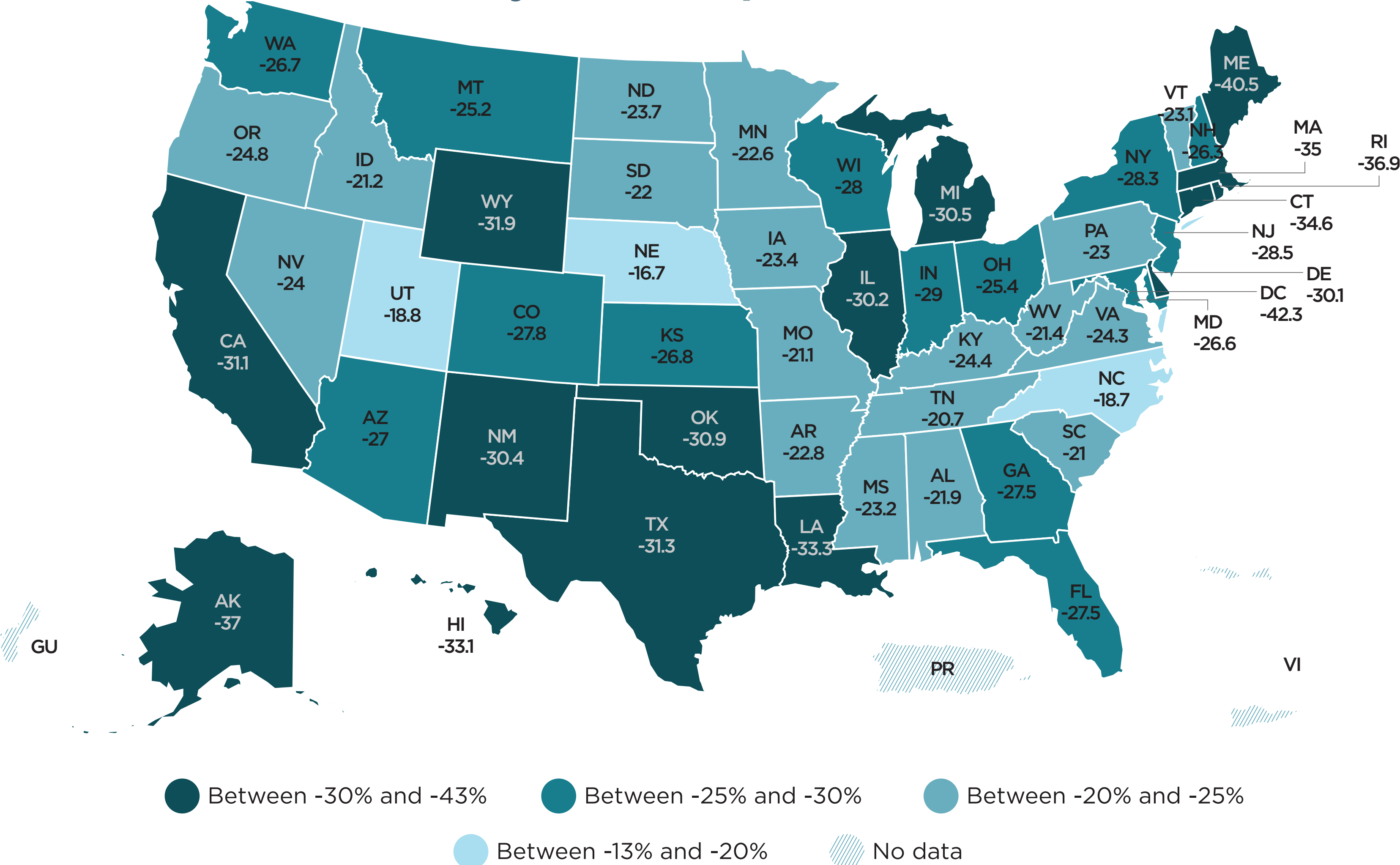
Lower median funding rounds in 2019

Source: See FY2020 Report p. 48; PitchBook-NVCA, "Venture Monitor Q4 2019," (Jan. 13, 2020); Crunchbase, "Funding to the Female Founders," (Mar. 2020).



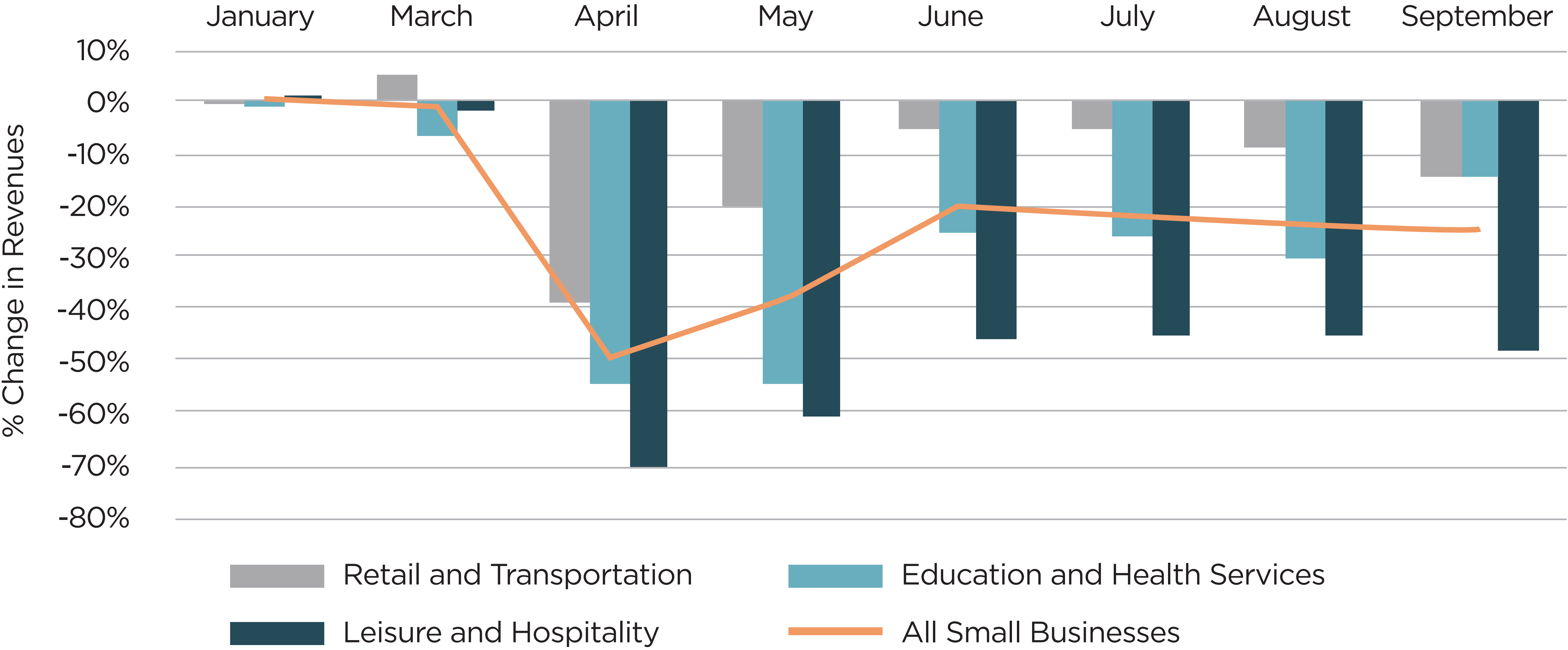
IMPACTS OF COVID-19 ON CAPITAL RAISING

Small businesses declined by 27% from January to September 2020



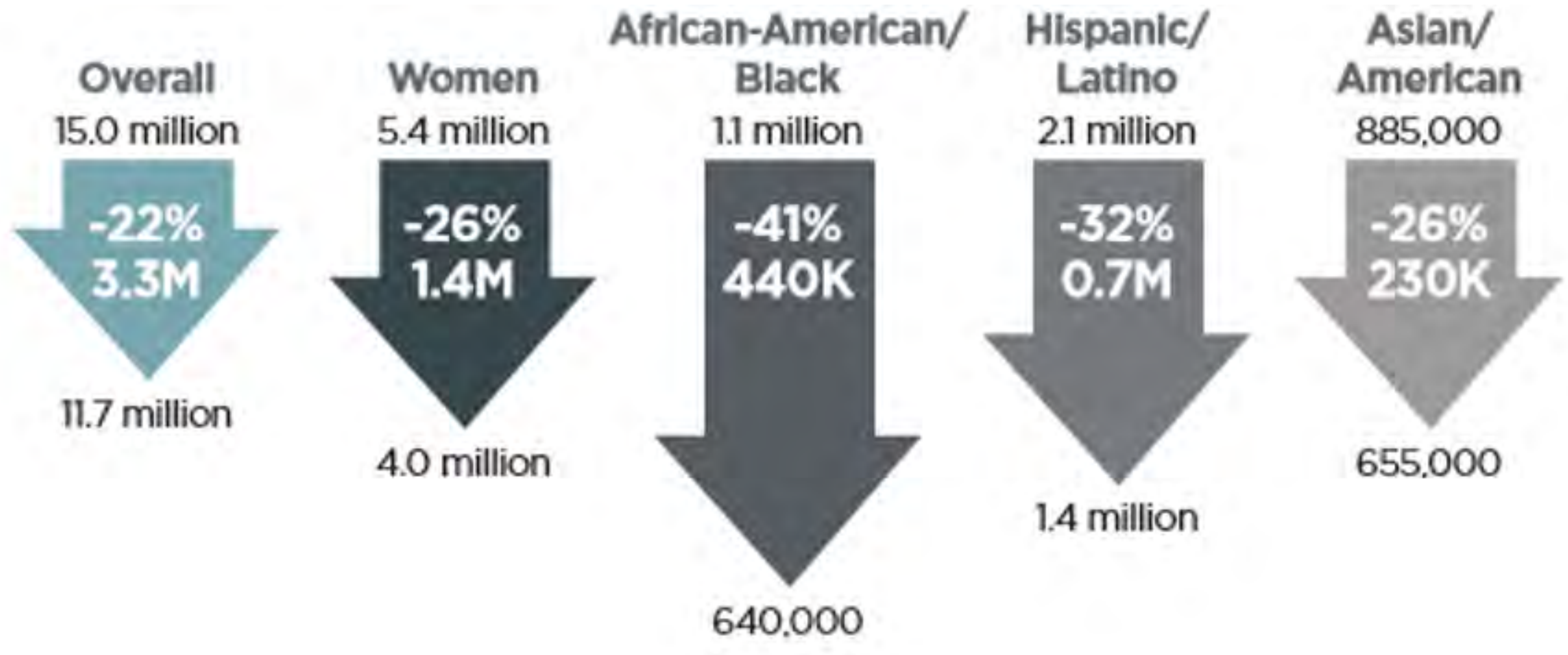
Source: See FY2020 Report p. 18; Raj Chetty et al., "The Economic Impacts of COVID-19: Evidence from a New Public Database Built from Private Sector Data," Opportunity Insights, (Sept. 2020).

Revenues declined dramatically after March 2020



Source: See FY2020 Report p. 19; Raj Chetty et al., "The Economic Impacts of COVID-19: Evidence from a New Public Database Built from Private Sector Data," Opportunity Insights, (Sept. 2020).

COVID-19 has highlighted and exacerbated preexisting inequities among historically underrepresented founders



POLICY PRIORITIES:

Challenges of Offering Complexity and Friction
Bridging Networks between Founders and Investors
Diversifying Access to Capital
Attractiveness of Public Markets

Policy Priority 1

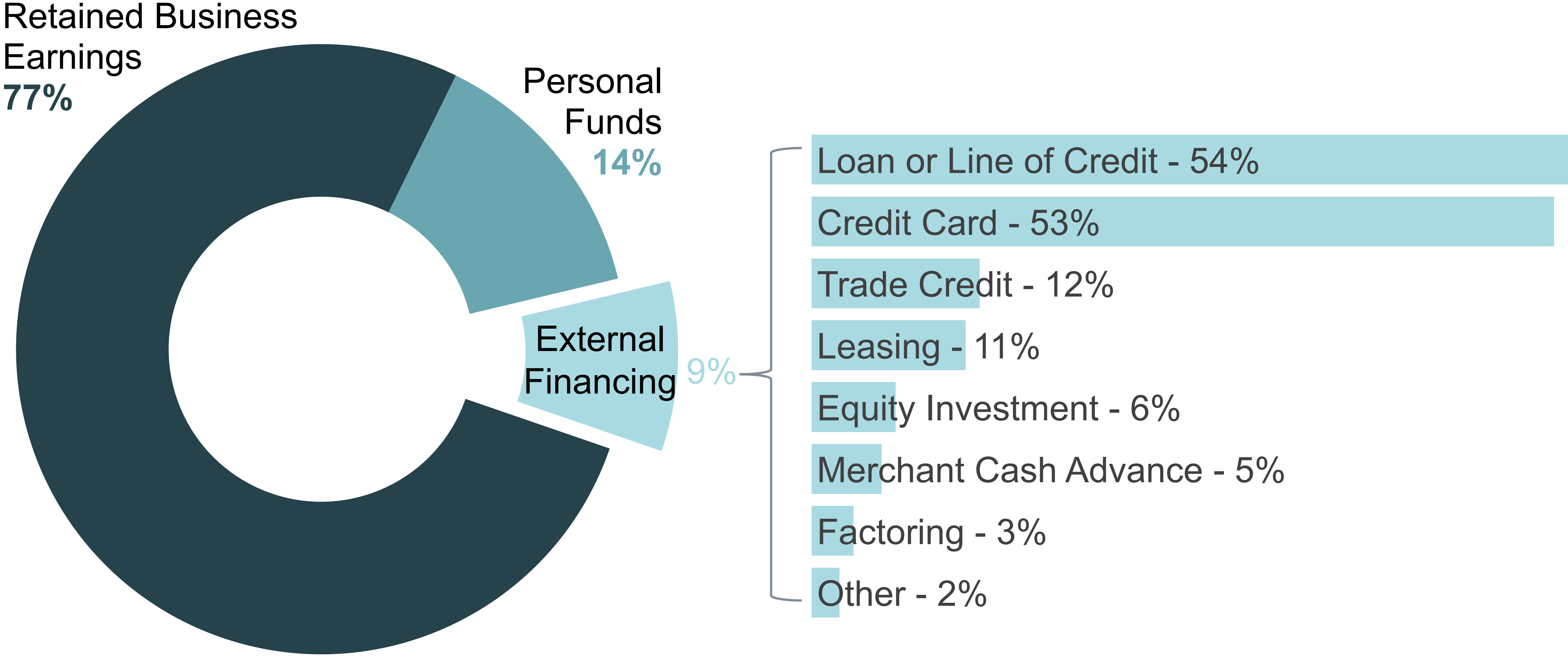
Challenges of Offering Complexity and Friction

Small businesses less than one year old have an outsized impact on job creation:

10% of all businesses

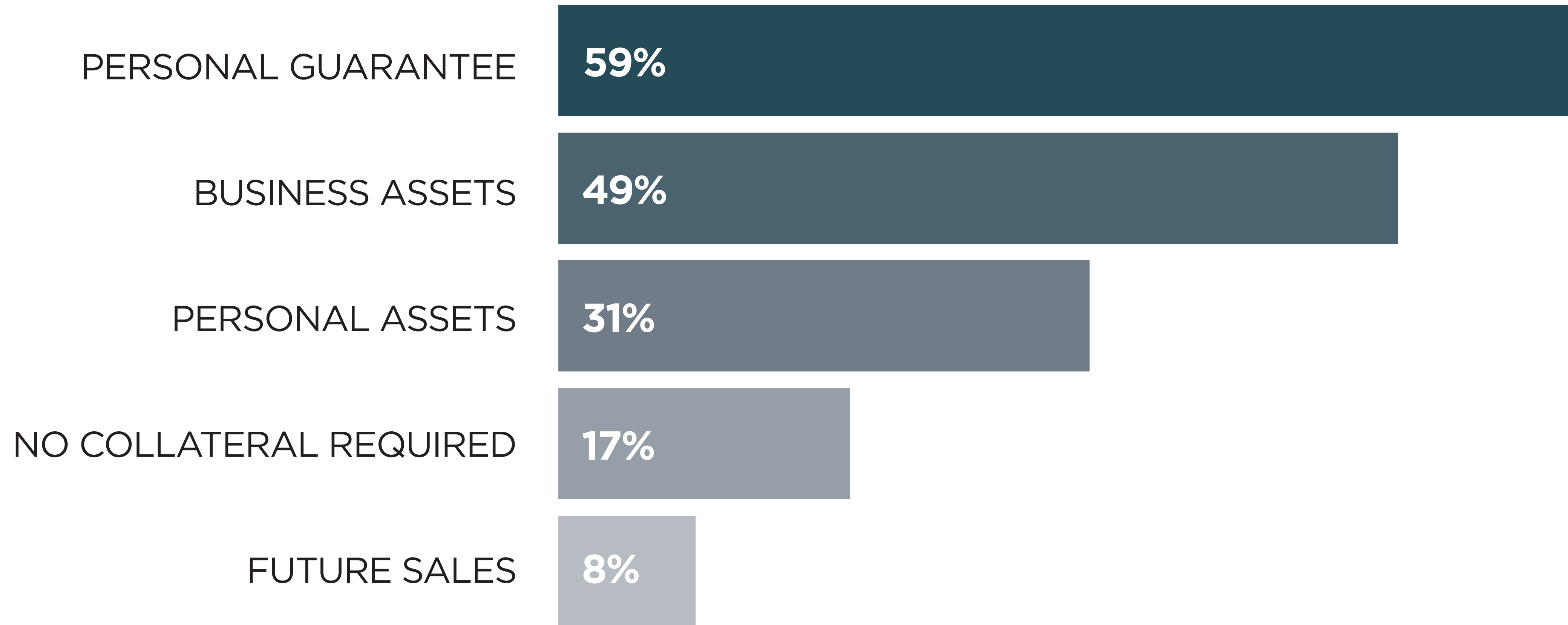
20% of all new jobs

What are common sources of capital for small and emerging businesses?



Source: See FY2020 Report p. 29; Federal Reserve Banks, "2020 Report on Employer Firms: Small Business Credit Survey," (2020).

Collateral is often a pre-requisite for small businesses seeking bank financing



Our rules are complex. Period.

Type of Offering	Offering Limit within 12-month Period	General Solicitation	Issuer Requirements	Investor Requirements	SEC Filing or Disclosure Requirements	Restrictions on Resale	Preemption of State Registration and Qualification
Section 4(a)(2)	None	No	None	Transactions by an issuer not involving any public offering. See <i>SEC v. Ralston Purina Co.</i>	None	Yes. Restricted securities	No
Rule 506(b) of Regulation D	None	No	"Bad actor" disqualifications apply	Unlimited accredited investors Up to 35 sophisticated but non-accredited investors <u>in a 90 day period</u>	Form D Financial statement requirements for non-accredited investors consistent with Regulation A	Yes. Restricted securities	Yes
Rule 506(c) of Regulation D	None	Yes	"Bad actor" disqualifications apply	Unlimited accredited investors Issuer must take reasonable steps to verify that all purchasers are accredited investors	Form D	Yes. Restricted securities	Yes
Regulation A: Tier 1	\$20 million	Permitted; before qualification, testing-the-waters permitted before and after the offering statement is filed	U.S. or Canadian issuers Excludes blank check companies, registered investment companies, business development companies, issuers of certain securities, certain issuers subject to a Section 12(j) order, and Regulation A and reporting issuers that have <u>not filed certain required reports</u>	None	Form 1 A, including two years of financial statements Exit report	No	No
Regulation A: Tier 2	<u>\$75 million</u>		"Bad actor" disqualifications apply No asset-backed securities	Non-accredited investors are subject to investment limits based on the greater of annual income and net worth, unless securities will be listed on a national securities exchange	Form 1 A, including two years of audited financial statements Annual, semi-annual, current, and exit reports	No	Yes
Rule 504 of Regulation D	<u>\$10 million</u>	Permitted in limited circumstances	Excludes blank check companies, Exchange Act reporting companies, and investment companies "Bad actor" disqualifications apply	None	Form D	Yes. Restricted securities except in limited circumstances	No
Regulation Crowdfunding; Section 4(a)(6)	<u>\$5 million</u>	<u>Testing the waters permitted before Form C is filed</u> Permitted with limits on advertising after Form C is filed Offering must be conducted on an internet platform through a registered intermediary	Excludes non-U.S. issuers, blank check companies, Exchange Act reporting companies, and investment companies "Bad actor" disqualifications apply	<u>No investment limits for accredited investors</u> Non-accredited investors are subject to investment limits based on the <u>greater</u> of annual income and net worth	Form C, including two years of financial statements that are certified, reviewed or audited, as required Progress and annual reports	12-month resale limitations	Yes
Intrastate: Section 3(a)(11)	No federal limit (generally, individual state limits between \$1 and \$5 million)	Offerees must be in-state residents	In-state residents "doing business" and incorporated in-state; excludes registered investment companies	Offerees and purchasers must be in-state residents	None	Securities must come to rest with in-state residents	No
Intrastate: Rule 147	No federal limit (generally, individual state limits between \$1 and \$5 million)	Offerees must be in-state residents	In-state residents "doing business" and incorporated in-state; excludes registered investment companies	Offerees and purchasers must be in-state residents	None	Yes. Resales must be within state for six months	No
Intrastate: Rule 147A	No federal limit (generally, individual state limits between \$1 and \$5 million)	Yes	In-state residents and "doing business" in-state; excludes registered investment companies	Purchasers must be in-state residents	None	Yes. Resales must be within state for six months	No

* This chart provides an updated summary of the capital raising exemptions. See Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets, Rel. No. 33-10884, available at <https://www.sec.gov/rules/final/2020/33-10844.pdf> for further information about the recent amendments. These amendments will be effective on March 15, 2021.

Recommended Solution 1

Targeted Educational Programs

Policy Priority 2

Bridging Networks Between Founders and Investors

Angel investors play a critical role funding early-stage small businesses

323,365

active angel investors



\$23.9 billion

in total angel investments

63,730

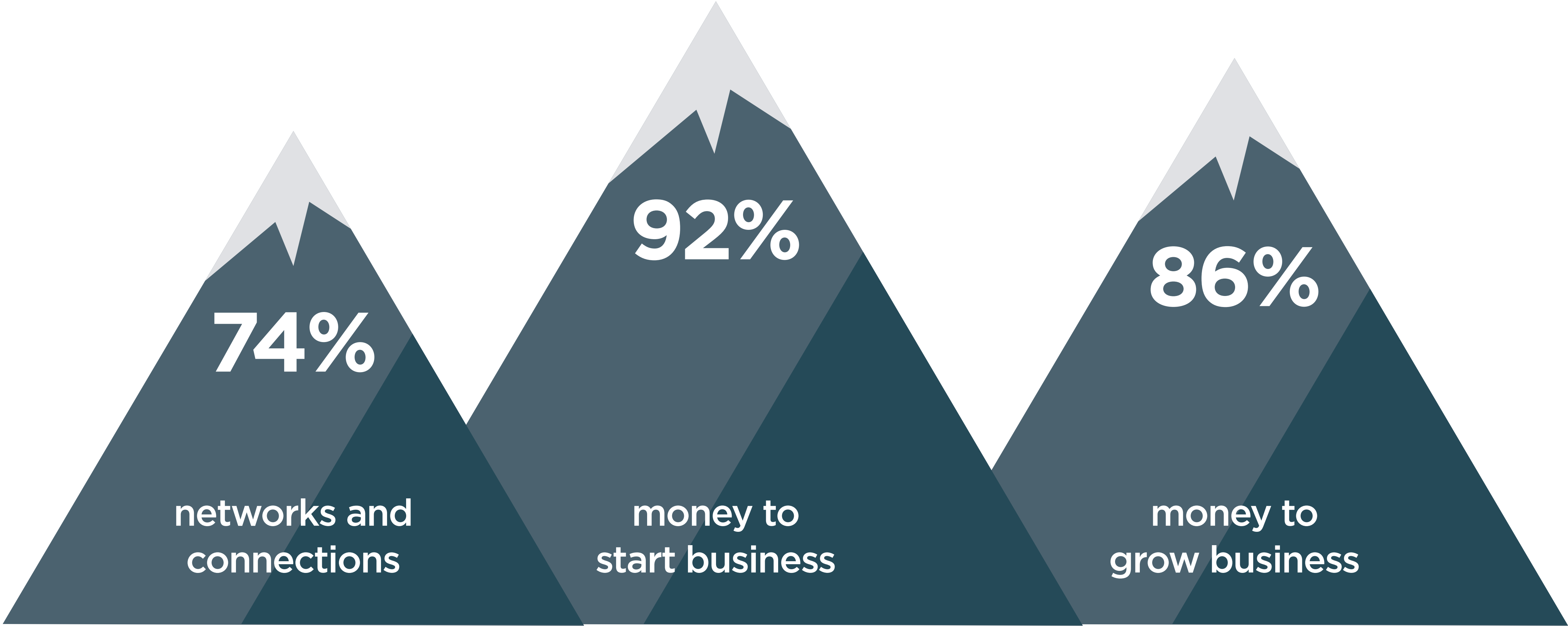
entrepreneurial ventures
received angel funding



\$374,225

average angel funding round

Networks barriers are among the top 3 challenges facing aspiring entrepreneurs



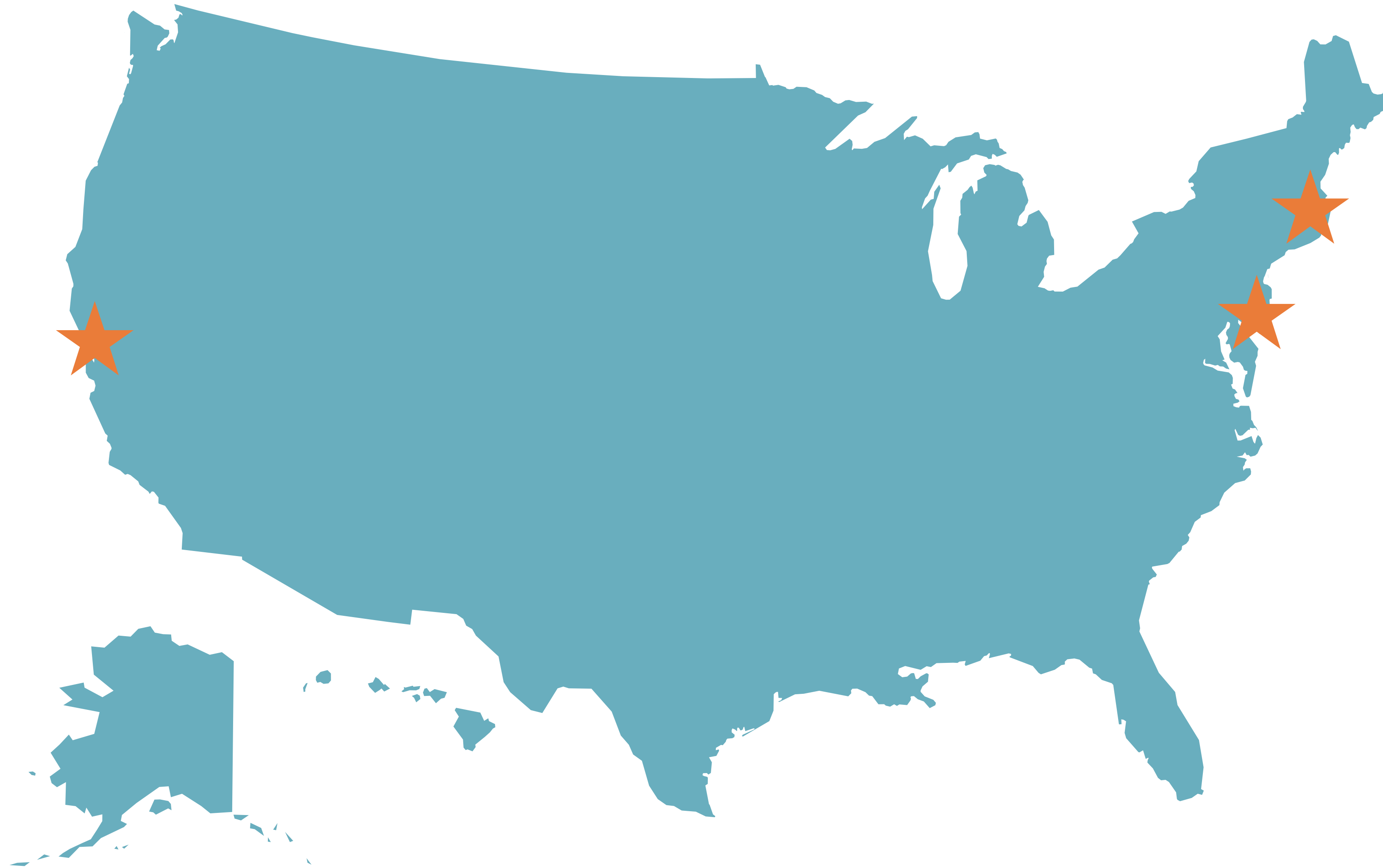
Source: See FY2020 Report p. 28; Jessica Looze and Sameeksha Desai, "Challenges Along the Entrepreneurial Journey: Considerations for Entrepreneurship Supporters," Ewing Marion Kauffman Foundation, (May 2020).

Proximity to investors matters



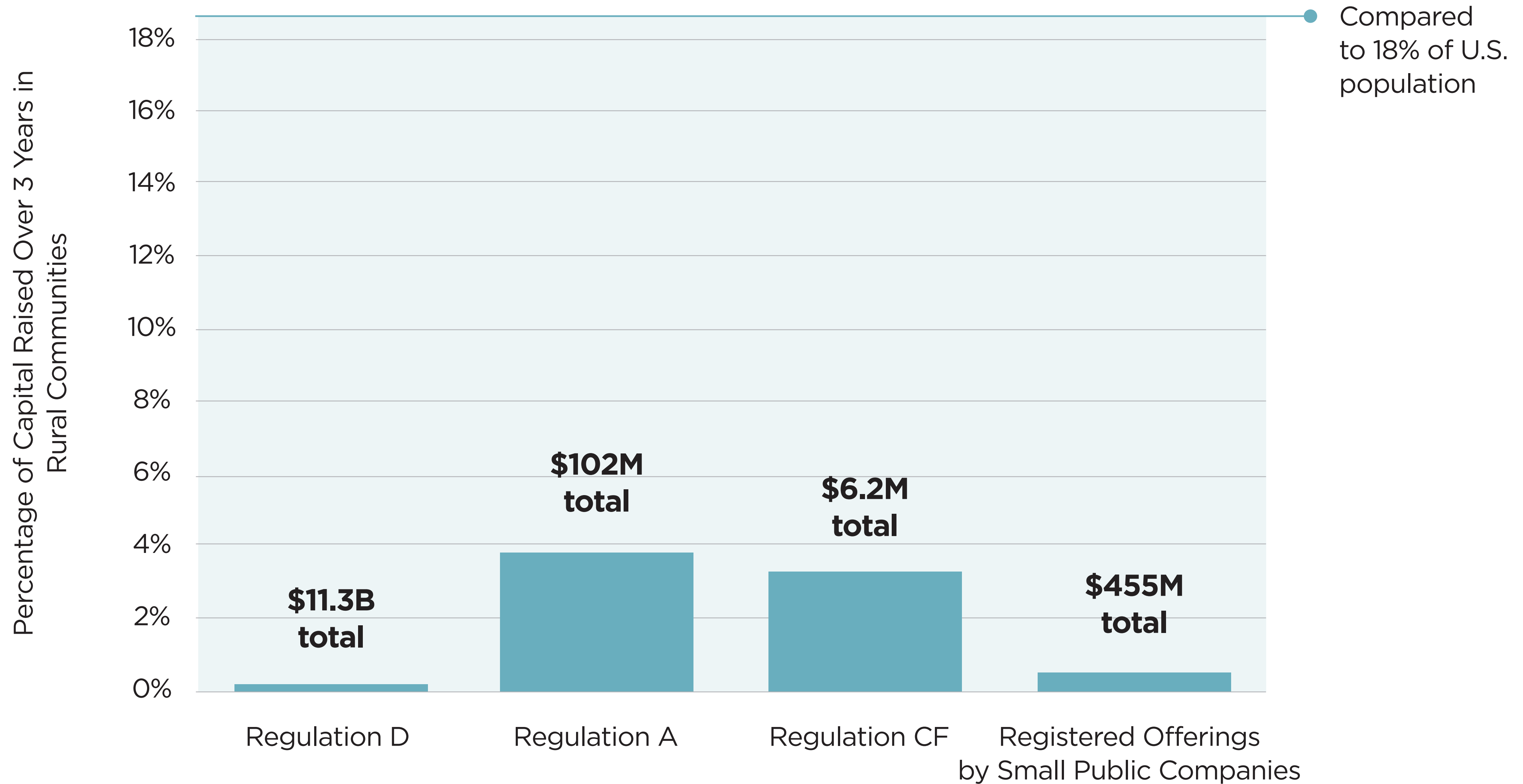
Source: See FY2020 Report pp. 32 and 37; Kyle Stanford, "Angels: Foundational Investors to VC," PitchBook, (Sep. 1, 2020); Kyle Stanford and Darren Klees, "Analyst Note: The Effect of Capital Resources on Dealmaking: Can Patterns in VC Resources Help Pinpoint Underfunded Ecosystems?," PitchBook, (Nov. 15, 2019).

70% of VC funds are concentrated in 3 metro areas:



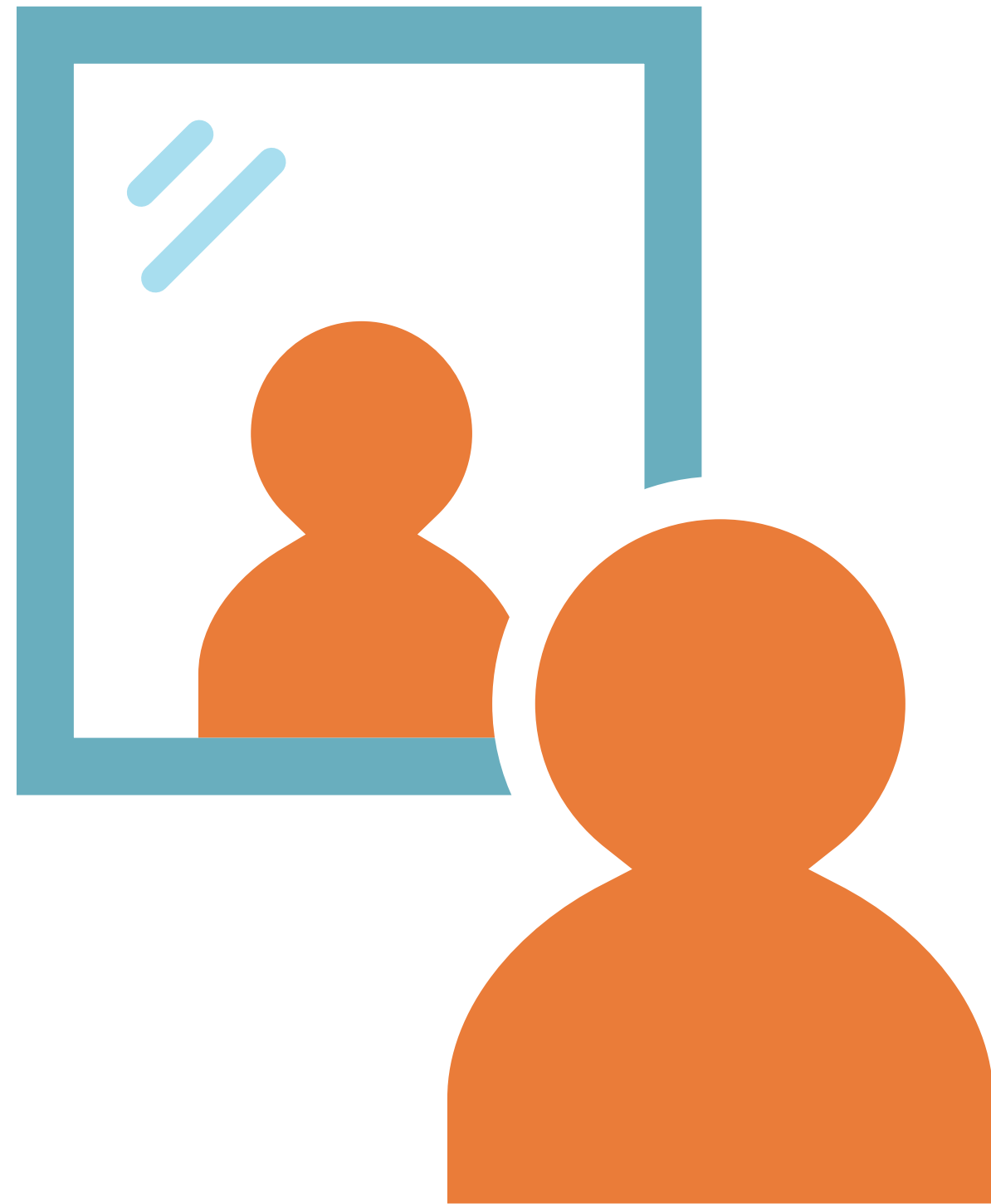
Source: See FY2020 Report p. 36; Kyle Stanford and Darren Klees, “Analyst Note: The Effect of Capital Resources on Dealmaking: Can Patterns in VC Resources Help Pinpoint Underfunded Ecosystems?,” PitchBook, (Nov. 15, 2019).

Rural businesses face particular challenges raising capital



Source: See FY2020 Report p. 63.

Artificial boundaries between investors and businesses reinforce pattern matching



Founders are **21%** more likely to be funded by an investor of the same ethnicity than of a different ethnicity.

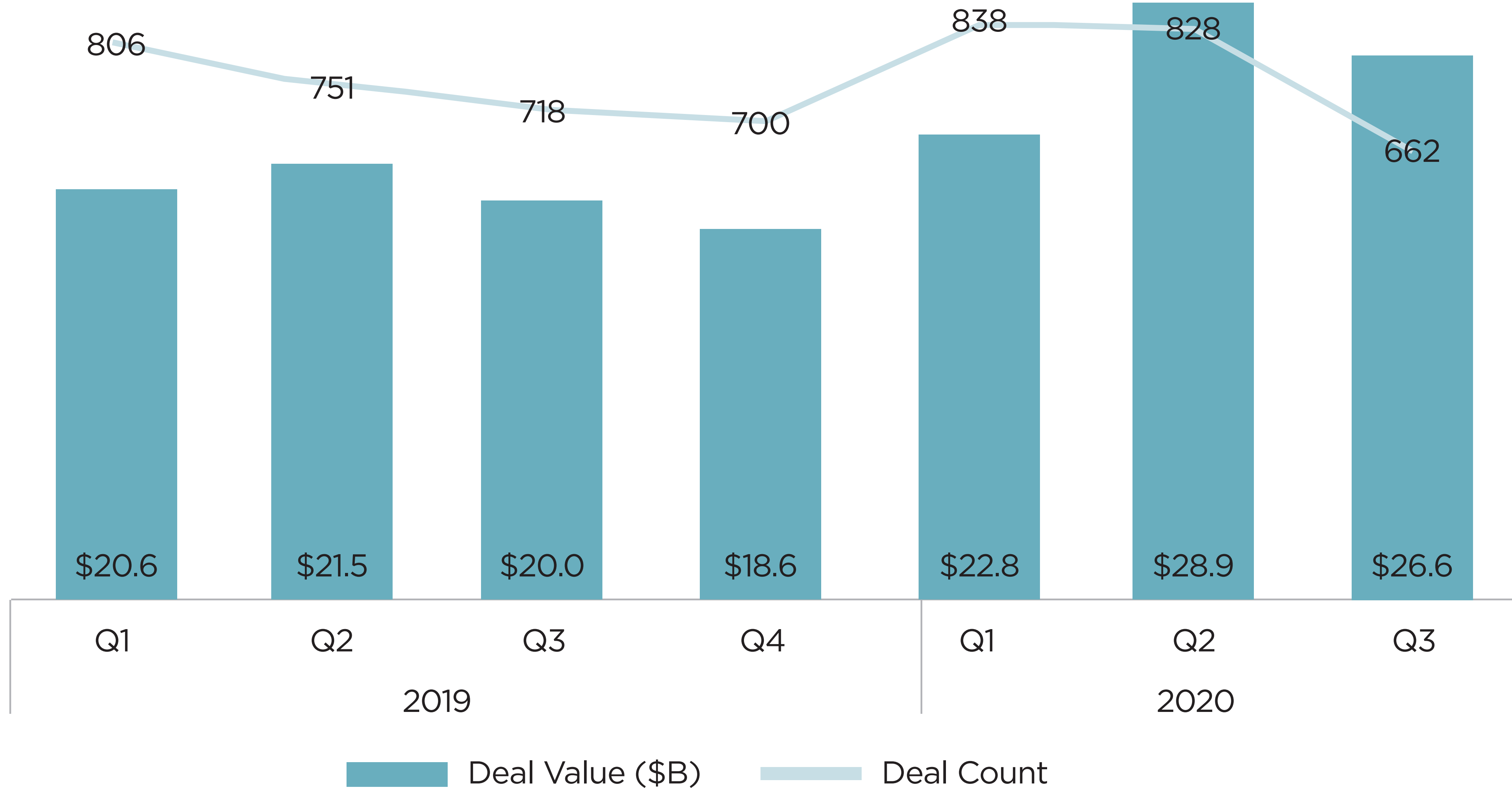
Recommended Solution 2

Clear Finders Framework

Policy Priority 3

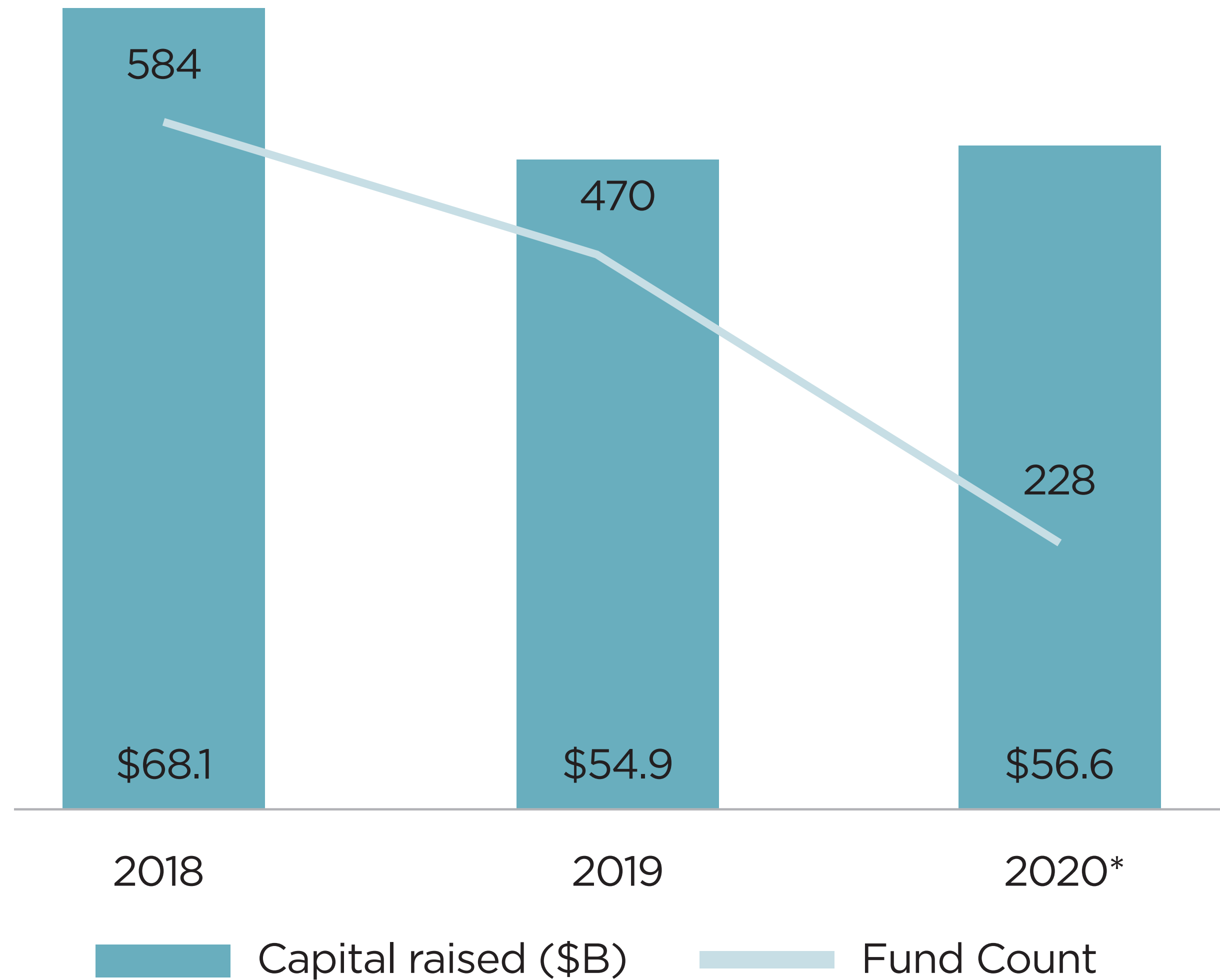
Diversifying Access to Capital

Late stage venture capital activity is thriving



Source: See FY2020 Report p. 38; PitchBook-NVCA, "Venture Monitor Q3 2020," (Oct. 12, 2020).

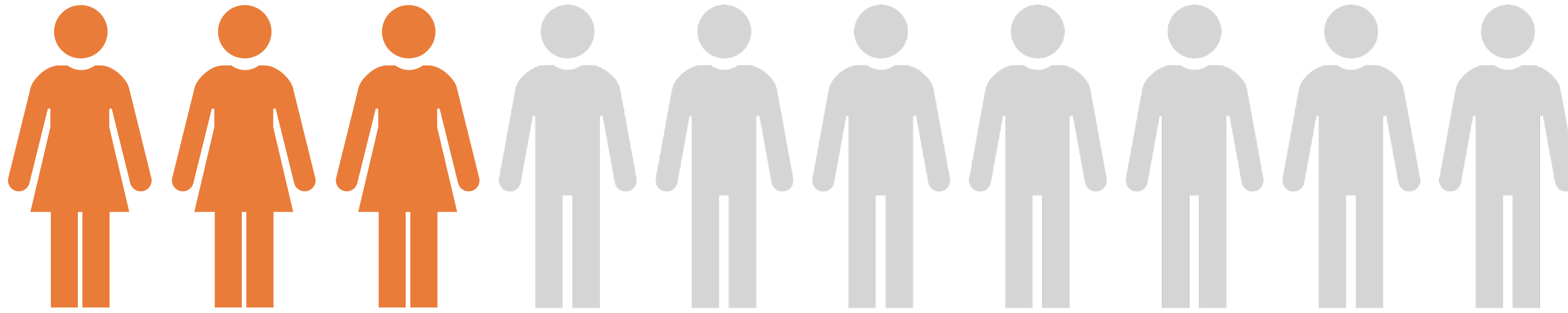
First time funds continue to decline



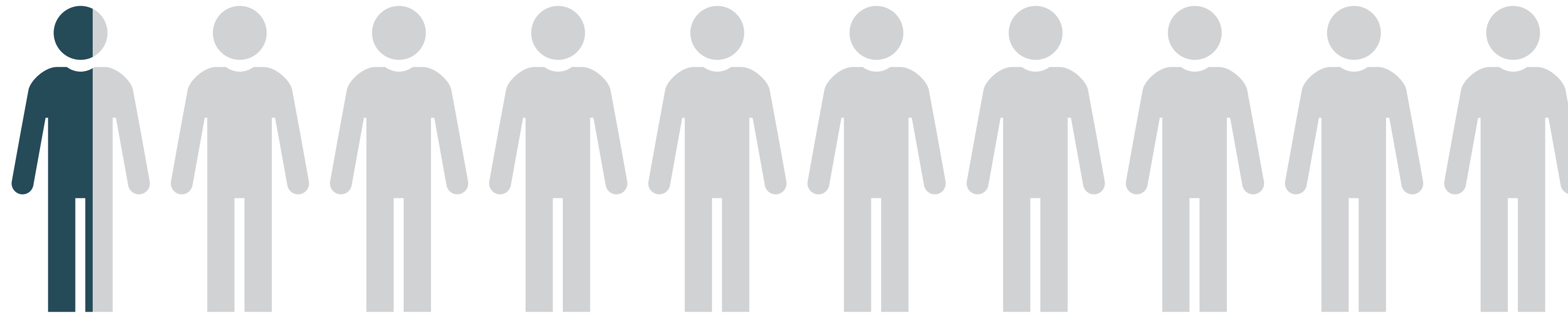
*Through Q3 2020

Source: See FY2020 Report p. 39; Cameron Stanfill, et al., "Analyst Note: 2020 Venture Capital Outlook: H1 Follow-Up," PitchBook, (Jul. 6, 2020); PitchBook-NVCA, "Venture Monitor Q3 2020," (Oct. 12, 2020).

Women and minorities are underrepresented among angel investors

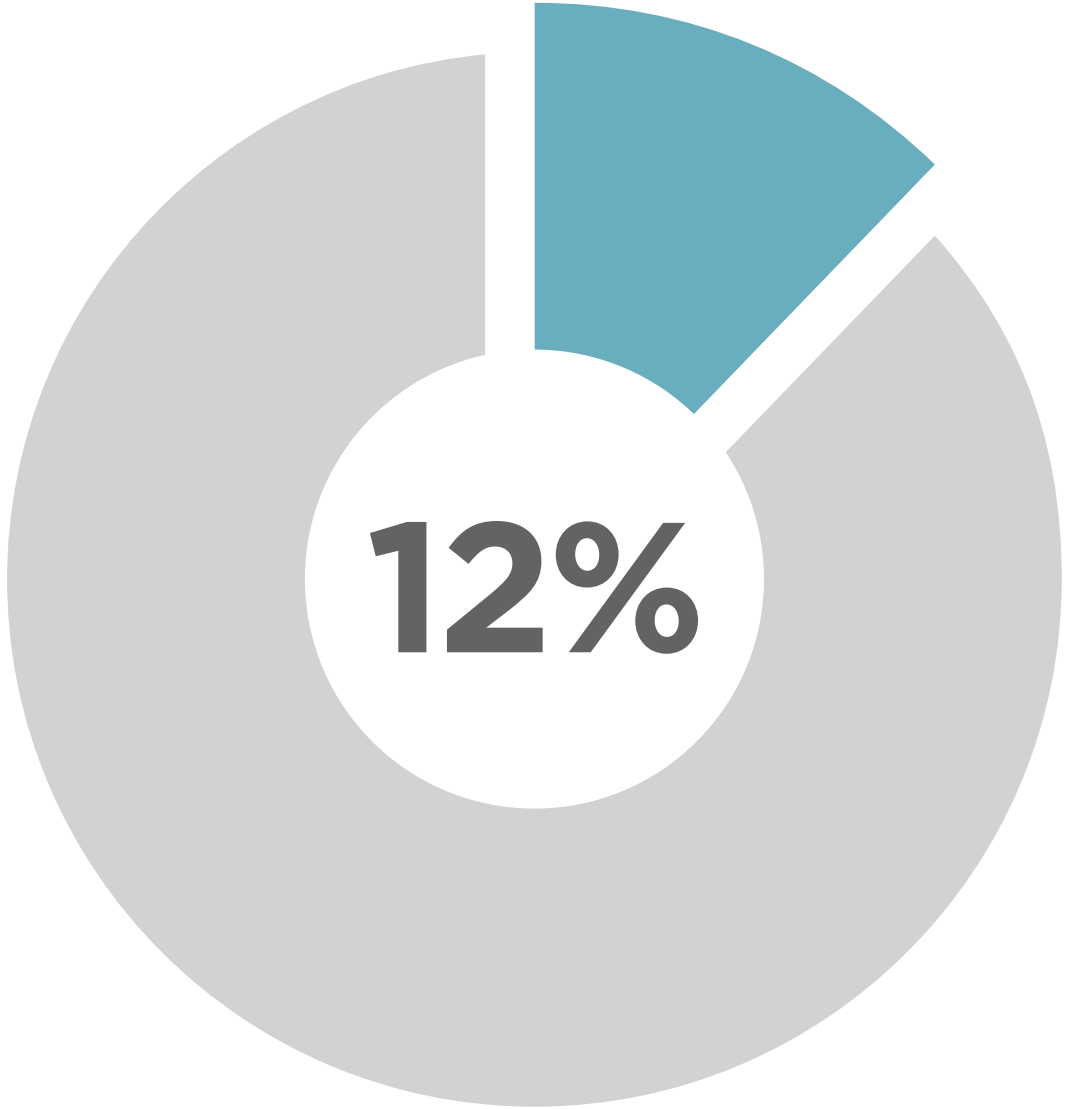


29% of angel investors in 2019 were women

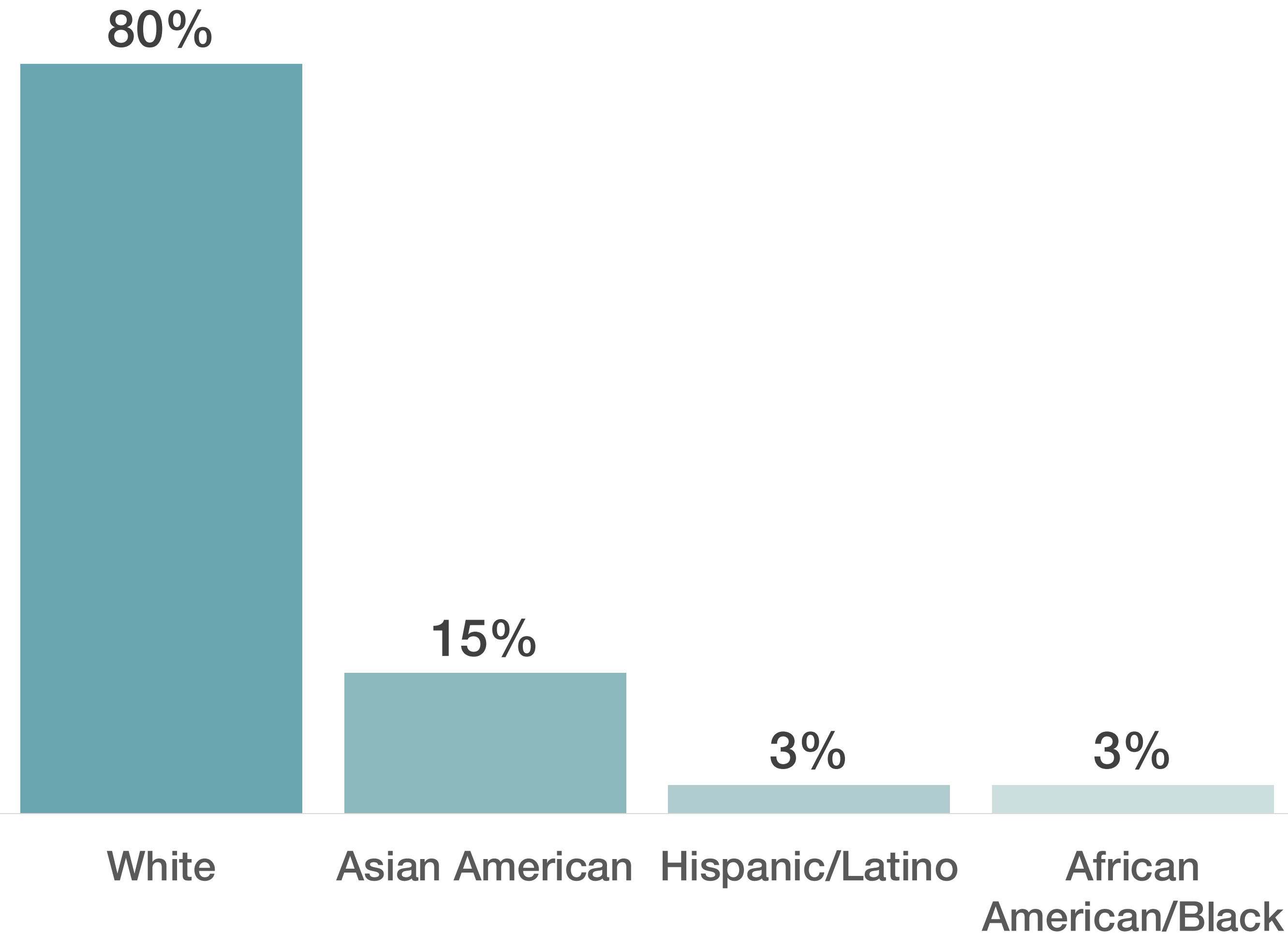


7% of angel investors in 2019 were minorities

Women and minorities are also underrepresented among VC investment partners



of decision-makers in VC firms are women.



Source: See FY2020 Report pp. 51 and 57; PitchBook and All Raise, "All In: Women in the VC Ecosystem," (Nov. 11, 2019); NVCA and Deloitte, "Human Capital Survey," (2018).

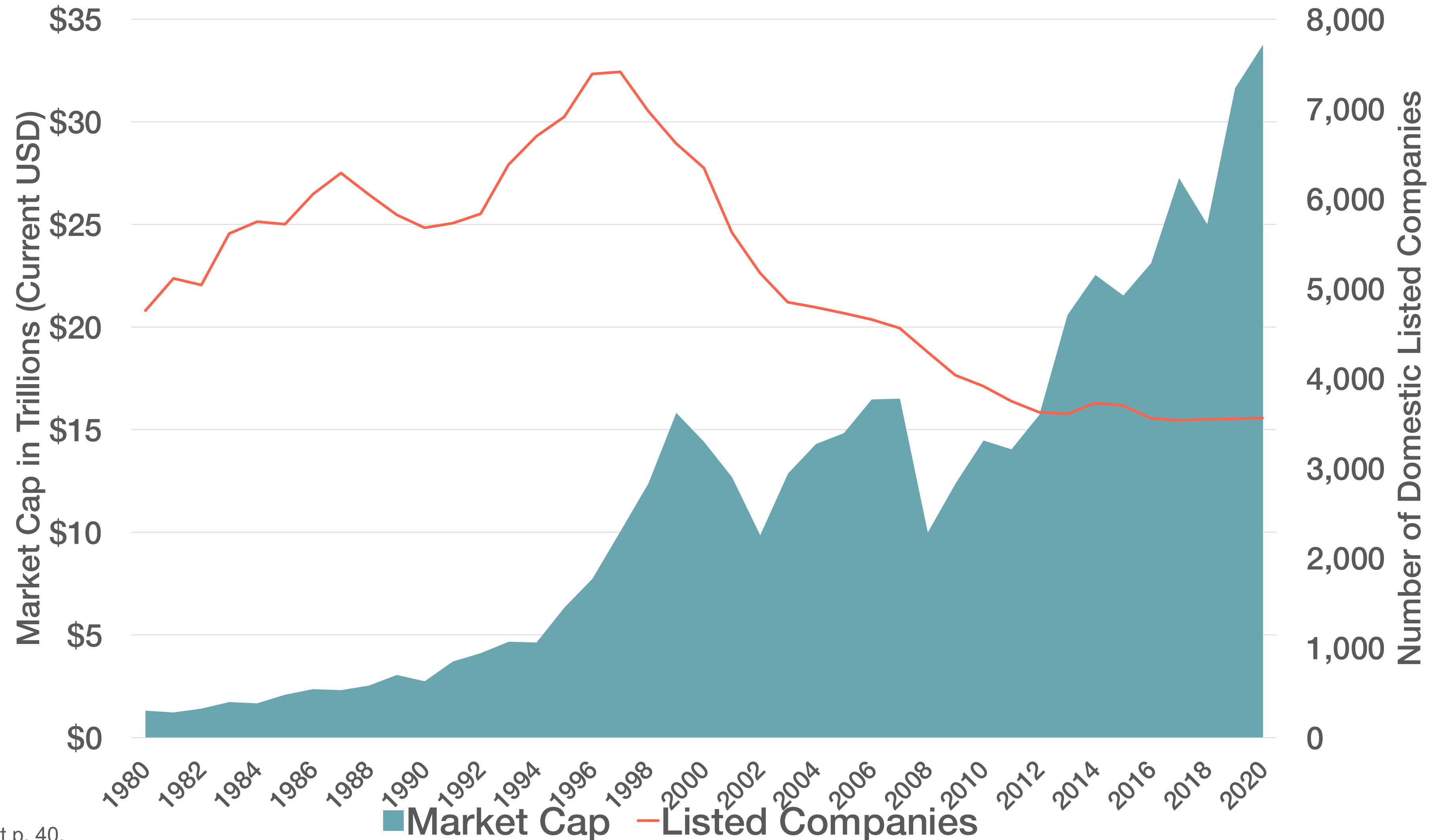
Recommended Solution 3

Support for Pooled Investment Vehicles

Policy Priority 4

Attractiveness of Public Markets

How has the prevalence of publicly traded companies changed over time?



Source: See FY2020 Report p. 40.

What is the scale of public vs. private investments?



As of the end of 2019,
the market cap of
U.S. public equities was
\$37.7 trillion.



27x

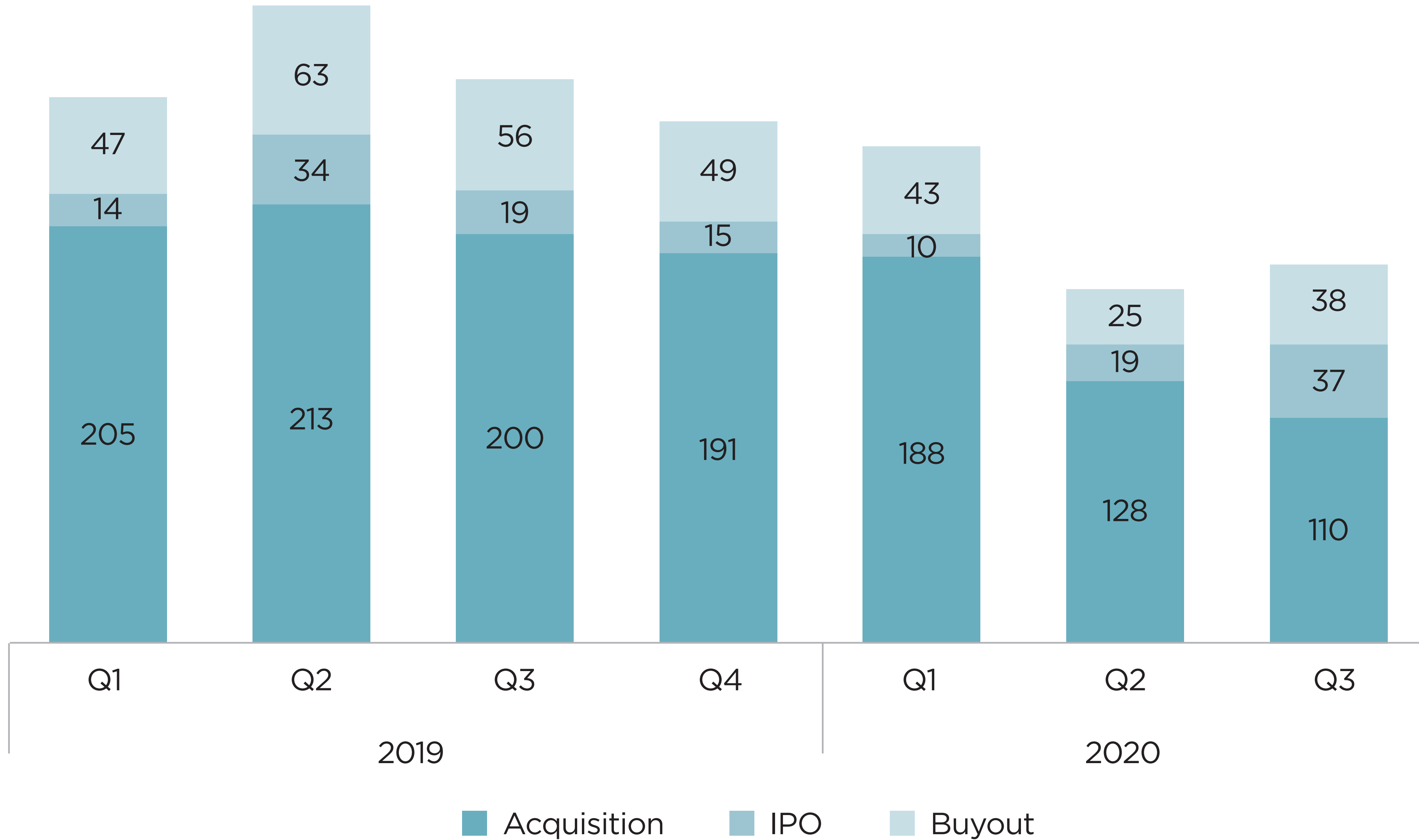
the AUM for
private buyout
funds



80x

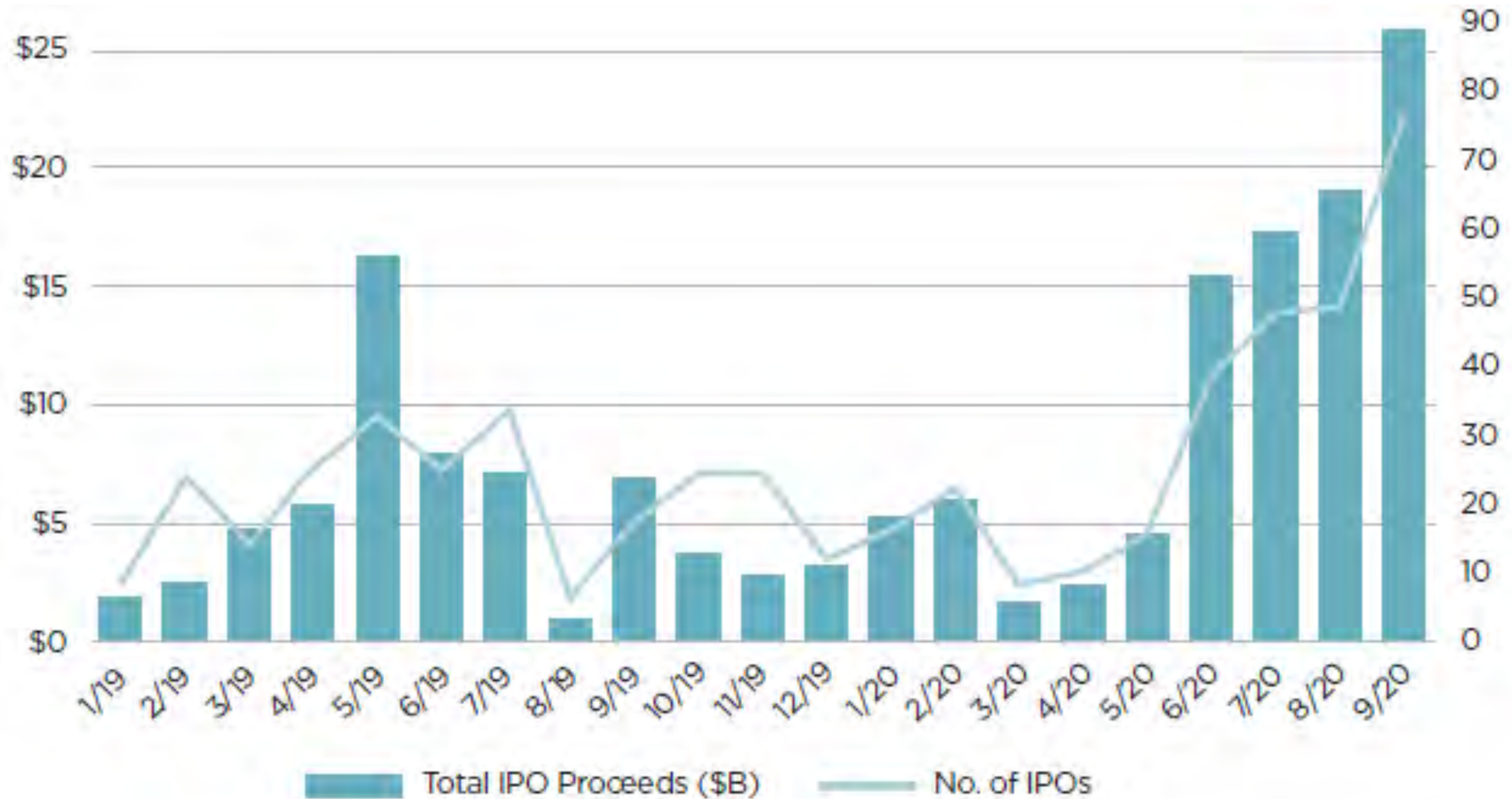
the AUM for
VC funds

Exit trends have begun shifting towards IPOs



Source: See FY2020 Report p. 39; PitchBook-NVCA, "Venture Monitor Q3 2020," (Oct. 12, 2020).

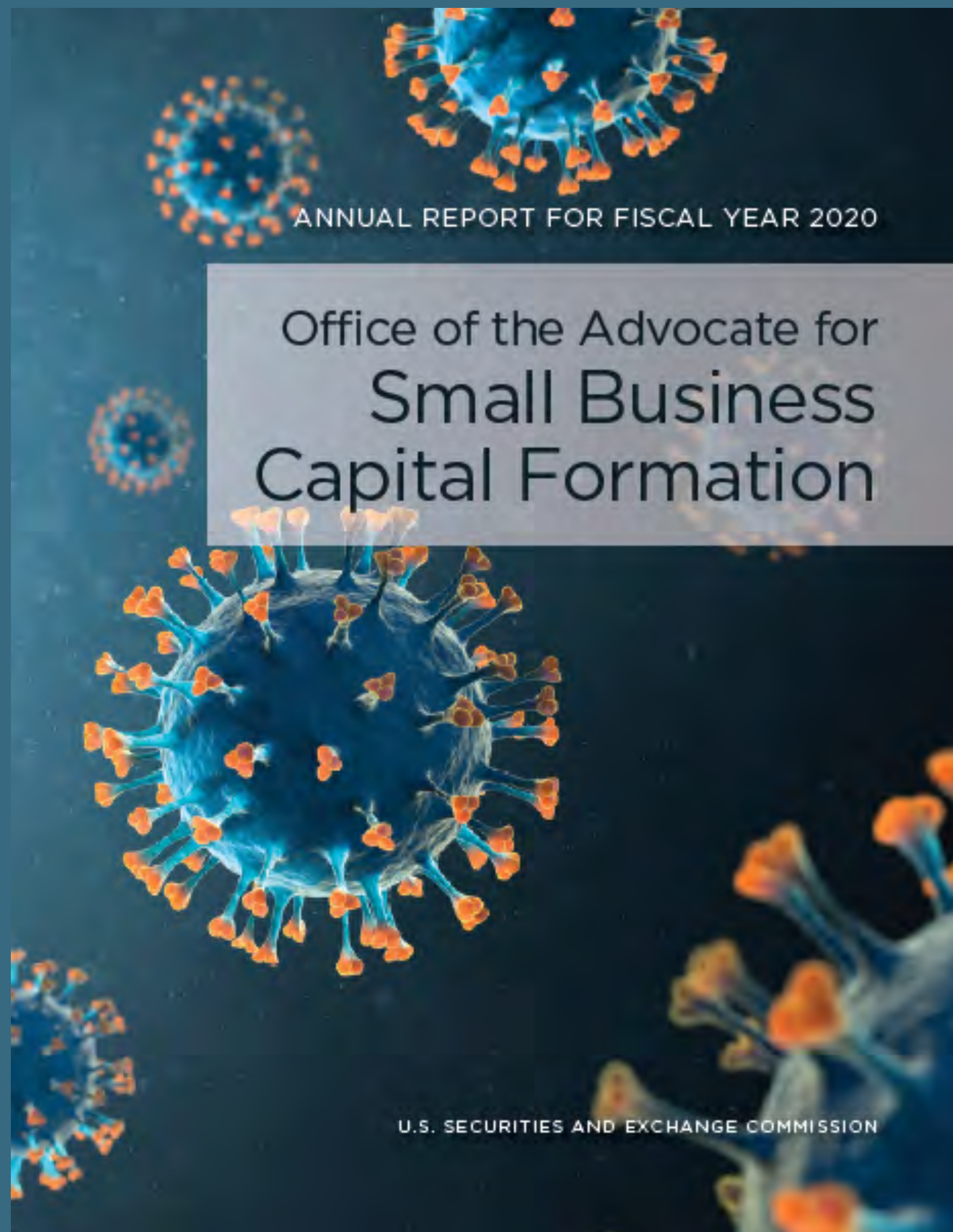
What is happening with IPO activity?



Source: See FY2020 Report p. 27.

Recommended Solution 4:

Foster the Public Company Environment



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