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Financial Services Subcommittee Examines Proposals to Promote Capital Formation for Small- and Mid-Size Businesses

Today, the House Financial Services Committee's Subcommittee on Capital Markets and Government Sponsored Enterprises held a hearing, entitled "*Legislation to Further Reduce Impediments to Capital Formation*," to examine several legislative proposals aimed at promoting investment in small- and mid-size businesses. The hearing featured testimony from Mr. Heath Abshure, Arkansas Securities Commissioner, on behalf of the North American Securities Administrators Association; Mr. Michael Arougheti, CEO of Ares Capital Corporation; Mr. J. Michael Ertel, Managing Director and Broker at Legacy M&A Advisors, LLC; Mr. Alexander C. Frank, CFO of FIFTHSTREET; Mr. Gary K. Wunderlich, Jr. CEO of Wunderlich Securities, on behalf of the Securities Industry and Financial Markets Association (SIFMA); Mr. Tom Quaadman, Vice President, Center for Capital Markets Competitiveness, the U.S. Chamber of Commerce; and Mr. David Weild, Chairman and CEO of IssuWorks.

In his opening statement Chairman Scott Garrett (R-NJ) reviewed recent developments in small business capital formation, calling them a "mixed-bag." He pointed to the encouraging results of the JOBS Act, which Congress passed last year. He noted that the Act created an IPO on-ramp for emerging growth companies (EGCs) that has led to this year being the best year for IPOs since 2007. He also cited the SEC's lifting of the ban on general solicitation for certain private securities offerings as another success of the JOBS Act. However, he criticized the SEC's recently proposed amendments to Regulation D, which would impose new disclosure and filing obligations on such private offerings and thereby undermine the purpose of lifting the ban on general solicitation. He called on the SEC to revisit its proposed amendments to Regulation D.

In her opening statement Ranking Member Carolyn Maloney (D-NY) sounded a note of caution regarding the legislative reforms under consideration by the Committee. She emphasized the need to balance incentives for capital formation with protections for investors such as healthy disclosure and transparency requirements.

The witnesses discussed several pieces of legislation, including legislation to (1) permit business development companies (BDCs) to invest in investment advisors and/or change the assets coverage test for BDCs from 200 percent to 150 percent (H.R. 1800, H.R. 31, and H.R. 1973); (2) assist business owners transfer ownership of small, privately-owned companies by creating a simplified SEC registration system for M&A brokers (H.R. 2274); (3) provide an optional exemption for EGCs from SEC rules requiring registrants to file their financial statements using the eXtensible Business Reporting Language (XBRL) (Draft legislation by Rep. Hurt (R-VA)); (4) amend the Securities Act to modify registration requirements for EGCs, including reducing the 21-day "quiet period" between the filing of a registration statement and the beginning of a road show (Draft legislation by Rep. Stephen Fincher (R-TN)); and (5) amend the Exchange Act to provide for a pilot program that would allow certain EGCs to increase the "tick size" at which their stocks are quoted and traded to \$.05 or \$.10 (Draft legislation by Rep. Sean Duff (R-WI)).

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*Bar admission pending