

U.S. SECURITIES AND EXCHANGE COMMISSION

SMALL BUSINESS ADVISORY COMMITTEE MEETING

Tuesday, February 24th, 2026

10:00 a.m.

Amended: 3/18/2026

U.S. Securities and Exchange Commission

100 F Street, N.E., Washington, D.C.

1 APPEARANCES:
2
3 Paul S. Atkins, SEC Commissioner, Chairman
4 Hester Peirce, SEC Commissioner
5 Mark Uyeda, SEC Commissioner
6
7 Committee Members
8 Marcia Dawood, Committee Chair
9 Rose Standifer, Committee Vice Chair
10 Bart Dillashaw, Committee Secretary
11 Herbert Drayton, III, Committee Assistant Secretary
12 Wemimo Abbey (only attended first session)
13 Donnel Baird (only attended first session)
14 Robert Bolen
15 George Cook
16 Diego Mariscal (only attended first session)
17 Claire McHenry
18 Erica Duignan
19 Jennifer Newton
20 Laura Niklason (only attended first session)
21 Davyeon Ross (only attended first session)
22 Jasmin Sethi
23 Aren Sharifi
24 Marc Oorloff Sharma
25

1 APPEARANCES (Cont.):

2

3 Committee Members (Cont.)

4 Aren Sharifi

5 Joe Sheirer

6 Wendy Stevens

7

8 Panelists

9 Nigel Dawn, Managing Director, Evercore

10 William Duval, Special Counsel, Cooley LLP

11 Steven Jafarzadeh, Chief Compliance Officer and Partner,

12 Stonehaven

13 Emily Zheng, Senior Research Analyst, Venture Capital,

14 Pitchbook

15

16 SEC Staff

17 Timothy Collins

18 Courtney Haseley

19 Jennifer Riegel

20 Amy Reischauer

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1	C O N T E N T S	
2		PAGE
3	Opening Remarks	6
4		
5	Deep Dive on "Finders" Continued	28
6		
7	Update from the SEC's Office of the Advocate	91
8	for Small Business Capital Formation	
9		
10	Shedding Light on the Private Secondary Market	107
11		
12	Closing Remarks	173
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 P R O C E E D I N G S

2 MS. DAWOOD: Good morning and welcome to
3 today's meeting of the SEC Small Business Capital
4 Formation Advisory Committee. I call this meeting to
5 order.

6 I want to extend a warm welcome to everyone,
7 including a couple of new Committee members who will
8 be introducing themselves shortly. And thank you to
9 everyone who pivoted yesterday due to the weather as
10 this meeting went virtual, from originally being in
11 person. So it's nice to see you all here on this
12 virtual meeting. And since we were not able to meet
13 in November due to the government shutdown, which
14 means that we've -- it's been almost eight months
15 since we've been last together, so please, as much as
16 you can today, have your cameras on as much as
17 possible and engage in our discussion so that we can
18 have a robust conversation about the important topics
19 that we are covering today facing small businesses.

20 And of course, I appreciate members of the
21 public who have tuned in to watch the meeting on
22 sec.gov.

23 Courtney, do we have a quorum for this
24 meeting?

25 MS. HASELEY: We do, Marcia, have a quorum.

1 And while I have the stage, I just want to
2 give the SEC disclaimer for the meeting. So any SEC
3 staff that speak today, any of the views that are
4 provided are in the speaker's official capacity at the
5 SEC, but they won't necessarily reflect the views of
6 the Commission, the Commissioners, or other members on
7 the staff.

8 Thank you. And have a great meeting.

9 MS. DAWOOD: Excellent. Thanks so much,
10 Courtney.

11 So just to give a brief overview of our
12 agenda, our meetings frequently focus on ways to
13 expand access to overstated capital raising, and
14 today's meeting is no exception.

15 In the last meeting, we finalized
16 recommendations on Reg A aimed at facilitating more
17 capital formation pursuant to Reg A. And we also
18 started a robust discussion on finders, which we will
19 be continuing today. Now, as a reminder for folks who
20 are tuning in who may be new to this topic, I'm going
21 to refer to the concept of an individual who may
22 identify or even solicit potential investors helping
23 companies, typically early stage companies, find
24 capital in the private markets.

25 So finders are effectively unregistered

1 matchmakers helping to bridge a funding gap. They are
2 not registered broker-dealers. So with that said, we
3 know that finders do exist. However, we believe they
4 are fulfilling, in many instances, a necessary
5 function for certain founders and businesses that
6 otherwise struggle to identify sources of private
7 capital and more or less operate in the shadows
8 because there's regulatory ambiguity over whether or
9 not the services these funders provide is compliant
10 from whether it's just regular federal securities law
11 perspective.

12 So today, we will continue our Committee
13 discussion of finders and continue exploring potential
14 principles, frameworks, conditions, and safeguards
15 that could permit certain finders to engage in limited
16 capital raising activities. And I am hopeful that we
17 can reach an agreement on formal recommendations
18 regarding finders during our meeting today.

19 Then later this afternoon, I'm excited to
20 shift gears and start tackling a new topic, the rise
21 of the private secondary market, including how it is
22 interacting with the IPO market. I think that
23 understanding of how the IPO and M&A markets have
24 shifted in recent years and how the private secondary
25 market has grown to fill liquidity needs and meet

1 investor demands is essential to informing how we, as
2 a committee, can best advise the Commission on capital
3 formation, including the interplay between private and
4 public markets.

5 We will hear from three different industry
6 participants who are experts in this space to better
7 understand the data, deal flow drivers, trends,
8 opportunities, and challenges that stem from the
9 growth and normalization of private secondary
10 transactions. And I anticipate that this afternoon's
11 conversation will provide insights into small business
12 capital formation challenges that we may wish to
13 consider and further hone in on during future
14 committee meetings. I know I have a number of
15 questions and I'm really looking forward to exploring
16 that during the meeting this afternoon.

17 But before we dive into today's packed
18 agenda, I am so pleased to have Chairman Atkins and
19 Commissioner Peirce joining us. Commissioner Uyeda is
20 not able to be with us live due to an unavoidable
21 conflict, but he was kind enough to record some
22 remarks on these important topics.

23 So Chairman Atkins, I will turn the floor
24 over to you. Thank you.

25 CHAIRMAN ATKINS: Oh, great. Well, good

1 morning, ladies and gentlemen, and thank you, Marcia,
2 for helming the Committee here and leading the
3 discussion for the day.

4 And so welcome to our first Committee
5 meeting of the year. And I want to start by saying
6 how glad I am that we're able to reconvene, if only
7 virtually, after the government shut down, as Marcia
8 said, and forced us to cancel in the fall. So that
9 disruption only reminded me about how valuable this
10 forum is, because I've long believed that involving
11 industry practitioners in the regulatory process makes
12 government smarter, more responsive, and less
13 burdensome. And in fact, your contributions bring
14 both rigor and market insight to the SEC's role in
15 facilitating capital formation. So I'm really
16 grateful that this Committee can return to its regular
17 cadence, and thank you all for your flexibility in
18 light of these wintry weather conditions here on the
19 East Coast.

20 So in just a few moments, the Committee will
21 build on a discussion that it began last summer
22 regarding a regulatory framework for finders. As
23 staff of the Division of Trading and Markets
24 emphasized at our previous meeting, identifying
25 potential investors remains one of the most persistent

1 challenges for small businesses, especially those
2 seeking capital below the range that typically
3 attracts investment from venture capital firms or from
4 registered broker-dealers.

5 Regulatory uncertainty only compounds those
6 barriers by deterring individuals from serving as
7 finders and companies from engaging them. As the
8 perspective shared -- I'm getting feedback -- of the
9 perspective shared at our previous meeting,
10 underscored the need to address ambiguity in the
11 space, and I look forward to hearing the Committee's
12 recommendations on how we might foster greater
13 clarity.

14 And later this afternoon, the Committee will
15 turn to the private secondary market and its
16 increasingly critical role in meeting liquidity needs.

17 As more firms stay private, two related pressures
18 have intensified. First, demand for investment
19 opportunities in private companies and the need for
20 liquidity among existing investors, especially early
21 investors and employees for whom compensation includes
22 equity.

23 Several platforms have emerged to address
24 these pressures, but I understand that our existing
25 regulatory framework has in some respects made that

1 work challenging. Many privately issued securities
2 remain restricted from resale under our rules, or at
3 least for a period of time. Issuers may also impose
4 additional transfer restrictions to maintain
5 visibility to a shorter base.

6 Load atop of these frictions is the further
7 complication that secondary trading of private
8 securities is almost always subject to state Blue Sky
9 laws. Individual investors can sometimes navigate
10 this patchwork through the so-called manual exemption,
11 which generally permits secondary transactions of
12 securities listed in the designated securities
13 manuals, thus the name "manual exemption." But
14 complying with state manual exemptions can be costly
15 and time consuming for both investors and issuers.

16 Of course, this Committee has examined state
17 Blue Sky laws before. Last year, I recommended that
18 the Commission preempt state Blue Sky laws for off-
19 exchange secondary trading in companies that make
20 available robust, publicly accessible and timely
21 public disclosures, such as those required by
22 Regulation A, Tier 2. That recommendation reflects a
23 sound instinct as many of the limitations on secondary
24 trading in private markets are designated to protect
25 investors. Product companies generally do not provide

1 ongoing disclosures, which means that investors are
2 not as easy -- easily able to make a reasoned
3 investment decision.

4 One way to address this as the Committee's
5 recommendation recognized is to consider allowing
6 secondary trading in companies that provide some sort
7 of ongoing disclosure. Of course, that approach would
8 not necessarily resolve the separate issue of company
9 imposed transfer restrictions beyond what current law
10 requires. So more structurally, another way to
11 overcome these concerns is to encourage larger, later
12 stage private companies, the, kind of, companies that
13 historically would have undergone an initial public
14 offering earlier in their life cycle to again, go
15 public sooner.

16 Which brings me to a broader point and to my
17 priority to reinvigorate an IPO pipeline that has
18 diminished by roughly 40 percent in recent decades.
19 As I recently testified before Congress, this
20 trajectory tells a cautionary tale that the SEC is
21 looking to rectify.

22 First, by re-anchoring disclosures and
23 materiality so that investment decisions can turn on
24 economic signals rather than on regulatory noise.

25 Second, by depoliticizing shareholder

1 meetings and restoring their focus to significant
2 corporate matters.

3 And third, by allowing public companies to
4 have litigation alternatives so that we shield
5 investors from the frivolous, so that we shield
6 innovators from the frivolous, and investors from the
7 fraudulent.

8 So with that context, I'm grateful that we
9 will be hearing from a distinguished group of guest
10 speakers to continue our discussion on finders and to
11 begin exploring the private secondary market.

12 This Committee's insights rooted in the real
13 world experience of its members will be essential in
14 enhancing capital formation for America's small
15 businesses. So thank you all once again for your
16 continued service and for the thoughtful guidance for
17 us that you provide. I look forward to a productive
18 and engaging meeting ahead.

19 Thank you all very much.

20 MS. DAWOOD: Thank you so much, Chairman
21 Atkins. Appreciate those comments.

22 Commissioner Peirce.

23 COMMISSIONER PEIRCE: Thank you, Marcia.
24 And welcome to the new members. Good morning to the
25 rest of the Committee, as well.

1 I appreciate the work of the Committee and
2 the of experts to share their views as panelists. I
3 also appreciate the work of the Office of the Advocate
4 for Small Business Capital Formation in supporting the
5 Committee's work. I commend the Committee for its
6 continued focus on finders and look forward to any
7 recommendations that the Committee develops.

8 As I mentioned at the last meeting, current
9 activity in this area is shaped by a muddled web of
10 no-action letters that is out of step with practical
11 realities. Last meeting's discussion of status quo
12 finder activity underscored that point. The absence
13 of a finder's framework does not deter bad actors.
14 Good actors may unwittingly act as finders or, if they
15 are aware of the law's unduly strict limitations, may
16 simply observe from the sidelines rather than helping
17 to match investors and companies. I appreciated your
18 in-depth discussion of what sensible finders
19 regulation could look like and your focus on how
20 finders can help companies to raise money in amounts
21 too small for brokers to bother with.

22 You covered a lot of other territory as
23 well, from essential disclosures for finder activity
24 to AI agents. And I hope that today's discussion will
25 be equally interesting and constructive as you devise

1 recommendations.

2 This afternoon, as you heard, the Committee
3 will discuss an increasingly mainstream area of our
4 capital markets, private secondaries. The growth of
5 these markets from 162 billion in total volume in 2024
6 to 240 billion in 2025 makes today's conversation
7 timely. I would be interested in hearing what today's
8 panelists think is in store for the remainder of the
9 year. Will the trend continue?

10 Some of the growth in private secondary
11 markets may stem from an IPO market that, while
12 showing some promising signs of activity, is still not
13 where we would like it to be. Private market
14 investors increasingly are able to turn to secondary
15 markets to exit certain positions and reallocate
16 capital. While beneficial to investors looking for an
17 exit, the flexibility provided by private market
18 tools, such as continuation vehicles, diminishes the
19 pressure on companies to IPO.

20 As I expect we'll hear from our panelists
21 today, secondary markets are developing to accommodate
22 a wide range of demands that are met by liquidity
23 providers that specialize in a range of transactions.

24 If capital for companies and liquidity for investors
25 and employees are available privately, why take on the

1 burdens associated with being a public company?

2 As this panel discusses the secondary
3 markets, I would appreciate hearing to what degree
4 activity in the space trades off with initial public
5 offerings and what factors investors and issuers
6 consider when deciding which path to pursue. Though
7 I'm happy to see capital formation occur in either the
8 private or public markets, I am aligned with Chairman
9 Atkins' goal of revitalizing our IPOs. Our public
10 markets have benefits that simply cannot be recreated
11 privately. The Commission can do more to improve
12 liquidity in our private markets, but public markets
13 facilitate price discovery and retail access in ways
14 that the private secondary markets can't duplicate
15 perfectly.

16 One long-overdue change that the Commission
17 staff recently made has allowed closed-end funds
18 investing 15 percent or more of their assets in
19 private funds to sell to non-accredited investors with
20 no minimum investment amount. Has this change been
21 apparent in the marketplace? And what else could the
22 Commission do to improve efficiency in and retail
23 access to these markets?

24 Regardless of what we do to expand retail
25 access to private markets, most retail investor

1 portfolios are likely to be concentrated in public
2 markets. When companies remain private longer, those
3 public investors miss out on the opportunity to fully
4 appreciate the growth of companies that in the past
5 may have occurred after those companies went public.

6 While I'm heartened to see markets develop
7 solutions to capital allocation problems, the rapid
8 growth of the private secondary market signals the
9 need for earnest efforts to enhance the palatability
10 of our public markets. And I'm glad Chairman Atkins
11 is embarking on those efforts with the Commission.

12 Thank you, and have a productive meeting.

13 MS. DAWOOD: Thank you so much, Commissioner
14 Peirce.

15 And now we'll move to Commissioner Uyeda's
16 remarks.

17 (Video played.)

18 COMMISSIONER UYEDA: Good morning. I regret
19 that I cannot be with you in person today. Today's
20 meeting is the first one since the departure of Stacey
21 Bowers, who served as the Advocate for Small Business
22 Capital Formation. I'd like to acknowledge her
23 contribution to the efforts of this Committee.

24 Now, before delving into today's agenda, I
25 would like to acknowledge some recent work by our

1 staff. The first is the 2025 Staff Report from the
2 Office of the Advocate for Small Business Capital
3 Formation. This report provides a comprehensive
4 snapshot of the state of small business capital
5 formation, including a wealth of information on
6 crowdfunding, Regulation A and Regulation D offerings.

7 The second item is to highlight work by the
8 Division of Corporation Finance's Office of Small
9 Business Policy to provide much-needed regulatory
10 guidance for small businesses. During the Biden
11 administration, the SEC expended tremendous amounts of
12 staff resources focusing on environmental, social, and
13 political projects that had a weak, if any, nexus to
14 the financial markets, rather than focusing on capital
15 formation. Division leadership since then has
16 refocused on its traditional work on capital formation
17 and investor protection, particularly with respect to
18 smaller businesses.

19 Recently, SEC staff published Frequently
20 Asked Questions on Form D. Since Regulation D plays
21 a significant role in capital formation for U.S. small
22 businesses, we should continue to improve clarity and
23 predictability for issuers seeking to rely on that
24 regulation. These FAQs consolidate existing guidance
25 and are designed to be a one-stop shop to quickly

1 address frequent questions posed to the staff about
2 Form D.

3 The Division of Corporation Finance has also
4 published new Compliance and Disclosure
5 Interpretations, or C&DIs, including ones that address
6 new questions about Regulation D. For example, one
7 C&DI clarifies that when taking reasonable steps to
8 verify accredited investor status under Rule 506(c),
9 issuers can use different verification methods for
10 different purchasers in the same offering.

11 Some of the changes update our guidance to
12 reflect the adoption of new rules and their impact on
13 issues such as transactional integration. Other C&DIs
14 formalize longstanding interpretive positions. For
15 example, under Regulation Crowdfunding, the staff
16 describe how to switch from one crowdfunding platform
17 to another before making a sale.

18 Additionally, the staff advise that certain
19 guidance and relief specific to registered companies
20 also applies in the Regulation A context, such as
21 extending the non-public filing and review
22 accommodation to Reg A issuers.

23 Lastly, the staff answered certain offering
24 questions that come up periodically in the Reg A
25 space, such as a company cannot accept any money or

1 other consideration before qualification. Our staff
2 stands ready to provide additional guidance and
3 interpretations. If you have questions or believe
4 that additional guidance is needed, I encourage you to
5 reach out to them.

6 Turning to today's agenda, I am pleased that
7 the Committee will continue its deep dive into the
8 topic of finders. A regulatory solution in this area
9 is long overdue. A key consideration is whether the
10 regulatory burdens can be minimized, given the limited
11 role such persons play. Sound regulatory practices
12 recognize that rules should be appropriately tailored
13 to the specific risk being addressed. If an
14 intermediary serves in a limited role, such as simply
15 providing introductory services, the full range of
16 broker-dealer regulation would not appear to provide
17 additional investor safeguards. Instead --

18 (Video dropped; complete video available on
19 [https://www.sec.gov/about/advisory-committees/small-](https://www.sec.gov/about/advisory-committees/small-business-capital-formation-advisory-committee#meetings)
20 [business-capital-formation-advisory-committee#meetings](https://www.sec.gov/about/advisory-committees/small-business-capital-formation-advisory-committee#meetings)).

21 MS. DAWOOD: Did we lose the rest of the
22 video?

23 FRANK: Must have.

24 MS. DAWOOD: Okay, well, Frank?

25 (No audible response.)

1 MS. DAWOOD: Courtney, should I just
2 continue?

3 FRANK: That was the entire video.

4 MS. HASELEY: Okay, thank you, Frank.
5 Yes, Marcia, please continue.

6 MS. DAWOOD: Okay. Well, thank you for
7 those remarks, Commissioners. We really appreciate
8 your time and your thoughts today.

9 I also want to take an opportunity to
10 welcome our two newest members. So we'd love for you
11 to give us a few minutes to share your background and
12 to maybe give us some topics and issues that are
13 related to small business capital formation that you'd
14 like to see the Committee address.

15 So first, I'd like to welcome Claire
16 McHenry, who is our new non-voting member appointed by
17 the North American Securities Administrators
18 Association.

19 Go ahead, Claire.

20 MS. McHENRY: Thank you very much. And I
21 appreciate the opportunity to participate in this
22 advisory committee.

23 As you mentioned, I am the Deputy Director
24 of the Nebraska Department of Banking and Finance,
25 Bureau of Securities, and I have over 20 years of

1 state securities regulatory experience in a variety of
2 capacities, from an examiner to working on
3 investigations and enforcement to different -- to
4 areas of policy work. I've also been active in the
5 North American Securities Administrators Association,
6 which is a nonpartisan organization of all U.S. state
7 securities regulators, Canadian provinces and
8 territories, and Mexico. And I'm currently serving as
9 NASAA's Corporation Finance Section Chair and your
10 state representative.

11 As far as issues and topics to be thinking
12 of, finders has clearly been on as a topic of
13 consideration and discussion for NASAA and its
14 members. Also interested in other types of education
15 and outreach that we can have to our small businesses
16 to inform them about their capital raising
17 opportunities available to them.

18 MS. DAWOOD: Great. Thanks, Claire.
19 Welcome.

20 And now I would like to also introduce and
21 welcome Joe Sheirer, who is the new observer appointed
22 to the Financial Industry Regulatory Authority, or
23 FINRA.

24 Go ahead, Joe.

25 MR. SHEIRER: Hi, Marcia and everyone.

1 Thanks for having me here. I'm really looking forward
2 to being part of the Committee as an observer.

3 As Marcia mentioned, I work at FINRA, which
4 is a nongovernmental regulatory membership
5 organization that focuses on regulating broker-dealers
6 in the securities industry. I've been with FINRA for
7 over 25 years in various roles. My current role is
8 pretty relevant to the work of this Committee. I
9 oversee two teams in Advertising Regulation Group. It
10 looks at marketing materials that broker-dealers use.

11 And I oversee the Corporate Financing team, which is
12 a complementary team to the SEC's Corporation Finance
13 Division.

14 We do work that's a little bit different
15 from the SEC and we focus on compensation and
16 conflicts in the public offering space. But we also
17 do a review of private securities that are filed with
18 us for review, sold to retail accredited investors by
19 broker-dealers. So particularly interested in the
20 work of the Committee overall.

21 As Claire mentioned, we're interested in the
22 finders space and all things that relate to securities
23 business conducted in the U.S. Educational content,
24 as well. Secondary trading. But at the core of what
25 we do is making sure that our members are complying

1 with our rules and serving the public in a way that
2 protects their interest, the investors, and the
3 market's integrity, which is our core mission.

4 But again, thanks for having me and looking
5 forward to being part of the Committee.

6 MS. DAWOOD: Thanks so much, Joe. Welcome.

7 And this meeting is Donnel Baird's last
8 meeting for serving on this Committee after four
9 years. I see that he's on the call today. And thank
10 you so much, Donnel, for your service and for being
11 with us today.

12 So, as I mentioned at the onset, today we
13 are going to spend the first part of the meeting
14 continuing our discussion on finders and regarding the
15 role of finders raising capital at the earliest of
16 stages.

17 So just to give you a little refresh of what
18 we did back in July, we spent significant time laying
19 the groundwork for what I hoped will become a
20 committee recommendation for finders.

21 So we heard from SEC staff from the Division
22 of Trading and Markets, who provided historical and
23 regulatory context for the finders issue, focusing on
24 the Commission's 2020 proposed exemptive order, which
25 was never finalized. That proposed exemptive order

1 contained a two-tiered limited conditional exception
2 from broker registration for finders who assist
3 companies with raising capital in private markets from
4 accredited investors.

5 We also heard from Gary Ross, an attorney
6 who identified that he believes to be a structured --
7 structural -- he believes that there is a structural
8 mismatch between early-stage capital needs and the
9 existing broker-dealer ecosystem. And he emphasized
10 that broker-dealers are generally unwilling to engage
11 in transactions below a certain size threshold,
12 leaving founders raising lower amounts without
13 professional fundraising assistance.

14 And we also heard from Kelly Arena of Golden
15 Hour Ventures, an individual who considers herself a
16 network builder focused on access and inclusion, who
17 emphasized that many effective connections between
18 founders and investors occur outside formal
19 transaction-based compensation structures.

20 So following the presentation, we had a
21 lively and informative discussion about the practical
22 necessity for finders and the risks created by
23 regulatory ambiguity. We talked about the nature of
24 finders' activities, the differences on a Tier 1 and
25 Tier 2 approach, and many of us felt that the Tier 1

1 finder approach, it was -- there's so many
2 restrictions that it didn't really make sense. And we
3 debated proposed limitations on finder activities,
4 including whether finders should be able to
5 participate in valuation discussions, conduct due
6 diligence, assist with pitch materials or marketing
7 materials, solicit investors, and negotiate on
8 issuer's behalf.

9 We also discussed potential limits on
10 compensation, the need for disclosures about the
11 finder's relationship to potential investors, and
12 whether there should be some, sort of, mandatory
13 notice filing for individuals acting as finders. So I
14 would say that a number of themes emerged from our
15 prior discussion. These were not recommendations by
16 any means, but they were places that I felt the
17 majority of the Committee was united in its thinking
18 on the topic of finders.

19 So first, there is something to be said for
20 regulatory uncertainty itself being a, kind of, market
21 harm, and the absence of regulatory certainty can
22 discourage reputable participation while enabling bad
23 actors. So essentially there are people out there who
24 could be the good actors that not necessarily going to
25 participate because they don't have the regulatory

1 framework to do so.

2 And second, we established that early-stage
3 capital markets seem to lack appropriate
4 intermediaries, particularly for small capital raises.

5 And there were points echoed not only by the
6 presenters but by several Committee members.

7 And also as a general matter, many of us do
8 believe and experience that finders often provide
9 value simply beyond introductions, and include market
10 insights, investor preparation, and signaling
11 credibility. Many of us also believe that some
12 regulatory framework is necessary, and that framework
13 would have to be flexible given the range of finder-
14 like activity from compensated professionals to unpaid
15 community connectors.

16 So with all that background, I'd like to
17 introduce our first invited speaker of the day, Steven
18 Jafarzadeh.

19 Steven is the Chief Financial Officer -- or
20 Chief Compliance Officer and partner at Stonehaven.
21 Stonehaven's fintech platform, a registered broker-
22 dealer that supports independent investment bankers
23 and placement agents.

24 So Steven, thank you for being here. If you
25 could explain the kinds of activities and transactions

1 the broker-dealers at Stonehaven are involved with and
2 maybe a little bit around the sizes of the types of
3 deals that you do? And your views on the relative
4 advantages and disadvantages of a limited finder
5 exemption. We'll have you speak for maybe about seven
6 to 10 minutes, and then we'll take some questions.

7 DEEP DIVE ON "FINDERS" CONTINUED

8 MR. JAFARZADEH: Okay. Thank you, Marcia.
9 Good morning to everyone.

10 MS. DAWOOD: You're a little hard to hear.

11 MR. JAFARZADEH: I'm sorry. You able to
12 hear me now?

13 MS. DAWOOD: There we go. That's a little
14 bit better. Yes, thank you.

15 MR. JAFARZADEH: Okay. Thank you.

16 I'd like to thank Chairman Atkins and
17 Commissioner Peirce and, of course, the SEC Small
18 Business Capital Formation Advisory Committee members
19 for giving me the opportunity to speak with you today.
20 It's a true honor.

21 I'd also like to recognize and acknowledge
22 TJ, Advocate for Small Business Formation. And to
23 Stacey Bowers, former Director of the SEC's Office of
24 the Advocate for Small Business Capital Formation, for
25 their invitation to speak today.

1 So one of the primary reasons that I'm here
2 today is to try and shed some light around the
3 discussion of finders, which in our context are
4 considered intermediaries who introduce potential
5 investors to companies or private issuers seeking
6 capital, typically operating through private
7 placements.

8 I recall approaching the Small Business
9 Capital Formation Advisory Committee meeting that took
10 place back on July 22nd this past summer, and the
11 discussion around finders seemed materially uninformed
12 to me. Not just to me, but to many of my professional
13 peers that viewed the meeting discussion, as well.
14 Given the fact that this Committee is charged with
15 making certain policy recommendations to the SEC and
16 Congress that specifically impacts small business
17 capital formation, I think it's critical to ensure
18 that all members of the Committee are well versed in
19 the mechanics and the regulatory framework which has
20 governed the current and historical ecosystem for
21 private issuers in capital formation. And so I'd like
22 to provide a more complete perspective of that
23 ecosystem today through the lens of a seasoned market
24 practitioner that operates directly within that space.
25 I've been serving as a CCO for a small firm,

1 broker-dealer and member firm -- FINRA member firm for
2 approximately 20 years. My firm has been purely
3 focused on raising capital for private issuers,
4 facilitating M&A activities, and brokering large
5 private secondary transactions. I'm also a member of
6 FINRA's Small Firm Advisory Committee, appointed to
7 this position by the FINRA Board of Governors. I am
8 also a Chartered Alternative Investment Analyst and
9 Certified Regulatory and Compliance Professional as
10 designated by the FINRA Institute at Wharton. So I've
11 spent most of my career advocating for smarter
12 regulatory policy for small firms, and that is why
13 today's topic of finders is so important to understand
14 holistically.

15 In fact, my partner and the CEO of my firm,
16 David Frank, and I co-authored a letter to the House
17 Financial Services Committee last year, of which a
18 copy, I believe, was provided to the Committee members
19 ahead of our meeting today. And this letter really
20 goes to the heart of both capital formation and
21 investor protection, and it focuses on the Unlocking
22 Capital for Small Businesses Act of 2'25; a bill that
23 has yet to be introduced to Congress.

24 We've all seen rule promulgation and policy
25 initiatives which are well intended, but if

1 implemented, would have widespread and negative
2 unintended consequences. I believe that this bill was
3 a prime -- is a prime example of this. And I think
4 it's fair to say that we all want to expand access to
5 capital for America's small businesses, as they are
6 the backbone of our economy. They drive innovation,
7 create jobs, and fuel economic opportunity in
8 communities across the country. And as a firm that
9 has raised more than \$11 billion in private capital
10 across all sectors over the past 20 years, we're
11 deeply committed to responsible capital formation.

12 But it's key to note here that capital
13 formation and investor protection are not opposing
14 forces. In fact, they are mutually reinforcing
15 pillars of healthy markets. And it's precisely
16 because we believe in expanding access to capital that
17 we oppose the Act, and certain elements of the finders
18 exemption that's been proposed.

19 The proposed legislation seeks to create a
20 broad federal safe harbor for so-called finders,
21 exempting them from broker-dealer registration under
22 certain thresholds and transaction-based compensation
23 under 500,000 annually, capital raises under 15
24 million per issuer or under 30 million total, and
25 fewer than 16 transactions per year. And while these

1 limits may appear modest, I want to convey that the
2 implications are not.

3 The broker-dealer regulatory framework
4 administered by FINRA, and under SEC oversight, is
5 critical to maintaining healthy and trusted markets
6 within the U.S. It's a time-tested system with
7 guardrails that protects investors, ensures market
8 integrity, and fosters trust in private markets.
9 Weakening this framework risks eroding the very
10 foundation upon which sustainable capital formation
11 depends. And so I want to briefly summarize five
12 major points regarding the Act and its proposed finder
13 exemption that we reference in our letter that I noted
14 earlier.

15 First, let us consider due diligence and
16 suitability. Under existing rules, FINRA-registered
17 broker-dealers must conduct comprehensive due
18 diligence on private placements. They must review
19 financials, analyze models, assess risk factors, and
20 ensure disclosures are fair and balanced. Registered
21 representatives must satisfy suitability standards and
22 act in the best interest of their clients under Reg
23 Best Interest, also known as Reg BI, which is oriented
24 towards retail investors, which, ironically, is the
25 exact demographic with whom these so-called finders

1 would be engaging.

2 These are not abstract or excessive
3 requirements; they are operational obligations backed
4 by supervision, documentation, enforcement, and public
5 transparency through BrokerCheck. The proposed finder
6 exemption would remove these foundational safeguards.

7 Individuals receiving transaction-based compensation,
8 arguably the defining characteristic of broker-dealer
9 activity, would be permitted to operate without the
10 license, education, supervision, AML standards
11 required of registered representatives.

12 Private placements are inherently less
13 transparent and more illiquid than public securities.

14 They involve limited disclosures and limited
15 liquidity. That is precisely why I believe robust
16 oversight matters most in private markets, not least.

17 Without broker-dealer oversight, there would be no
18 structured due diligence framework, no suitability
19 review, no BI mechanisms for managing conflicts
20 critical to making informed decisions, and no
21 meaningful supervisory system ensuring fair and
22 balanced communications. The result would be
23 predictable: an environment that may attract some
24 well-intentioned actors, but one which would also
25 attract a spectrum of bad actors seeking to exploit

1 regulatory gaps and focus on personal gains.

2 MS. DAWOOD: Hey, Steven, we have about five
3 more minutes for your remarks, so if you could --

4 MR. JAFARZADEH: Okay, I'll try and
5 summarize and tighten up a little bit. Thank you.

6 Second, let's consider marketing and
7 communications. In my opinion, balance and interest
8 in compensation must be disclosed. Under the existing
9 framework. The proposed -- these protections would be
10 materially loosened. Finders could distribute
11 promotional materials without principal review,
12 without the same disclosure standards, and without a
13 supervising broker-dealer accountable to regulators.

14 Third, let's consider anti-money laundering
15 and record keeping. Broker-dealers operate under
16 rigorous AML, customer identification programs, and
17 record retention requirements. These systems create
18 transparency and traceability. They deter illicit
19 actors from exploiting credit markets. Reducing these
20 requirements -- an ecosystem that is harder for --
21 money laundering -- market manipulation -- trends that
22 are harder for regulators to monitor. And this would
23 erode market integrity and trust.

24 Fourth, let's consider investor recourse in
25 scenarios where they're harmed. We have FINRA's

1 arbitration forum for investors who suffer harm from
2 broker-dealer misconduct. Today, FINRA has
3 enforcement authority to investigate and discipline
4 member firms and reps. BrokerCheck provides public
5 transparency. Under a finder regime, what recourse
6 would investors have? What would prevent individuals
7 previously barred by FINRA from re-emerging as
8 finders? How many investors evaluate -- or how would
9 investors evaluate track records without public
10 disclosure systems? Removing participants from
11 FINRA's jurisdiction does not eliminate misconduct; it
12 merely shifts it outside a structured enforcement
13 framework into an already overburdened civil and
14 criminal system.

15 And fifth and final, let's understand the
16 Act's risk created -- creating an unenforceable period
17 between regulated and unregulated markets. Finders
18 would self-monitor compliance with compensation
19 thresholds, capital-raised limits, and transaction
20 counts. There would be no centralized oversight body
21 tracking when these thresholds are exceeded. The
22 incentives are obvious; why remain under a supervised
23 broker-dealer structure if one can operate under
24 lighter oversight until thresholds are crossed? And
25 who ensures that thresholds are accurately reported

1 when they are crossed?

2 Over the past 15 years, a modern regulatory
3 platform model has emerged. Small broker-dealers act
4 as umbrella compliance infrastructure hubs, supporting
5 independent contractors, often solo practitioners who
6 raise capital for private companies and funds. These
7 firms provide licensing, supervision, AML systems,
8 marketing review, due diligence processes, --
9 tracking, and much more. Firmstep is one of these
10 regulatory platforms.

11 MS. DAWOOD: Hey, Steven, your audio is
12 starting to cut out. Thank you for those remarks.

13 Robert, you had your hand up?

14 MR. BOLEN: Yeah. So, I don't know how do I
15 put the hand down, but -- there we go.

16 MS. DAWOOD: It's okay.

17 MR. BOLEN: Yeah. So, Steven, I'm the
18 National Ombudsman. I oversee regulatory enforcement
19 by all federal agencies against businesses, not-for-
20 profits, cities, counties, and towns. Definitely
21 appreciated the message.

22 What I feel is missing is this does occur.
23 We have finders. I've founded and run a business.
24 And I've also taught at Georgetown University. I work
25 in their Entrepreneurship Department. Finders are

1 everywhere. They're an absolutely crucial component
2 of the small business ecosystem. And while I
3 definitely appreciate FINRA, there is a gap in that
4 market we're seeing filled. So the point here is to
5 put in some guardrails and ensure it's clean, above
6 board, and can be regulated without pushing that
7 entire burden onto small entities, or to people who
8 would not otherwise be considered broker-dealers.

9 MR. JAFARZADEH: Appreciate your comments.

10 Yeah, I don't disagree with you there.

11 However, we do agree on that there should be a
12 reasonable framework of oversight in that lane. And I
13 think that the current ecosystem, the current
14 regulatory framework, really provides exactly what is
15 needed. And it's a very simple, cost-effective
16 pathway to become a registered rep and join a broker-
17 dealer.

18 I think that really the issue here, it's a
19 problem seeking a solution. The framework's been in
20 place for quite some time. It's been functioning very
21 well. We've got 150 individual registered
22 representatives on our platform. We're well aware of
23 scores of other broker-dealers that do the same. And
24 keeping everything above board, in our mind, is
25 paramount to market integrity and to protecting retail

1 investors, which are at the lower end and would
2 generally be touched by finders.

3 MS. DAWOOD: So, Steven, your firm will
4 actually help companies that are looking to raise
5 maybe a million, two million dollars at reasonable
6 fees?

7 MR. JAFARZADEH: That's correct. We support
8 a broad range of private issuer clients. Some are
9 looking, to your point, Marcia, for small capital
10 raises, sub-\$3 million in SAFE rounds, et cetera. And
11 we go up to larger Series D and E rounds that may be
12 50 million -- raise money -- fund. And we support M&A
13 activity, as well.

14 MS. DAWOOD: Um-hmm. And what about people
15 who are raising less than that, like, 100,000? 250?

16 MR. JAFARZADEH: I think that there are --
17 Reg CF speaks to that, you know, micro rung of the
18 ladder there on very small capital raises for -- I
19 think that the crowdfunding aspect of the rule really
20 touches on that.

21 MS. DAWOOD: All right, Rose. Then Bart.
22 And then I thought I saw Robert, again, but Robert, if
23 you want to chime in after Bart.

24 Rose.

25 MS. STANDIFER: Sure. I had a question

1 because, I mean, it's not just retail investors,
2 right? If a small business is raising, let's call it
3 100,000 or 500,000, they may want to be connected to
4 high net worth individuals, angel investors, and it
5 wouldn't be a Reg CF given the limitations on
6 individual -- on any one individual's investment.

7 Does the regulatory framework work for those
8 companies to use a registered broker-dealer in a cost-
9 effective way? And, you know, there's instances that
10 we have heard where a small business may try to engage
11 a broker-dealer. And I think we heard in some opening
12 remarks from the Commissioners, it's really too small
13 for a registered broker-dealer to deal with. They
14 don't want to be bothered with something that small.

15 What do you think is a solution for that
16 gap?

17 MR. JAFARZADEH: I disagree that broker-
18 dealers would be -- certain broker-dealers would be
19 bothered, or they're -- they would not be interested
20 in supporting the private issuer and assisting them in
21 raising capital. I think it really depends on the
22 opportunity and how compelling that opportunity is.
23 The market will speak as to whether or not it is a
24 compelling opportunity or not. And so, I think that,
25 you know, on the smaller end of the scale for raising

1 capital, if folks do want to get into that lane, they
2 don't need to stand up their own broker-dealer, that's
3 not the -- it's not the cumbersome pathway that may be
4 a misnomer here; they can join broker-dealers that
5 support individuals and -- who are trying to source
6 and sell private investment opportunities, really, at
7 any level. And I think a lot of folks on our
8 platform, we have a diverse group of agents on our
9 platform, many are focused on the smaller end of the
10 market. Some in the micro end of the market. And
11 others are focused on the -- on larger-scale
12 opportunities, as well.

13 So our focus is really on, again, on market
14 integrity here. And I think that, you know, although
15 well intended, when thought through and looked at
16 through a -- in a holistic lens, certainly from a
17 seasoned market practitioner, from my own perspective,
18 I think that creating this lane -- I mean, you could
19 U4 we all -- if everyone's got a driver's license out
20 on the highways, right? And if we were to say, hey,
21 for those people who are not -- who are driving less
22 than 100 miles a year, you don't need a driver's
23 license, those folks are still out in the lanes with
24 everyone else driving. They're not held to the same
25 standards. It could cause a lot of really negative

1 unintended consequences. And I think that analogy is
2 really pertinent there.

3 MS. STANDIFER: Marcia, if I may?

4 MS. DAWOOD: Go ahead, Rose.

5 MS. STANDIFER: Can I have a quick follow
6 up?

7 So I'm not sure then the last analogy works.

8 I think this is more somebody can drive on their own
9 farmland versus on the freeway with everyone else.

10 And I want to go back to something you said
11 early, which is, you know, the compelling opportunity,
12 right? So the small dollar, the broker-dealer
13 won't -- you believe they'll be willing to engage even
14 at a low compensation with the high regulatory burden
15 if it's a compelling opportunity.

16 My concern there is are we truly putting the
17 broker-dealers in the gatekeeper role as to which
18 companies can or cannot go outside their networks to
19 raise? Whereas we're talking about small companies
20 that need network effects to find not just retail
21 investors, but potentially accredited investors. In
22 most cases, from our conversation, it was accredited
23 investors. Again, really different than going to a
24 retail investor or Reg CF situation.

25 MR. JAFARZADEH: Well, I think that there's

1 already SEC Rule 3a4-1, commonly known as the issuer's
2 exemption, so the issuer itself does not need to
3 become registered, go out and raise capital for
4 itself. That's that's been in place for some time
5 now.

6 But if you are utilizing intermediaries and
7 agents to assist you in raising capital, I think that
8 there's a lot to look at from the downside, and that
9 needs to be weighed responsibly against the upside.
10 And so my contention here today was really to
11 brightline a lot of the -- of what could occur on the
12 downside of creating this lane without critically
13 thinking through the frameworks that have been in
14 place and have been functioning for decades.

15 MS. DAWOOD: One last question from Bart,
16 and then we'll have to move on.

17 MR. DILLASHAW: So drilling it onto that a
18 little bit more, could you maybe provide a little bit
19 more context on what the costs associated with using a
20 broker are? And then if you have any information on
21 what the average size of raise that a broker is
22 seeing, that might provide some context? And
23 specifically, some of the backdrop here is from some
24 folks that we heard before, the finders that we are
25 talking about are often not, you know, full-time

1 professional broker-dealers whose primary day job is
2 connecting folks, but, you know, generally going to be
3 folks that do this somewhat tangentially to some of
4 their other activities. And usually it's connecting
5 issuers with their own personal networks of potential
6 investors, which tend to be accredited, so it's a more
7 sophisticated class of investors.

8 And I'm curious as to, because I think your
9 proposition is that those intermediaries should go
10 through the work of becoming a broker-dealer or
11 operating under it, and if you could provide any
12 context of what that barrier is? What are the
13 personal costs, if any, to those intermediaries? I'd
14 love to hear that.

15 MR. JAFARZADEH: Sure. Sure. Happy to
16 discuss that.

17 Just to clarify, speaking about the economic
18 framework for the private issuer? Or the economic
19 framework that the agent -- or the finder would need
20 to look at?

21 MR. DILLASHAW: Yeah, kind of, both, right?
22 You know, so what is the cost to the issuer? And
23 then, you know, obviously, of that cost, you know, how
24 much of that is going to the broker? Do they keep
25 versus go into their own, sort of, like,

1 administrative burden on that?

2 MR. JAFARZADEH: Sure. So, I mean, we see
3 market rates fluctuate and, you know, depending upon
4 the size and structure of the opportunity, economics
5 generally on the lower end of the scale are going to
6 have higher percentage fees for raising capital.

7 So, just to clarify, you know, there's a
8 commercial element to this, and then there's a
9 regulatory element to it. Just speaking on the
10 commercial element, I don't think there would be much
11 change from a market rate perspective, whether or not
12 the intermediary is a registered agent or not from the
13 private issuer's perspective.

14 To address the second part of your question
15 as far as, you know, what does that pathway look [sic]
16 from a cost perspective to an individual who would
17 want to become an agent on a broker-dealer, and we
18 have many who are not full-time capital raising agents
19 but do have full-time positions and do registered work
20 tangentially, and their full-time work is covered by
21 Rule 3270 in an outside business activity that's
22 reported and approved by the broker-dealer to engage
23 in that. So there can be all types of profiles that
24 engage in this type of activity, not just full-time
25 capital raising agents.

1 But the pathway is quite simple, at least
2 with Stonehaven and with many of our peers, it's a de
3 minimis level of onboarding fees, generally measured
4 in hundreds or, you know, \$1,000, in that range. The
5 pathway to getting licensed and registered is not
6 difficult. Tests can be taken to obtain the SIE, the
7 Series 7, the Series 63 in a matter of weeks in some
8 cases, in most cases that I've seen with agents coming
9 on board.

10 So I think that some deliberate, you know,
11 framework is required here. And it's really a simple
12 pathway forward that is cost effective for individuals
13 that do want to pursue that path.

14 MS. DAWOOD: All right. Well, Steven, thank
15 you so much for your time today.

16 Robert, your hand was up and down twice.
17 Did you have a last question?

18 MR. BOLEN: Yeah. I just wanted to say
19 nearly 30 years of data this office has backs what
20 Rose and Bart were saying, and Steven, I'm not sure it
21 aligns with you; it's not the same as driving on a
22 road with everyone else. It would be more, like, you
23 can drive a golf cart on your own property and saying,
24 oh, if you want to help connect someone in your town
25 to funding for, in our examples, with meat processing.

1 These are 30, 40 thousand dollar investments: they
2 don't have the opportunity to take a month off of
3 work, study for the Series 7, acquire the necessary
4 materials to ace it, and then execute a single deal.
5 So I just want to make clear what's happening in most
6 of America for an extended period does not align with
7 the model you're proposing.

8 Thank you.

9 MS. DAWOOD: Great.

10 Well, thank you so much today for being
11 here, Steven, and giving us your thoughts. You are,
12 of course, welcome to watch publicly on SEC.gov the
13 rest of the meeting. Thank you.

14 MR. JAFARZADEH: Thank you, Marcia. Thank
15 you to everyone.

16 MS. DAWOOD: All right. Okay, so that is --
17 we've definitely covered a lot between last meeting in
18 July and what we've been talking about today related
19 to finders.

20 So last night you received an email that
21 included a summary sheet that helps to distill the
22 differences between what we talked about last meeting
23 with the Tier 1, Tier 2 finders, and then between
24 those finders and registered broker-dealers. As I
25 said before, we really thought that the having two

1 tiers was a little complicated, but we were focusing
2 more on the items in the Tier 2 column. So if you did
3 receive that email last night and you have it in front
4 of you, that's, kind of, what we'll be talking about.

5 But before we go into any detailed
6 discussion, I'm curious to hear from any of the other
7 Committee members your thoughts on finders in general
8 and the need for them.

9 MS. NIKLASON: I would just say that the --
10 that some of the points that were raised toward the
11 end here I do think are material, and there are a lot
12 of raises that are frankly just too small for
13 registered broker-dealers, you know, regardless of
14 protestations, you know, otherwise. So I do think
15 that opening up a way to -- for finders to operate and
16 be above board and have guardrails would be superior
17 to the current situation where they don't operate
18 above board and therefore do not have guardrails.

19 MS. DAWOOD: Diego, I think you're not
20 muted.

21 Okay, Claire, go ahead.

22 MS. McHENRY: Thank you.

23 So NASAA has spoken several times about the
24 issue of finders, including providing testimony before
25 this Committee and raising some of the concerns that,

1 you know, Steven has also raised in particular. And I
2 just want to say some of the concerns that we had
3 about finders are not theoretical.

4 We consistently have enforcement reports
5 where we highlight the role that we have in our
6 gatekeeping of making sure that bad actors are kept
7 out of this industry. Also, with the types of
8 enforcement actions that we take involving
9 unregistered securities and often the intermediaries
10 that are involved and the fraud and activities that
11 are included in there.

12 So just wanting to highlight for those on
13 the Committee who may not be aware of the work that
14 NASAA has done, the states have done in this space, I
15 would point them to our Enforcement Report for 2025.
16 But also that we stand ready to have those discussions
17 with the SEC and with FINRA about creating a more
18 tailored approach to those finders and to get them
19 into a registered pathway.

20 MS. DAWOOD: So you would support a
21 framework that was specifically for finders?

22 MS. McHENRY: So the -- we have been
23 consistent in our message that we would be willing to
24 have those discussions, to have a more tailored
25 approach to those who are engaging in those types of

1 activities, but not a wholesale preemption. For
2 example, on the due diligence front, it seems
3 counterintuitive to us to have somebody who is not
4 even conducting any level of due diligence or a
5 requirement for that to then go and be selling those
6 types of securities to retail investors.

7 MS. DAWOOD: But it happens all the time.
8 Like, I mean, angel groups do their own diligence.
9 They -- they're basically making decisions for whether
10 or not they're going to invest in a company, and they
11 don't use a broker-dealer and they're not --

12 But, you know, so what would really be the
13 difference here?

14 MS. MCHENRY: The difference would be --

15 MS. DAWOOD: Just become somebody's getting
16 paid?

17 MS. MCHENRY: The compensation is an element
18 to it. The level of opacity to this particular
19 industry is, by nature, making it difficult for retail
20 investors to get levels of information that they need.
21 And intermediaries do play an important role in that
22 respect, and having somebody come in and not having
23 done any level of research on those offerings and then
24 trying to sell it to another person for compensation,
25 I think, does change the nature of it.

1 MS. DAWOOD: All right. Herbert. Then
2 Bart. Then Jennifer.

3 MR. DRAYTON: (No audible response.)

4 MS. DAWOOD: Herbert, I can't hear you.

5 MR. DRAYTON: (No audible response.)

6 THE COURT: Herbert? How about Bart, you
7 go. We'll get Herbert.

8 MR. DILLASHAW: Yeah. So my question is, we
9 keep -- there seems to be some level of distinction
10 between what we're referring to as retail investors,
11 and Claire, maybe you can, sort of, like, clarify a
12 little bit more? When you're talking about retail
13 investors, are those unaccredited? Are those casual
14 investors? And maybe more, sort of, posing the
15 distinction is, is there a line between some of the
16 bad activity -- this bad active -- actor activity that
17 we're talking about, and what I'll just call more
18 sophisticated accredited investors, folks that are
19 part of angel groups or investor networks that, you
20 know, that for whatever reasons may be more
21 sophisticated? And is there a line of distinction
22 that may be relevant to some of this succession
23 activity?

24 MS. MCHENRY: I think there is some levels
25 of distinction between accredited versus unaccredited.

1 However, as we have -- since the unaccredited
2 definition has not changed significantly, more and
3 more people are -- can be classified as accredited
4 investors. So there is difference between those who
5 may be in an angel position, those who are
6 sophisticated, have a higher net worth, maybe have a
7 little bit more ability to have that access to that
8 information than somebody who only is accredited
9 because of -- they have accumulated a significant
10 amount of retirement funds, but aren't generally
11 necessarily always in an angel position.

12 So it's part of the discussions that I think
13 could be had about -- with the SEC and with FINRA
14 about how to craft such a tailored regulatory regime.

15 MS. DAWOOD: Yeah. In our last meeting, we
16 did talk specifically about whatever the finders are
17 doing to help the companies raise, it would all have
18 to be compliant with in the offering. Like, for
19 example, if the offering is only for accredited
20 investors, then the finders are only going to solicit
21 accredited investors.

22 We didn't really -- I think there's two
23 separate topics going on here. Having a whole
24 conversation about finders helping to find -- helping
25 companies to find accredited investors is one thing.

1 It's a whole other animal to get into finders helping
2 the retail investors, and I think that's a completely
3 different topic.

4 But Herbert, did you get your audio fixed?

5 MR. DRAYTON: Yes. Can you hear me now?

6 MS. DAWOOD: Yes.

7 MR. DRAYTON: Can you hear me now?

8 MS. DAWOOD: Yes.

9 MR. DRAYTON: Okay, great.

10 With respect to enforcement issues, do you
11 find that they're about the same with finders and
12 brokers? Or more enforcement -- with one or the
13 other?

14 MS. DAWOOD: Are you asking Claire?

15 MR. DRAYTON: Yeah, I'm asking Claire. I'm
16 sorry.

17 MS. McHENRY: Sorry, could you repeat the
18 question?

19 MR. DRAYTON: With respect to enforcement
20 actions, is it about the same with brokers and
21 finders? Or you find that there's more enforcement
22 actions on the finder side or brokers side?

23 MS. McHENRY: I would say it's more on the
24 unregistered space. So we do not have as many
25 enforcement actions involving a registered broker-

1 dealer who is engaging in private placement activity;
2 it is more frequently in the unregistered intermediary
3 space for unregistered persons and unregistered
4 issuers.

5 MR. DRAYTON: Is that significant? I'm just
6 trying to gauge the depth of the concern.

7 MS. McHENRY: It is significant. Typically,
8 in finders or in a registered space, we are able to
9 engage in gatekeeping functions, and so that we're
10 able to keep certain bad actors out of the industry
11 from the beginning through our registration and
12 licensing process. That is a strong process that we
13 use to review backgrounds and ensure that persons who
14 should not be in this industry are not, in fact, in
15 this industry.

16 In fact, in our Enforcement Report, we also
17 highlight those that we have either -- who have
18 voluntarily withdrawn because of the level of review
19 that concurs during the registration process,
20 including those that we have denied, suspended, or
21 even revoked their license.

22 MR. DRAYTON: Thank you.

23 MS. DAWOOD: All right, Jennifer. Then
24 Rose. Then Robert.

25 MS. NEWTON: Yeah, and this may have already

1 been said, but just looking at the culture of early-
2 stage finders, I was just wondering, and I think,
3 Bart, you may already have asked this question, if
4 there was just a way to create a level of distinction
5 between those actors or individuals that are more
6 sophisticated? Because the culture of early-stage
7 finders are more relational, like, what we heard in
8 the last meeting. And it's probably, you know, maybe
9 you're looking at one to two raises that they're doing
10 on an annual basis. It's not repeating or frequent,
11 and they operate as, like, community liaisons where
12 they're working with various startups to try to
13 acquire capital. But if there's really a way to
14 create a distinction between those kinds of activities
15 and then the other actors that are clearly in the
16 business of finding capital and do have the capacity
17 to take a Series exam or to engage a crowdfunder,
18 because the reality, the paradigm of early-stage
19 startups, there's not a lot of time and a lot of
20 capital around to just, you know, to just throw it at
21 a Series A. I don't know what -- I don't even know
22 what the fees are now for those FINRA exams. But, you
23 know, it's just sometimes just not feasible.

24 So just, you know, I guess, that's our
25 discussion today. But just creating some way to just

1 to create that distinction between the different
2 cultures that we will probably be encountering in this
3 issue.

4 MS. DAWOOD: Yeah. Thanks, Jennifer.
5 Rose. Then Robert.

6 MS. STANDIFER: Yeah. To build on what
7 Jennifer was saying, and going back to our prior
8 discussion, I realized it was quite some time ago now,
9 and this was in the prior release, too, around
10 permitted activities. I want to make sure that we're
11 clear as a committee who we're talking about, because
12 we are talking about finders who would not sell a
13 security.

14 So I think we did come to a consensus in our
15 last meeting that there are certain activities where
16 it does make sense to have a regulated entity making,
17 you know, doing these gatekeeping functions because
18 they are passing on the credibility of the offering
19 itself.

20 Where we have not been talking about that,
21 when we've been using the word "finders," or at least
22 I have not, when I look back at the past meeting,
23 right, it's really this connector, right? These are
24 the intermediaries that are not saying, "I have done
25 due diligence on this. This is a great investment.

1 You should put your money in it." It's, "Hey, you
2 should meet Sally," right? "I think there's a good
3 connection there for you guys to talk about," you
4 know, "her company." And right now, it's -- this
5 happens all the time, and it's very gray, and I think
6 it is keeping out well-intended actors. And so maybe
7 the reason we're seeing a lot of enforcement there is
8 because we're seeing people that are going to take
9 advantage of that in the market, where the good
10 people, or you know, these are very subjective terms.

11 But so I just want to make sure that we're
12 clear when we talk about recommendations, are we
13 talking about, you know, going back to that permitted
14 activities, do we think there is a line, right? Do we
15 think, okay, you can go here, but not here, right?
16 And how do we monitor it? Or if you do these
17 activities and not those activities?

18 Because I do see a distinction. I actually
19 don't disagree; if somebody's going to come and say, I
20 have done diligence and this is an offering that you
21 should invest with," I have a lot more heartburn with
22 that, being an unregistered whatever you want to call
23 them versus, "Hey, you should meet Sally."

24 MS. MCHENRY: I would agree with that.

25 Robert.

1 MR. BOLEN: I agree with that, as well.

2 And I just want to push back a little bit,
3 Claire, on the notion that by regulating and
4 registering people in this industry we are effectively
5 keeping out all bad actors.

6 A huge component of the SEC's work is
7 enforcement against bad actors, so you may see a
8 higher report – and I don't have this data, and I
9 don't believe anyone has this data – but you mentioned
10 there'd be a higher percentage or proportion of
11 unregistered broker-dealers and enforcement actions
12 against them versus registered. Most people aren't
13 registered, so you're going to see a higher proportion
14 from that.

15 And then the scale at which you're seeing
16 bad actors on the registered side far exceeds that on
17 the unregistered side. Someone who is registered and
18 a bad actor, like, Bernie Madoff, is doing a lot more
19 damage than someone who made an introduction to two or
20 three people in their town and didn't realize the
21 owner wasn't keeping books properly.

22 So I just want to put that in there as part
23 of the discussion.

24 MS. DAWOOD: Um-hmm. Yeah, thanks, Robert.

25 Okay, so not as a formal vote yet, but of

1 the voting members of the Committee, is there anyone
2 who is opposed to the idea of finders as connectors,
3 as long as they are staying within the offering's
4 framework of that security that's being offered?

5 (No audible response.)

6 MS. DAWOOD: Okay. Great.

7 And then we had talked about the -- in this
8 case, it's the Tier 2 part of the November 20th -- or
9 November 2020 previous committee's proposal. So in
10 our last meeting, we did talk about what the finders
11 could do and how -- I guess there was, like, in my
12 mind there are, like, three buckets here. What can
13 they do? What would we say they should be able to do
14 as far as marketing, diligence, being a part of the
15 overall discussions? And then talking about the
16 thresholds, what would we say? That they -- how much
17 could they raise?

18 I -- you know, we heard about up to \$30
19 million, 16 transactions a year, things like that.
20 And then also just about, how do they even let --
21 like, how would it be so that they would -- that the
22 SEC would even know that they were -- like, how would
23 they register? How would we know that they were a
24 finder? And what would we put them through in order
25 to do that?

1 So, maybe we could have a discussion on
2 those points so that we could come to a little bit
3 more of clarity on the actual recommendations that we
4 might want to give to the Commission.

5 Rose.

6 MS. STANDIFER: Sure. So I think when we
7 had conversations around the limitations of the past,
8 ones that Marcia mentioned, if people have what was
9 circulated before the meeting since, unfortunately,
10 we're not there in person before us, I'd be curious
11 hearing from other members as to whether or not the
12 Tier 1, Tier 2 makes any sense in terms of
13 distinguishing activities and threshold? Or if we
14 want to focus our conversation on, you know, a safe
15 harbor for finders and, you know, really. Everyone
16 would be under that one safe harbor if we can come to
17 alignment on the appropriate guardrails around that
18 safe harbor.

19 My take is looking, you know, what happened
20 back in 2020 and conversations. You know, there
21 was -- the prior committee had conversations around
22 that. Obviously, that stalled. I think this just
23 adds complexity in an area where we're trying to add
24 simplicity, so I think it's -- does the opposite of
25 what we want. You know, I would suggest that there is

1 , you know, one framework for finders as distinct of
2 registered broker-dealer. I would suggest that it
3 does have, you know, set of activities that they can
4 do, and, you know, with the line and I go, for me,
5 that line is that due diligence to recommendation.
6 I'm not saying that they can't do due diligence, but
7 not due diligence to the point of making a
8 representation that "I have done due diligence, and
9 this is a good offering for you to put your money
10 into."

11 And then, you know, I'm curious of people's
12 thoughts of, like, if this is a 506(b) or (c)
13 offering, do we, you know, expand the checkboxes as to
14 whether or not a finder was used, is there some, sort
15 of, disclosure to the investors that say, hey, this
16 round was -- you know, there was a finder that helped
17 us, and they're getting, you know, a half a point of
18 the raise, or something, like, that. But I would
19 really welcome Committee members to raise our hand.
20 Appreciate that we're not in person, but we had a
21 robust discussion in July, and let's try to follow up
22 on that.

23 MS. DAWOOD: Thanks, Rose. Yeah, agreed on
24 that. And, yeah, we did talk in July about the
25 disclosure to investors in some way.

1 Other comments?

2 MS. NIKLASON: Yeah, I agree. I think a
3 disclosure is important, and I think that's where we
4 came down last time. It just -- it doesn't feel right
5 for retail investors to make an investment and find
6 out only later that the person who did the
7 introduction personally benefited from that, so I
8 would think that a disclosure would be critical.

9 I guess I also agree that creating two tiers
10 is -- it may make us feel better, but I'm not sure
11 it's helping the market. And creating a single tier
12 would probably just be simpler for everyone and make
13 the rules clearer.

14 MS. DAWOOD: Yeah, I'd agree with that.

15 And just to be clear, when you're saying
16 retail investor, that would be somebody who is
17 accredited?

18 MS. NIKLASON: Yeah, I'm sorry, yes. Yes.

19 MS. DAWOOD: Not under an institution, okay.

20 I just wanted to clarify, because, yeah, in the
21 public markets, we say -- retail investors mean
22 something different. Okay, yes, I agree with that.

23 And Herbert, go ahead.

24 MR. DRAYTON: I just want to underscore what
25 Rose and Laura just said; this disclosure, yes. And

1 one tier, which in this instance would be Tier 2.

2 MS. DAWOOD: Um-hmm. So let's go to the next
3 big topic, which is about thresholds.

4 In some of our one on one discussions with
5 the Commissioners, we -- I think they would like to
6 see some information or discussion from the Committee
7 about where those thresholds might make sense. And
8 this would be the amount of money that a finder could
9 help a company raise, the amount of times they could
10 raise during the year, and then what their maximum
11 compensation could potentially be. So maybe we could
12 talk about that for a few minutes.

13 MS. DAWOOD: Bart.

14 MR. DILLASHAW: I could at least talk about,
15 sort of, the type of activity that I'm used to seeing
16 in, sort, of the venture market. The range of amounts
17 is, I think, actually pretty big. It is everything
18 from tens of thousands of dollars to millions. A
19 little bit talking about what type of -- it's this,
20 you're talking about what sector, what region. You
21 know, folks trying to raise, you know, money in the
22 Midwest for a packing plant are going to be different
23 than folks trying to raise money for a biotech company
24 in Silicon Valley. So I do think any discussion of a
25 fee-based amount could be difficult because there's

1 a -- there's such a range.

2 I think number of fees that you're paid, I
3 think, is a little bit more interesting because I
4 think the type of finders that we are talking about,
5 you know, this is not their full-time job for the most
6 part. And again, I think it's tough to put firmness
7 around that. But at the same point, once you're in
8 the habit of doing it, it's more than one, which is
9 one of, I think, the big limitation of the Tier 1
10 threshold.

11 So, you know, just trying to kick the
12 conversation off. At least what I am seeing in the
13 market is that the dollar range is big enough that I
14 don't know that it makes sense to have a firm number
15 there. The number of offerings, I think, maybe a
16 little bit more fruitful; something more than four,
17 but less than a couple dozen, just in my personal
18 experience, is probably what I'm used to seeing.

19 MS. DAWOOD: Um-hmm. And I think that was,
20 kind of, the feedback that we had gotten from the
21 Commissioners: that they were interested, not
22 necessarily in definitive numbers, but in at least
23 giving some type of a range of what is happening out
24 there in the marketplace.

25 Robert.

1 MR. BOLEN: I agree with Bart. If you go
2 off of dollar amount, you're going to see such
3 variance across geographic regions and industries,
4 it's not going to be as effective. Whereas if you go
5 off of number of transactions or something similar to
6 that metric, it's going to be evenly enforced.

7 MS. DAWOOD: Um-hmm. So would we use a
8 percent instead? Or what are your thoughts on that,
9 Robert?

10 MR. BOLEN: I would think number of
11 transactions would be the strongest.

12 MS. DAWOOD: Okay.

13 MR. BOLEN: If you're helping one or two or
14 three deals a year that seems reasonable. I don't
15 have an exact number in mind. What would it be a
16 percentage of, the final raise? Or --

17 MS. DAWOOD: That's what I was thinking.
18 The final raise.

19 MS. NIKLASON: I would think that making
20 sure that the finder's fee is not predatory would do a
21 lot to keep bad actors out of the space.

22 So if we're concerned about bad actors., you
23 know, I mean, if it was me, I would say limitation of
24 a 1 percent finder's fee. You know, that may be too
25 draconian, I don't know, but a 10 or 20 percent

1 finder's fee feels predatory, and it feels, like, that
2 would attract the wrong people.

3 MS. DAWOOD: I'd agree there. Herbert. And
4 then Rose.

5 MR. DRAYTON: I think we moved into talking
6 about number of transactions, and then you blended
7 fees in there. I was going to ask about fees.
8 Typically, when I've dealt with finders, it's been on
9 the called capital, not necessarily the committed
10 capital, so -- which, you know, two different date
11 rises, if you will, so I wanted some thoughts around
12 that.

13 And, you know, this could be, depending on
14 what we do here, this -- we could create another -- we
15 could create a cottage industry. So I think in the
16 context we're talking here, we're talking about a
17 solopreneur or single man or woman's shop. But if
18 someone really leans into this, once they get some
19 guidance, they could have five or six folks in their
20 shop, and now the transactions could be 10, 15, 20, if
21 you will. So I just want to throw that out there if
22 we're looking to limit the number of transactions.

23 MS. DAWOOD: Um-hmm. Rose.

24 MS. STANDIFER: Yeah, I agree. And I also
25 agree with, you know, the prior framework, so that

1 these would be individuals as opposed to entities.
2 Now, I think it could be, you know, if it's a solo
3 entrepreneur, maybe through their LLC, that's a, you
4 know, single member LLC. Because I do think once you
5 go -- and this really goes to the number of
6 transactions, and, you know, I have seen this in the
7 NASAA and FINRA enforcement data, right, once you have
8 a handful of folks that put themselves out in the
9 market, they're not registered to a broker-dealer,
10 they're advertising, "Come talk to us. We're going to
11 connect you to people," I think that is problematic.

12 But if we're talking about connectors and, you know,
13 three or four connections, you know, think about that
14 as once per quarter and they're going to get, you
15 know, compensated, they're going to be incentivized to
16 help the capital formation in -- within their networks
17 or within their local communities. Again. It's
18 happening anyways. If we can encourage people to do
19 it in a smart way that is transparent, I -- that's,
20 sort of, where I come down on the number of offerings.

21 I also wanted to chime in on the range,
22 right? So obviously it's zero, and then what's the
23 upper limit, right? I do think that there should be
24 an upper limit, right? I mean, we have 506(c). I
25 know this Committee has talked about 506. It doesn't

1 have a lot of uptake, but that really is out there in
2 terms of general solicitation. So if you're using
3 finders, you know, this should probably be on the
4 smaller side. Now, I -- but I would probably go up
5 to, you know, something akin to Rule 504, which I
6 believe it's still \$10 million, right? And if it's
7 really a larger raise coming together, maybe there's,
8 you know, separate raises going on, right? Maybe
9 there is you're getting traction with a finder, and
10 now as a small business, you're able to prove that
11 there's a "there" there to then build on network
12 effects and go out and make a larger raise. Maybe now
13 you have compelling information to do a 506(c) if you
14 don't have the network. But I think it's now moving
15 into compensation.

16 I think especially if you have it as a
17 percentage of the raise size. First, I do think it
18 should be a percentage of the raise size. I think you
19 get into a lot of issues if it's a percentage of
20 introduced folks. I have seen in the market a lot of
21 disagreements and disputes happen as to who was
22 introduced. I think it's also hard to tease out if
23 you're able to introduce an anchor investor for maybe
24 that \$500,000 check that now brings in another 10
25 checks for \$100,000. That's a real raise, right?

1 Like, did the finder really help that come together?
2 But if we're saying it's a half a point or a point of
3 the total raise size and now we're going up to 30, 35
4 million, to me that gets predatory, right? So I think
5 those two do go hand-in-hand if we want to set some
6 thresholds around this.

7 MS. DAWOOD: Okay. George. And then
8 Jennifer.

9 MR. COOK: Yeah. So around the, kind of,
10 number of transactions, I guess I would first like to
11 better understand, kind of, the level of registration
12 that an investor -- that a finder would have to go
13 through.

14 As an entrepreneur, right, we get approached
15 by finders all the time. Part of -- like, we always
16 say no, partly because there's no way to check who
17 they've worked with in the past and, you know, are
18 they credible? So if that information is being
19 tracked and there are references available and that
20 type of information, I think there's probably more
21 comfort to allow more transactions. If this really is
22 just, kind of, a lightweight disclosure and, you know,
23 very, kind of, quiet on the side type of thing, I
24 think we'd have to look at a lower number of
25 transactions. So I think this conversation about the

1 number of transactions is, kind of, closely tied into
2 how are these being documented and how is that finder
3 being registered or accounted for within FINRA or the
4 SEC?

5 The other thing I would just caution against
6 is within the world of fee caps, regulators have
7 historically not been great at setting fee caps.
8 Like, we don't necessarily know how these finders
9 might be compensated for these deals. And this
10 Committee is about small business capital formation.
11 And the harder a deal is to fund, the more a finder is
12 going to need to be compensated to make that match.
13 So I would just be very cautious about us putting our
14 finger in the air and saying, oh, 1 percent is good,
15 because we -- I don't know exactly how this market is
16 going to be made.

17 MS. DAWOOD: Um-hmm, good point, George.
18 Thanks.

19 Jennifer.

20 MS. NEWTON: Yeah, that's exactly what I was
21 going to say, George. Just, you know, anytime you're
22 talking about, like, a hard percentage cap, it just
23 makes it really difficult to encompass all of the
24 variation in this industry. And I'm just thinking of
25 a few of my clients who typically will engage someone

1 who's acting in this role by not only looking for
2 assistance with getting capital, but they're also
3 being compensated for an advisory role or some other
4 long-term role or partnership that they will
5 ultimately engage in. And so, so the whole
6 compensation structure is designed to really to -- to
7 be responsive to that structure. So it's not so much
8 focusing on or solely based on their ability to bring
9 capital, but sometimes it's tied into some other
10 deliverables that, you know, may not come into
11 fruition until later in the, you know, in the
12 partnership.

13 So, you know, creating that hard cap is
14 sometimes difficult when you have all of that nuance
15 in, you know, in this, kind of, industry.

16 MS. DAWOOD: Yep. Thank you, Jennifer.

17 All right, so I have in front of me the
18 November 13th, 2020 recommendation from our committee
19 from back in that day. And what I'd like to do is
20 very slowly read through what the principal
21 recommendations they were recommending at the time.
22 And as they, kind of, get a little bit more
23 complicated as we go down, so maybe we could stop and
24 talk if there is something that we don't agree with?

25 Here we go. Number one. Recommendation is

1 that "The framework should be kept simple."

2 I think that's definitely something that we
3 talk about.

4 Jennifer, do you have a question before I go
5 through this? Sorry, your hand was up. I just wanted
6 to make sure. Okay. Good. All right, thanks.

7 All right, so Number 1, "The framework
8 should be kept simple."

9 I think we -- we're good there, right? Yell
10 if no.

11 "The framework should keep out bad actors."

12 I think we've all said we agree with that.

13 "The Commission should consider requiring a
14 notice filing for all finders, which includes
15 information on fees charged for finder services."

16 And we may not get to a consensus today at
17 this point about what these thresholds should be or
18 what the fees should be, but at this point, we're
19 talking about there should be a notice that the
20 finders file and includes information on the fees that
21 they're charging.

22 Any objection there?

23 (No audible response.)

24 MS. DAWOOD: No, okay.

25 "The Commission should work with state

1 securities regulators to provide additional certainty
2 for market participants, with coordination among the
3 states and the Commission."

4 And maybe, Rose, you could just elaborate
5 with a sentence or two on exactly what that means for
6 those of us that don't work in this all the time.

7 MS. STANDIFER: Sure. I'm going to go back
8 to the prior discussion that this Committee had on
9 Regulation A and preemption, right? And we've heard
10 that already. I think we heard that in Chair Atkins
11 remarks this morning. We've heard that from Claire,
12 right? You know, the states have their own regulatory
13 regimes ,in addition to what the SEC has and what
14 FINRA works with. I think this is -- you know, there
15 should be coordination, especially if we're going to
16 be talking about the transparency that George
17 mentioned, a notice filing, right? Some coordination
18 to make sure there's access to that information
19 getting reported, not just potentially to the SEC and
20 FINRA, but also to the state regulators, as well.

21 MS. DAWOOD: Great. So basically there's
22 transparency? Yeah. Excellent.

23 Okay any comments on that?

24 (No audible response.)

25 MS. DAWOOD: Okay. Number 5, "It is

1 important that finders and issuers know the rules of
2 how finders can assist with capital formation for
3 small businesses."

4 Now, I think we have determined this, but
5 then we also took a little bit farther to say, well,
6 what is it that finders can do. I think we talked
7 about that a little bit more in our last meeting than
8 we did today. But does anybody have any comments or
9 thoughts on the things that a finder could or could
10 not do? Because what we did talk about today was how
11 in a lot of cases, these finders are connectors and
12 they're trying to help maybe with a pitch deck or try
13 to help to get materials out to potential investors.
14 How do we feel about that?

15 Okay, go ahead, Bart.

16 MS. NIKLASON: No, I --

17 MS. DAWOOD: Okay, go ahead, Laura. Then
18 Bart.

19 MS. NIKLASON: No, I would say that, you
20 know, the -- if you're not going to be licensed and
21 regulated, then you should not present yourself as
22 having done due diligence on a company, and as making
23 an investment recommendation. You know, short of
24 that, I think doing introductions and helping with
25 pitch decks is -- are things that happen in the real

1 world all the time --

2 MS. DAWOOD: That's right.

3 MS. NIKLASON: -- and should not require
4 licensure.

5 So I -- for me, that's the brightline; is
6 making an investment recommendation and having done
7 putative due diligence which these people should not
8 do.

9 MS. DAWOOD: Yeah. Go ahead, Bart.

10 MR. DILLASHAW: Yeah. I was going to
11 basically make the same comments, sort of, echoing
12 back to our last meeting. I mean, one of the things
13 that we did here that was limiting from the prior
14 proposed rule was, you know, the pretty expressed
15 prohibitions on no commentary on the pitch deck, no
16 commentary on the terms. And we heard from our
17 previous speakers that that was a little too limiting.

18 Totally agree with the conversation that
19 we've had before. I think once we get to the point
20 where you're openly advocating, you know, for a deal
21 or, you know, taking money or directly selling the
22 securities, that's gone too far. You know, but
23 they're -- but we can't go all the way to, you know,
24 finders being able to make some level of commentary.

25 MS. DAWOOD: Right. So could we agree that

1 it's important that finders and issuers know the rules
2 of how finders can assist with capital formation for
3 small businesses, but not make direct recommendations?

4 Or have, you know, something about due diligence
5 reports and actually -- I guess the line lies in the
6 making of the recommendation of the investment, right?

7 We're saying you could help, but you're not going to
8 say I recommend this investment.

9 Is that -- do we agree on that?

10 (No audible response.)

11 MS. DAWOOD: We all agree on that. Okay,
12 great.

13 Number 6, "The Commission should consider a
14 blanket exemption for finders for offerings under a
15 certain size."

16 So here we're back to the size piece. Are
17 we -- we're saying we're going to take that out or
18 we're leaving that in and adding to it? Thoughts.

19 MS. STANDIFER: I mean, this is not holding
20 us to a size, right? I think maybe there's more
21 discovery around what an appropriate size would be.
22 But conceptually, as a principle, yes, I don't think
23 finders should be allowed to raise -- to make
24 introductions across the entire spectrum.

25 I think, you know, we have been talking

1 about what's happening in the real world for small
2 businesses in these smaller dollar raises. So I think
3 when we -- the recommendation should be tailored, you
4 know, to the problem we have been talking about, which
5 is not the 100 million Series B or Series C of an
6 institutional backed, you know, high growth company.
7 That's not what we've been talking about.

8 MS. DAWOOD: Okay. So we would keep that
9 language the same, "The Commission should consider
10 blanket exemption for finders for offerings under a
11 certain size."

12 (No audible response.)

13 MS. DAWOOD: Okay. Number 7 --

14 MS. STEVENS: Marcia, can I --

15 MS. DAWOOD: Wendy, go ahead.

16 MS. STEVENS: -- say something?

17 MS. DAWOOD: Yeah. Sure.

18 MS. STEVENS: I struggle with locking into
19 dollars; I'd rather lock it into other provisions.
20 Meaning, we're talking about this five years later,
21 we're going to come up with a number, I don't know how
22 long it's going to take, and then it's going to be
23 outdated.

24 MS. DAWOOD: Right.

25 MS. STEVENS: So I struggle with a hard

1 dollar amount.

2 And I just want to go back to 3, as well. I
3 struggle there with -- I think we need to clarify what
4 we mean by "fees," because fees can come in a lot of
5 different ways. It can be a fixed fee. It can be a
6 percentage fee. It can be something later. I just --
7 I don't know how that's going to be meaningful in
8 the -- at the level that we're talking about. I just
9 want to throw that out there.

10 MS. DAWOOD: I hear you. And remember that
11 this is a recommendation that then the Commission
12 would take to look at on another level. So, you know,
13 we're just basically saying that there should be
14 disclosure of the fees charged, regardless of what
15 those fees are.

16 MS. STEVENS: Okay. I get it.

17 MS. DAWOOD: Thank you.

18 Okay, so we're good with the blanket
19 exemption for finders for offerings under a certain
20 size. So we're not giving a size. We're basically
21 saying, under a certain size. Okay.

22 And Herbert, go ahead.

23 MR. DRAYTON: Yeah, just a comment. I'm
24 languishing in the zone where Wendy was a little bit.
25 The disclosure piece, I think you explained it. But

1 the blanket exemption under a certain amount, I --
2 we've done some work in the past where we recommended
3 amounts or we represented some, I guess, narrow
4 corridors with this work, but we, sort of,
5 underscored it with subject to review every three to
6 five years, or whatever that is. I am struggling with
7 just saying blanket amount under a certain amount and
8 not giving an amount.

9 And I think Rose alluded to earlier, 100
10 million seems to be the top end for me. You know, if
11 it's under 100 million, subject to approval every
12 three to five years. That's the Committee to consider
13 some sort of language like that.

14 MS. DAWOOD: You mean around the certain
15 size? Is that what you mean?

16 MR. DRAYTON: Yes. If we're saying,
17 "blanket exemption under a certain amount," what is
18 that amount? Blanket amount -- blanket exemption
19 under 100 million? Fifty million?

20 MS. DAWOOD: Okay. So what does the
21 Committee think about the size there? Would we say
22 under 100 million? Under 50 million? We've had this
23 conversation before at the Committee where we don't
24 like throwing numbers just randomly. So if there'd be
25 like --

1 And to Wendy's point, like, by the time this
2 could go into effect, it could be years from now and
3 it would be irrelevant. So I think, maybe having it a
4 little more vague right now is okay. And then as it
5 starts to get honed in, I think, the Commission would
6 be able to take a look at that for at the time.

7 Does that make sense?

8 MR. DRAYTON: I think --

9 (Audio interference.)

10 MS. DAWOOD: Yeah. Claire.

11 MS. McHENRY: Thank you. I understand the
12 Committee may feel differently about this, but the
13 small dollar offerings that we see, our enforcement
14 actions and -- are not restricted just to those over a
15 certain amount of money. They do include smaller
16 dollar offerings, including ones even as small as tens
17 of thousands of dollars, all the way up to just a
18 couple of million. A more tailored regime to allow
19 for some of those regulatory burdens to address some
20 of the concerns about cost may be more beneficial than
21 limiting it to merely just a blanket exemption for
22 under a certain dollar offering.

23 MS. STANDIFER: I think, to be clear, the
24 prior recommendation was not a blanket exemption that
25 there's nothing within the finders framework that they

1 would have to give notice for. This was a blanket
2 exemption from broker-dealer registration, so long as
3 you complied with, you know, the principled framework
4 around what a finder is in this recommendation. So
5 we're not saying that anyone can go ahead and --

6 You know, I mean, this is part of the
7 problem, right? Right now anyone can make an
8 introduction and have a side deal that they're going
9 to get paid on a percentage of the raise. And there's
10 no clarity on, you know, if that's allowed or not,
11 right? And then something goes sideways and it comes
12 to you for an enforcement action, right?

13 So, I think, you know, in the recommendation
14 before, it was Finders, with the capital F, right? So
15 this is if you're a Finder and you're operating under
16 this size, right, within that Finder framework, you do
17 not have to be registered as a broker-dealer. If you
18 were to go above that, right, to, you know, do the
19 activities that you want to do as a Finder, which a
20 defining one from the last conversation was that
21 percentage compensation, you would need to be
22 registered, you know, go through the full process
23 pathway for a broker-dealer.

24 So we're not saying you're totally exempt
25 from everything.

1 MS. DAWOOD: That's right.

2 MS. McHENRY: Thank you. I appreciate the
3 clarification.

4 MS. DAWOOD: And I think that goes to Point
5 7 on the document from November of 2020 is that -- it
6 says, "The Commission should consider the issue of
7 fees to finders, including reasonableness around
8 finders fees, and/or limits on the amount of the
9 finder's fee."

10 So that's what we were basically just
11 talking about. And I do think that we have, kind of,
12 covered that through Number 3 here. Yes, there needs
13 to be considered that there are -- whatever the fees
14 that are being charged need to be considered. We're
15 not necessarily giving any limits here at this point.

16 Would we agree with that there?

17 (No audible response.)

18 MS. DAWOOD: Yes. Okay.

19 And then, "The Commission should add clarity
20 on prohibited and permissible activities." I think
21 we, kind of, covered that already as well. "For
22 example, contract restrictions being at one time a
23 year."

24 And the Committee back in 2020 had talked
25 about this natural person requirement. We did not

1 talk about that too much. We talked about it a tiny
2 bit in the July meeting. And I think we all agreed
3 that we were talking about people, not entities or AI
4 bots or things like that.

5 Correct?

6 (No audible response.)

7 MS. DAWOOD: Yes, okay.

8 And then the last thing that was on there,
9 recommendation on Number 9 from November 2020 had to
10 do with, again, Tier 2. We're not talking about Tier
11 1 and Tier 2 anymore, we're just talking about finders
12 in general. But this was about "whether broker-
13 dealers are allowed to pay finders that are non-
14 associated persons."

15 I don't know if we want to weigh in on that
16 at this point or not? Anybody?

17 MR. DILLASHAW: Well, at least sort of
18 honing in on the Tier 2 component of that statement.
19 I think, you know, one of our -- or one of the things
20 we talked about today was, sort of, getting away from
21 the Tier 1, Tier 2 aspect of it. So at least with
22 regard to that clarification, this one probably
23 doesn't roll forward in the same way that all the
24 other did.

25 MS. DAWOOD: Right. Okay, so we just went

1 over the eight of the nine. We're going to take off
2 Number 9.

3 So, Courtney, could we have the voting
4 members vote?

5 First of all, let me ask, is there anybody
6 who's abstaining from voting today who's a voting
7 member.

8 (No audible response.)

9 MS. DAWOOD: Nobody. Okay, Courtney, how do
10 we go?

11 MS. HASELEY: I think we just ask folks to
12 raise their hand with the vote you're looking -- or
13 the recommendation you're looking to have voted on.
14 And then TJ and I will tally votes. CHAIR DAWOOD: So
15 essentially, those eight things that I just read that
16 we were all agreeing on, that is what we would be
17 putting forward as a recommendation to the Commission.

18 So if we could vote on those as a collective, and
19 everybody who would vote yes, please raise your hand.

20 And you can raise your little golden mitt, also.

21 (Vote.)

22 MS. HASELEY: (No audible response.)

23 MR. DRAYTON: Courtney, if you're talking
24 this, we can't hear you.

25 MS. HASELEY: Sorry about that. Thanks,

1 Herbert. I noticed that.

2 T.J., I'm counting 11. What about you?

3 MR. COLLINS: Yes.

4 MS. DAWOOD: Okay, Super. Thank you,
5 everybody. You can put our golden mitt down now.

6 Great. What robust discussion. Does
7 anybody else have a comment or a question before we
8 break for lunch and go into our very robust afternoon
9 discussion?

10 MS. NIKLASON: No, I think this has been
11 great and I'm going to have to hop off, actually. But
12 the only caveat, and I know this is bad form to do
13 this after the vote, but I do think inserting some
14 clarifying language into Number 6, saying where it
15 says, "Commission should consider a blanket exemption
16 for finders under a certain size," I think some of
17 Rose's language, just clarifying that statement would
18 be helpful.

19 MS. DAWOOD: Great. We can go back and look
20 at the transcript before, as things are getting
21 actually written up.

22 Herbert, do you have your hand up?

23 MR. DRAYTON: (No audible response.)

24 MS. DAWOOD: Herbert? Were you talking?

25 MR. DRAYTON: (No audible response.)

1 MS. DAWOOD: Herbert? Were you talking?

2 MS. HASELEY: He's saying no, Marcia.

3 MS. DAWOOD: Oh, okay. Okay, so there
4 were -- are there other parts then that we want to be
5 voting on related to finders?

6 (No audible response.)

7 MS. DAWOOD: I was of the impression we were
8 putting together the things from the past and maybe
9 clarifying?

10 MS. STANDIFER: So, I mean, looking at the
11 transcript in our last discussion in July, I think we
12 did have a couple areas where we're a little bit
13 further than the November, you know, 2020 principles
14 based guidance, but these were still framework-based,
15 not with limits.

16 Marcia, if I may? I'll just read some of
17 these and then we can come back and decide if we do
18 have alignment on them that we want to take a vote to
19 add to the recommendation --

20 MS. DAWOOD: Yeah.

21 MS. STANDIFER: -- from November 2020.

22 So the first was that we believe finders
23 play an important role in facilitating the flow of
24 capital to small and emerging businesses, and the
25 current regulations discourage finder activity. So,

1 again, I think the prior recommendation presupposed
2 this, and it might be helpful for the Commission to
3 hear that this is both important and the ambiguity
4 right now is, in fact, discouraging the behavior,
5 which is hurting capital formation for small
6 businesses.

7 So, Marcia, if you want to -- if we want to
8 take a pause and vote to see if we have consensus
9 around that?

10 MS. DAWOOD: Let's do that. Everybody who
11 wants to, raise their hand.

12 (Vote.)

13 MS. HASELEY: I'm also at 11. T.J.?

14 MR. COLLINS: I've got the same.

15 MS. HASELEY: Great.

16 MS. DAWOOD: All right.

17 And then picking up from where Rose left
18 off, the other thing that we had talked about was that
19 the Committee believes there is a strong need for
20 regulatory clarity to distinguish finder activity from
21 broker dealer services. And that a limited exemption
22 from broker-dealer regulations for finders who assist
23 companies should be adopted.

24 Can we get a vote on that?

25 (Vote.)

1 MS. HASELEY: Same, Eleven. Thank you,
2 guys. It's a bit slower when we're counting between
3 screens.

4 MS. DAWOOD: Yeah, it's, kind of, hard.
5 Okay. Mitts down.

6 Next. The Committee believes that federal
7 preemption of state regulations should be considered
8 when evaluating the effectiveness of any potential
9 regulations or exemptions.

10 (Vote.)

11 MS. HASELEY: I'm at 11 again.

12 MS. DAWOOD: Okay. The Committee believes
13 the past SEC proposal non-finalized rulemaking
14 limiting of finders ability to contact investors or
15 provide any commentary on the terms of investment were
16 overly restrictive, and any regulation that gets
17 repropoed should permit finders to communicate with
18 potential investors about the nature of the company
19 and the terms of the financing.

20 So I think here we just did talk about the
21 fact that we wanted to make sure that people were
22 helping with certain things, but not necessarily
23 making a recommendation.

24 Vote on that.

25 (Vote.)

1 MS. HASELEY: I see 11 votes in favor again.

2 MS. DAWOOD: Perfect.

3 Okay, the Committee believes that
4 regulations requiring disclosure of the identity of
5 any finders, fees paid to finders, and any
6 relationship between the finder or the issuer or other
7 investors should be appropriate if not overly
8 burdensome.

9 (Vote.)

10 MS. HASELEY: Here I'm getting 10. T.J.?

11 MR. COLLINS: Ten.

12 MS. HASELEY: Oh, 11. Diego, up now. Thank
13 you.

14 MS. DAWOOD: Okay. Just two more to
15 discuss.

16 The Committee believes that any registration
17 process that finders are required to comply with
18 should be minimal and be open to non-professional
19 participants to complete without needing assistance
20 from professional advisors.

21 So basically, again, I think this goes back
22 to the first thing that we talked about from the 2020
23 recommendation, which was to keep it simple.

24 Vote on that.

25 (vote)

1 MS. HASELEY: I see 10.

2 Rose, could you clarify if you have voted on
3 this?

4 MS. DAWOOD: Oh, she's not voting on that,
5 so she'll be a no for that. Okay.

6 MS. HASELEY: That is 10 yes.

7 MS. DAWOOD: And then the Committee believes
8 that regulations requiring oversight of or
9 responsibility for finder activity by issuers could be
10 appropriate if not overly burdensome.

11 (Vote.)

12 MS. HASELEY: I see nine in favor. T.J.,
13 can you confirm?

14 MR. COLLINS: I have 10.

15 MS. HASELEY: You are right, 10. Thank you.

16 MS. DAWOOD: Okay, great. Well, thank you,
17 everyone.

18 Courtney, are we good with all the voting?

19 MS. HASELEY: Yes, ma'am.

20 MS. DAWOOD: Okay, great. Thank you for all
21 that.

22 Lots of good -- great discussion today.

23 Really appreciate everyone for sharing their
24 perspectives and helping to bring these conversations
25 to the Committee.

1 And for those of you watching on sec.gov,
2 the Committee will return at 1:00 p.m., Eastern Time
3 after a short lunch break. Thank you all for tuning
4 in and look forward to having you back in a little
5 more than an hour from now.

6 So, and same to all the Committee members,
7 if you are taking a break, make sure your microphone
8 and video are off. See you in an hour.

9 (Whereupon, at 11:57 a.m., a luncheon recess
10 was taken.)

11 A F T E R N O O N S E S S I O N

12 MS. DAWOOD: Welcome back.

13 And to kick off this afternoon, we are
14 pleased to welcome staff from the SEC's Office of the
15 Advocate for Small Business Capital Formation. Jenny
16 Riegel, Deputy Director of Policy, is going to provide
17 an overview of the Office's Fiscal Year 2025 Staff
18 Report. This is one of my favorites, I know. So,
19 which includes in-depth data on the state of capital-
20 raising activity across the country. And I think
21 we'll find the data and information that Jenny shares
22 will be particularly relevant for ongoing discussion
23 of the ways to support small businesses and as context
24 for our understanding of the public and the private
25 market trends.

1 So I'm going to have you take it away,
2 Jenny.

3 UPDATE FROM THE SEC'S OFFICE OF
4 THE ADVOCATE FOR SMALL BUSINESS
5 CAPITAL FORMATION

6 MS. RIEGEL: Awesome. Thank you so much,
7 Marcia, and the full Committee for having me. I'm
8 thrilled to be here.

9 I'm going to share my screen, which will
10 have slides of some of the data that I want to
11 highlight here for the Committee from the staff
12 report. So you can find a full copy of the report on
13 www.sec.gov/oasb. So for those that want to follow
14 along in the online copy, I'll share page numbers of
15 where the data is located. So without further ado,
16 we'll dive on in.

17 So the report is organized by the life
18 cycle. So there's a life cycle chart shown on page 3
19 of the report and the three life cycles. So it's
20 going to be small and emerging companies, which are
21 companies that are just getting started, as well as
22 companies that have received angel financing or seed
23 financing. And then we're going to turn to mature and
24 later-stage companies, and these are companies that
25 are often VC-backed. And we're going to look at the

1 VCs and investors that are backing these companies.
2 As well as the final life cycle that we're going to
3 look at are IPOs and small public companies. So with
4 that, let's go ahead and get started.

5 So, starting on page 4, we see that capital
6 access remains a primary concern for small businesses,
7 with 48 percent of entrepreneurs stating that they
8 would start a business if they had more money.

9 We turn to page 6, we see that similar to
10 prior years, less than half of small and emerging
11 businesses turned to external financing. So, and of
12 that 38 percent in the blue circle that do, we see
13 that only 6 percent seek a friends-and-family loan,
14 and only 4 percent seek venture capital.

15 So stepping back, this is a key point for
16 our Office and this Committee to keep in mind. So
17 while investment capital is, of course, a very
18 important part of what we focus on here at the SEC,
19 and what this Committee focuses on, it is not for
20 every business.

21 So now let's turn to pages 9 through 11. So
22 this area has lots of data on the important role of
23 entrepreneurial support organizations and angel
24 investors. So this slide has the data on
25 entrepreneurial support organizations, and these are

1 incubators and accelerators, and they play a
2 significant role in the development, mentoring, and
3 funding of early-stage companies.

4 We -- in addition, we're going to turn to
5 page 11, and we see that angel investors are a vital
6 component in creating the next generation of startups,
7 funding over 55,000 businesses in 2024.

8 So we're going to turn to page 12 now and
9 take a look at seed funding. So, mirroring the
10 overall market trends, we see that seed deals
11 increased in size. However, when you're looking at
12 the overall VC market, we saw that the share of pre-
13 seed and seed deals declined, and that data is on page
14 13.

15 So next, I want to take a step back and look
16 at some SEC data and highlight some context on how
17 companies are raising capital versus how pooled funds
18 are raising capital. So for companies in the purple
19 circle, you see that the traditional private placement
20 exemption under Rule 506(b) is raising a significant
21 amount of capital. The other exempt offerings are
22 offshore offerings under Reg S or Rule 144A offerings
23 to qualified institutional buyers, and those continue
24 to raise the largest amount of capital that companies
25 are raising.

1 So, turning now to pooled funds. So these
2 blue circles show that the vast majority of capital is
3 raised under Rule 506(b), Regulation D. Again, that's
4 your traditional private placement exemption.

5 So turning to page 18, that has the
6 Regulation D data. And here I wanted to show the
7 comparison between what operating companies are
8 raising. That's the mustard color in the bottom of
9 the bar versus pooled funds, which is the gray color
10 at the top. And you can see that the amounts -- the
11 number of offerings are fairly similar, but the
12 amounts have a significant distinction between pooled
13 funds and companies.

14 So next I'm going to turn to mature and
15 later-stage businesses. So this starts on page 33 of
16 the report. And we see that VC investments continue
17 to shift, and this is something we talked about with
18 the seed capital, from those earlier stages toward
19 later-stage VC investments. And that's the green is
20 the later stage.

21 We also saw that as deal sizes grew, deals
22 became more concentrated. And that concentration is
23 really illustrated in this stat to me: in the first
24 seven months of 2025, roughly 40 percent of all VC
25 dollars went to 10 companies.

1 So if we turn to page 38, we're focusing now
2 on funds and what's happening for those pooled funds.

3 And we are seeing a shift of capital toward larger
4 and experienced managers. But beyond just the
5 amounts, we're also seeing that for the first time in
6 a decade, emerging managers closed fewer funds than
7 experienced managers. So looking at the number of
8 offerings.

9 So now turning to IPOs and small public
10 companies. So on page 47 of the report, it starts
11 with IPO data. And before we get to the data on the
12 slide, I wanted to note something that Chairman Atkins
13 actually noted in his remarks: that, you know, the
14 number of IPOs has remained historically low, but we
15 are seeing also that over the last three years that
16 that number has trended upward.

17 And now this graph, which is on page 48,
18 breaks down IPOs into the number of -- into IPOs by
19 smaller public companies, which are companies with up
20 to a \$250 million market cap, IPOs by larger
21 companies, and then your SPAC offerings. And we see
22 from the data that in 2024, IPOs by small companies
23 represented 44 percent of all IPOs by count, but only
24 3 percent of the capital raised.

25 On page 49, we see that the data seeks to

1 provide insights on the types of companies that are
2 going public. So we see that companies that go public
3 are more likely to have higher sales, higher capital
4 expenditures and assets, and less profitability.

5 Now on page 52 we see that while small
6 public companies represent 44 percent of all public
7 companies, they were much less likely to be exchange-
8 listed than larger public companies. And that's that
9 32 percent versus the 2 percent.

10 We also saw on page 55, small public
11 companies are less likely to receive analyst coverage.

12 So there's two additional sections I wanted
13 to highlight in the report before I turn it over to
14 you for questions is on page 55. The report
15 summarizes the Office's outreach and engagements from
16 the year, as well as our educational resources.

17 And saving the best for last, on page 52 --
18 or 72, the report summarizes the activities of your
19 committee.

20 Thank you so much for your service and I
21 welcome your questions.

22 MS. DAWOOD: Wow, Jenny, that was great. I
23 think we could sit here and dissect a lot of the stuff
24 that's in that report all day. Wow. 40 percent of VC
25 dollars went to 10 companies. That's quite a

1 statement. Wow.

2 Questions specifically for Jenny? Go ahead,
3 Robert.

4 MR. BOLEN: I want to go to your definition
5 of small companies at \$250 million.

6 Does the SEC have a size standard for small
7 companies because we are -- at SBA, we're not
8 tracking one. If you do, I'd like to better
9 understand what's being used casually, what has
10 actually been promulgated as a rule? That's crucial
11 to my office here.

12 MS. RIEGEL: No, that -- it's an excellent
13 question, and one we get a lot, right, because what is
14 a small business changes.

15 So in the statute that created our office
16 and created this committee, Congress gave the
17 definition for public companies of that \$250 million
18 market cap. So that, kind of, measure of at least as
19 a public company is based on the statutory guidance
20 from Congress.

21 MR. BOLEN: Thank you.

22 Do you know where in the statute that is?

23 MS. RIEGEL: I'm happy to send it to you.
24 It's actually in the discussion of the Committee. And
25 I'm happy it's on our website, has the statutory

1 definition, but happy to share.

2 Or, Amy, if you have a moment, if you could
3 share the link?

4 MR. BOLEN: I -- so I have the statute. I
5 just - I don't see in here that it's 250 million, so I
6 just want to be 100 percent sure as we conduct
7 oversight of the SEC. That's a crucial thing to know.

8 Thank you.

9 MS. DAWOOD: Jasmine, you have a question?

10 MS. SETHI: Yeah. This is great work, by
11 the way. I always look forward to this report because
12 it's just got so much great data.

13 So I was really interested that you -- you
14 know, you're collecting the resources. Like, it just
15 seems, like, a great resource for small businesses,
16 like, all the incubators, you mentioned, funding
17 sources. I had a couple questions on that.

18 I guess, is this -- are there other sources
19 you know of that, kind of, centralize this sort of
20 information? Like, putting aside from the, kind of,
21 data on the IPOs and so forth, but the actual, kind
22 of, resources, what else have you guys come up --
23 found in your research in terms of other places
24 businesses might look for this kinds of information?
25 Or is this it? Is this the best thing that's out

1 there?

2 MS. RIEGEL: Well, I certainly am not going
3 to say we're the best thing out there. I think we
4 seek to tell the story of capital raising and to tell
5 what small businesses are; everything from your
6 startup all the way through angel investing and VC-
7 backed companies and through companies going public.
8 And we try to include as many sources as possible. We
9 seek feedback from people in the market. We do a lot
10 of white paper studies. We have a data analyst on
11 staff that helps, kind of, pull as many reports as
12 possible together. All our footnotes are a ton of
13 wealth of information on multiple market experts that
14 share in this space. And so we really do try to
15 highlight those voices and other market leaders that
16 are sharing this information. So much of the data in
17 this report is actually from third parties that we're
18 trying to bring together that data to truly be able to
19 share the story of capital raising. And so a lot of
20 it is there's lots of incredible data out there, and I
21 would hate to name just one, but the footnotes of this
22 report, we spent a lot of time trying to make sure
23 that we credit the right sources, that we credit the
24 exact page number where we get information so people
25 can go back to those original sources and be able to

1 dive in further.

2 MS. SETHI: And have you found anything that
3 is, kind of, like, a digital database? I don't know
4 if you have a footnote reference. Or, you know,
5 something that is very searchable, filterable, you
6 know, this is very manual for people to go through a
7 report, but something that is actually, like, a
8 digital tool that lets people search for this, kind
9 of, information?

10 MS. RIEGEL: I have not seen it. But if
11 someone has seen it, please weigh in and help, email
12 mallbusinesses.gov and we welcome additional, kind of,
13 thoughts. And people will often share their research,
14 and we very much appreciate that because it will help
15 highlight, kind of, what is happening in the market.
16 But I have not come across, like, an easily searchable
17 database.

18 MS. SETHI: Okay, thank you.

19 MS. DAWOOD: So, Jenny, the one slide that
20 you showed that had the small companies that were --
21 that did an IPO, I think it was, like, 2024.

22 Was that when there were, like, 107 IPOs and
23 it was around \$2 billion? Was that \$2 billion the
24 total? So that basically those 107 companies went
25 public for less than \$20 million. Am I doing the math

1 right?

2 MS. RIEGEL: Yes. So these are -- the
3 smaller IPOs are quite small.

4 MS. DAWOOD: Okay.

5 MS. RIEGEL: And often this -- there's data
6 in the report that talks about different IPO data
7 pieces and from different providers. And we always
8 try to footnote, kind of, how they -- what they view
9 as an IPO, because several people will do a cutoff.
10 Are they exchange-listed? Are -- or do they meet a
11 minimum price? What contours of the offering are they
12 including in those IPOs?

13 We do any IPO, so any company that comes in
14 to file, even if it was a secondary offering and it
15 was their initial public offering to the markets, that
16 would be included as an initial IPO. We don't put,
17 kind of, an additional filter on it that other
18 providers often do.

19 MS. DAWOOD: Got it. Thanks for that.
20 Herbert. And then Robert.

21 MR. DRAYTON: Yeah, Jenny, thanks for the
22 great report.

23 And scanning through it on page 9, you --
24 there's a graphic where it says, "Companies value
25 thought leadership and tangible support, such as

1 customer intros." Can you add a little color to that?
2 What else is in there?

3 And then the second question is, do you guys
4 look at Venture Studio models at all in the report?

5 MS. DAWOOD: Good question.

6 MS. RIEGEL: So that report was an
7 external -- so the page 9, the "60 percent of
8 entrepreneurs prioritized investors that provided
9 thoughtful partnership and tangible support," that was
10 a report actually out of January Ventures. So I would
11 need to look back to their data specifically on, kind
12 of, what the contours of what they considered.

13 Unfortunately, we're not experts on all of
14 the reports that have been cited in here, but we
15 certainly want to -- you know, pieces that try and
16 help tell that story of capital raising, that really
17 jumped out to us as, kind of, that matching of a
18 relationship between a company and their investor and
19 the importance of being on the same page as a company
20 and investor. And so that's why we -- that that stat,
21 kind of, spoke to us.

22 Herbert, could you repeat your second
23 question? My brain was going to the first one, trying
24 to make sure I could look at the source.

25 MR. DRAYTON: No worries. In the report you

1 cover the traditional venture model, you cover angels.
2 I'm curious if you had a peek into the Venture Studio
3 model where infrastructure and scaffolding is provided
4 beyond capital?

5 MS. RIEGEL: I haven't seen as much data in
6 reports that go into that. And but I'm happy to, kind
7 of, look with my data analyst to see, kind of, what
8 more we're not covering of that story. And Herbert, I
9 may look to you and circle back to, kind of, help get
10 additional insights to make sure we're telling that
11 piece of the story better in the future.

12 MR. DRAYTON: Thank you.

13 MS. DAWOOD: Robert.

14 MR. BOLEN: So it's 15 U.S. Code 78
15 (a)(2)(A)(1). The \$250 million does not define small
16 business; small business is not defined in here. That
17 number defines smaller public companies. So small
18 business is defined only by the SBA. And then an
19 agency can promulgate a rule, in consultation with the
20 Administrator of SBA, to define small business
21 differently.

22 I'd ask that future reports clarify because
23 that's a pretty big distinction. I mean, there are
24 over a thousand size standards right now based on
25 industry, and so to just say small business, loosely

1 defined in a way that's incompatible with the
2 statutes, makes me very nervous, especially because
3 I'm listed in this report.

4 MS. RIEGEL: Well, I'm happy to collaborate
5 with you in the future and make sure that we get that
6 appropriate clarification, making sure that we are,
7 kind of, correctly telling that aspect of the story.

8 MR. BOLEN: Thank you.

9 MS. DAWOOD: Great.

10 MS. STANDIFER: Jenny, to clarify, that was
11 for the smaller public company IPOs; correct? That
12 one slide was only --

13 MS. RIEGEL: Yes.

14 MS. STANDIFER: -- focused on, in fact,
15 smaller public companies, per the statute?

16 MS. RIEGEL: That is correct.

17 MR. BOLEN: But the phrasing was "small
18 businesses," gross.

19 MS. STANDIFER: On that slide it's small
20 public companies, Robert. I think your point is
21 taken, but I don't think that there was a
22 mischaracterization with regards to this report.

23 MS. DAWOOD: All right, Bart.

24 MR. DILLASHAW: First of all, great job.
25 This report's, sort of, amazing.

1 Just a little bit of anticipation of the
2 conversation that we're about to have; did you notice
3 any trends on, sort of, secondary transactions? You
4 know, maybe provide a little context about what that
5 means, and what those type of transactions look like
6 in terms of accessing the public markets?

7 MS. RIEGEL: So we did include some data,
8 and I'm trying to quickly see if I can find the page
9 reference on what we included, but we did not go into
10 it nearly as much depth as PitchBook. I know we'll go
11 to Day and Emily in particular, so I definitely look
12 forward to her presentation on this as it is very much
13 an evolving area of the market.

14 Yes, I apologize, I did not have this tabbed
15 and I should have.

16 MS. REISCHAUER: We had some discussion at
17 page 40, Jenny.

18 MS. RIEGEL: That's correct. Thank you,
19 Amy.

20 So page 40 has information about exit
21 activity, but then also talking about how the private
22 secondary market has gained traction. So it has, kind
23 of, just the start of information.

24 So the information in the report is as of
25 June 30, 2025. And so we really do cut it off at that

1 point to allow, you know, one, reports to try to line
2 up as much as possible. We are sometimes,
3 unfortunately, looking at apples to oranges, but we
4 really much -- we try when we have a number of pieces
5 of information to try to have it end at June 30, to
6 try to compare as much as possible. And so this was,
7 kind of, because secondary market is such an evolving
8 area of the market, it may be different than what
9 Emily is going to present today.

10 MS. DAWOOD: Great. Jenny, thank you so
11 much. I know how much work it is to put this report
12 together, and the entire staff did an amazing job, so
13 thank you so much. We really appreciate being able to
14 see this, kind of, data related to small business, so
15 thank you very much.

16 All right, we're going to shift gear --

17 MS. RIEGEL: Thank you for having me.

18 MS. DAWOOD: Yeah, of course.

19 So we're going to shift gears now and launch
20 into detailed discussion on the private secondary
21 market, and this landscape looks very different than
22 it did 10 or even five years ago.

23 Continuation funds are becoming more
24 prevalent and there has also been a rise in special
25 purpose vehicles to allow LPs, VCs, and other

1 strategic investors to find exits and rebalance their
2 portfolios through the private markets. And
3 additionally, startups are using private tender offers
4 to attract and retain talent, and this is a phenomenon
5 that was not common before. So I'm hopeful that our
6 invited speakers today will help shed light on these
7 newer trends, clarify what's driving them, and
8 identify the opportunities and challenges the growth
9 and normalization of private secondary transactions
10 create for private issuers and investor participants
11 of all sizes.

12 So our first speaker on this topic is Emily
13 Zheng, a Senior Research Analyst with a focus on
14 venture capital at PitchBook. As her title suggests,
15 Emily researches venture capital with a focus on
16 secondaries and IPOs, and her work has been featured
17 in many prominent forums, including the OASB 2025
18 Staff Report, which we just heard about. And she
19 previously was a private banker at J.P. Morgan.

20 So Emily, thank you so much for being here
21 and for kicking us off on sharing some of the trends
22 and data insights that you see in the secondary
23 markets.

24 SHEDDING LIGHT ON THE PRIVATE
25 SECONDARY MARKET

1 MS. ZHENG: Thank you so much for the
2 introduction. And thank you, everybody, for inviting
3 me here today.

4 And before I dive into the data, I want to
5 say that all this data is on PitchBook in my recent
6 2025 Annual U.S. VC Secondary Market Watch, if you
7 want to read further after this discussion, and always
8 happy to chat in our question-and-answer session at
9 the end.

10 So before we really dive into the secondary
11 data, let's really begin by setting an important
12 foundation of what's currently happening in venture
13 capital, because the primary and secondary market are
14 closely correlated. So I'll do a brief stint on
15 primary VC.

16 So 2025 was an eventful year, to say the
17 least. There were so many news headlines that gave us
18 optimism that the market was reopening, but also a ton
19 of volatility that kept us on our toes. And
20 fundraising has been extremely constrained because LPs
21 have experienced four consecutive years of negative
22 net cash flows, as you can see in this chart here.

23 Contributions have consistently outpaced
24 distributions, putting pressure on allocation limit
25 and pacing models. However, we are starting to see

1 signs of stabilization thanks to improving exit
2 activity and thanks to alternative liquidity channels,
3 like, venture secondaries playing a larger role. And
4 as these distributions materialize, they help restart
5 the venture flywheel.

6 So exits have a long way to go before
7 returning to normal levels. And this is 2025 annual
8 data where the IPO window did open, but only
9 partially. So only 48 VC-backed companies went public
10 last year in the US, which is barely an increase from
11 previous post-pandemic years, and just 17 of these
12 companies were unicorns. And simply put, that's not
13 enough activity to support the entire VC ecosystem,
14 especially with the context that the total value of
15 the U.S. venture market has more than tripled since
16 2020, at about \$7.4 trillion as of the end of 2025.

17 So the companies that did go public were
18 typically aligned with policies prioritized by
19 President Trump's administration. These are sectors,
20 like, AI, aerospace, crypto and defense that dominated
21 activity, accounting for over 70 percent of IPOs
22 outside of healthcare and life sciences. And we
23 expect this trend to continue throughout 2026 and in
24 the secondary market, which I'll touch a little bit
25 more upon later. So this really means that even if

1 exit activity increases, the benefits will likely
2 remain uneven and benefit the select few rather than
3 venture broadly.

4 So, with that context in mind, this brings
5 us to the focus of my presentation today, venture
6 secondaries, and it's really been a rapidly growing
7 source of liquidity. And we expect that 2026 will be
8 a pivotal year as venture secondaries evolve from
9 proving relevance to becoming the industry standard.

10 But first, what are venture secondaries?
11 The simplest summary is that we have a buyer and a
12 seller that are exchanging equity after their initial
13 issuance. So secondaries apply to both company stakes
14 and interests in VC funds. There's company
15 secondaries and fund secondaries.

16 So the first line item here is direct
17 secondaries, which is the term for trading company
18 stakes, and will be the main focus of today's
19 discussion. And there are three different types of
20 buying company equity.

21 So first, startups can initiate secondary
22 sales through company-sponsored tender offers. And
23 tender offers are, like, share buybacks, but are
24 typically funded by existing investors that want to
25 increase the allocation in the company. And this

1 really allows the company to control how many shares
2 are sold, which investors are buying, and also at what
3 price.

4 Second, buyers can purchase secondary stakes
5 through brokers or, like, secondary platforms.

6 And a third way for buying company stakes is
7 investors that already have existing relationships,
8 they can transact secondaries through direct sales and
9 skip these third-party involvement, like, they don't
10 need to use brokers or platforms.

11 So overall, startup policies on secondaries
12 are not standardized right now, though there are often
13 rights of first refusal, also known as ROFR, and also
14 co-sale agreements. Also, all these transaction types
15 must be approved by the startup.

16 So Items 2 and 3 on the slide are different
17 types of fund secondaries. So GP-led secondaries are
18 initiated by the fund manager, and GPs typically move
19 their positions in one or more portfolio companies
20 from an old fund into a new continuation vehicle, also
21 known as CVs. They can also sell just a portion of
22 their position in what's known as a strip sale. GP-
23 led secondaries help investors get early access to
24 liquidity while GPs clean up their older funds and
25 also give them additional time to maximize returns on

1 top startups.

2 Even though it is a notable part of the
3 market, the market size for GP-led secondaries is
4 inherently limited. Sellers need to be registered
5 investment advisers with a larger firm that can really
6 bear the burden of re-underwriting. Buyers are
7 typically secondary specialists, so the buyer side is
8 also limited.

9 And last but not least, the third line item
10 here is LP-led secondary, and these are when fund
11 stakes are sold from a current investor to a new
12 buyer.

13 So with that context, what is the current
14 state of venture secondaries? The past several years
15 legitimize venture secondaries as startups stay
16 private for longer, and exits remain few and far
17 between. And we estimate that \$106.3 billion traded
18 through venture secondaries in the year of 2025. And
19 this is really significant because, as you can see
20 from this chart here, secondaries are rapidly
21 approaching the scale of public listings and
22 acquisitions, really solidifying their role as an
23 essential liquidity provider. And direct secondaries
24 propelled much of this market's growth, nearly
25 doubling since 2024. And a lot of this momentum is

1 thanks to startups and investors across VC that are
2 integrating secondaries into capital planning,
3 compensation strategy and portfolio construction.
4 However, the market is currently concentrated and top
5 heavy, which ultimately limits its growth potential.

6 So Hiive is a secondary platform that
7 reported that the top 20 startups accounted for 86.4
8 percent of secondary trading value in Q4, with the top
9 five alone representing 55.6 percent, so incredibly
10 top heavy.

11 And another example is OpenAI, who had a
12 \$6.6 billion tender offer in early October, and that
13 alone accounted for 7.2 percent of the annual
14 secondary transaction volume.

15 So in 2026, the question is no longer
16 whether secondaries are a dependable source for
17 realizing returns, but whether they can really
18 establish a durable infrastructure that benefits VCs
19 at scale, rather than the elite few top companies.

20 And a question I get often is, are venture
21 secondaries just a temporary fix for liquidity? Or
22 are they here to stay? And I'd argue that the recent
23 rise of interest in secondaries is structural, not
24 cyclical, and here's why. Secondaries have actually
25 existed as long as primary VC, but they had a stigma

1 attached to them in previous years. If you think
2 about it from the investors' point of view, you don't
3 really want, like, the founders to sell really early
4 because you want the founders to have a lot of
5 conviction in the company, or that was the previous
6 rhetoric. But during the pandemic-era highs, a lot of
7 rounds were oversubscribed, so secondaries were a
8 common tool to get access to the most highly sought-
9 after startups. And then in 2022, when the venture
10 stalemate started after interest rates initially
11 hiked, the secondary market was a great way for a lot
12 of investors to double down on existing investments,
13 often at a discount.

14 So the fact that the secondary market has
15 been around and widely adopted through these booms and
16 busts and in the current state, really means that
17 secondaries are here to stay. And this is really
18 bolstered by the recent huge adoption from many
19 influential players in finance.

20 In the last three months, Goldman Sachs
21 acquired investor Industry Ventures; Morgan Stanley
22 acquired platform EquityZen; Charles Schwab acquired
23 platform Forge Global; and tender offer platform
24 Nasdaq Private Market announced a partnership with
25 investor G Squared. And these institutions are

1 investing heavily in venture secondaries because
2 they're finally realizing that the private markets
3 generate so much value and secondaries have a key
4 growth -- they have the potential to be a key growth
5 driver for their business. So secondaries are no
6 longer just a temporary solution to venture's
7 liquidity problem, instead, they are becoming a
8 strategic asset for startups, investors and service
9 providers that industry participants can no longer
10 ignore.

11 Another question I've been hearing a lot
12 this year, especially if you've been looking at
13 headlines recently, is that if secondaries are so
14 concentrated in the top companies, what happens if
15 SpaceX, OpenAI and Anthropic go public? And that's a
16 really good question.

17 It's true that one big franchising factor
18 about 2026 is that many of venture's most valuable
19 companies are now actively preparing to go public.
20 And this is a notable departure from recent years when
21 they seemed to be able to raise unlimited amounts of
22 private dollars. And what we're really seeing now is
23 that they're capital intensive, highly competitive
24 sectors, like, AI and space technology, and the scale
25 of investment required to win has made the public

1 markets essential. But this creates a new challenge,
2 as well.

3 So many of these companies are enormous, as
4 you can see from the valuations on the screen here.
5 If several pursue IPOs around the same time, public
6 market capacity and investor appetite could become
7 overwhelmed. So the short answer is yes; if all these
8 standout companies go public, they will definitely
9 leave a big gap in the secondary market. But I would
10 argue that more IPO activity is overall a positive
11 tailwind for secondaries.

12 At the end of the day, if you're a secondary
13 investor, you want a near-term exit. You're not like
14 a primary investor who's willing to wait a decade or
15 more. You're looking more at four to six years. So a
16 pickup of IPO activity, or even, like, anticipated IPO
17 activity, creates a positive feedback loop and also
18 expands the pool of companies that are trading
19 actively, as we're already starting to see, and is
20 overall a boon for the market. So we might see a
21 large dip in secondary volume in 2026 initially after
22 one or all of these companies go public, but in the
23 long term, secondaries are expected to expand.

24 So similar to sector trends among IPOs that
25 I discussed earlier, we expect secondary buyers to

1 prioritize startups that are at the intersection of
2 technological leadership and policy support. So this
3 right here is for primary VC, but provides important
4 context for secondaries.

5 So in primary VC, AI alone captured two-
6 thirds of deal value and 40 percent of deal count in
7 2025, really cementing its dominance. And there's
8 also higher primary valuation step-ups among AI
9 startups relative to their non-AI peers. And this has
10 really created significant paper gains for employees
11 and early investors, which has really increased
12 incentive to pursue partial liquidity through
13 secondaries. This positive feedback loop leads us to
14 expect that secondaries will remain disproportionately
15 concentrated in a narrow group of sectors in 2026.

16 We're looking at AI, crypto, defense and
17 aerospace standing out as clear beneficiaries, similar
18 to 2025 and similar to primary VC. And if this
19 competition for talent intensifies, especially for AI
20 startups, liquidity has become a crucial component for
21 employee recruitment and retention, which is why we're
22 starting to see so many of venture's most valuable
23 startups host tender offers regularly. So, after all,
24 like, 62.4 percent of U.S. unicorns were founded in
25 2016 or earlier. So that means that many of venture's

1 most valuable startups are for early employees and
2 investors who have been waiting over a decade for
3 their payday. And over time, regular liquidity
4 programs give startups greater flexibility to plan
5 exits strategically, rather than around shareholders'
6 liquidity constraints. So it's a win for startups
7 preferring to stay private for longer, and it's a win
8 for employees who want to buy a house or want to get
9 married, and they're able to cash out part of their
10 holdings.

11 So I would be remiss to talk about venture
12 secondaries without mentioning special purpose
13 vehicles. So SPVs have been a controversial topic in
14 secondaries, and the rapid adoption in 2025 really
15 exposed growing pains.

16 So SPVs have become so popular because they
17 attract investors that want access to the top
18 startups, and they provide greater speed and
19 flexibility than traditional funds. And often SPVs
20 are some of the only ways that investors can get
21 exposure to these companies, because a lot of these
22 companies are gatekeeping access. However, as demand
23 surged, increasingly complex structures, like,
24 multilayered SPVs emerged, making it really difficult
25 to determine who was truly backing a company and also

1 on what terms. And there were several high-profile
2 enforcement cases in 2025, including Lingto's
3 bankruptcy and the indictment of a manager from
4 Cisante Capital for defrauding investors, really
5 highlighting how opacity can create risk, particularly
6 for less experienced private market investors.
7 However, these incidents do not invalidate SPVs
8 entirely, but they do underscore the need for stronger
9 diligence and safeguards.

10 In 2026, I expect SPVs to face significantly
11 greater scrutiny from both regulators and issuers to
12 limit unauthorized transfers and regain control of
13 ownership. Top startups, like, Anduril and OpenAI –
14 and these are screenshots taken from their websites
15 directly – these companies are tightening rules around
16 SPV participation, including limiting which companies
17 are permitted to form SPVs and who may even invest in
18 these vehicles.

19 The burden of diligence will also shift more
20 heavily onto buyers. After all, not all SPVs are
21 created equal, and investors will need to scrutinize
22 these structures more carefully. This includes
23 understanding what information rights they have, if
24 any, what are all the fee layers and what total they
25 are paying in fees and whether that's worth it, and

1 whether the SPV can really verify the ownership of the
2 underlying shares, which is the reason why there were
3 so many issues with the companies I mentioned earlier.

4 MS. DAWOOD: So, Emily, we have about one
5 more minute. We'll have to go to Q&A.

6 MS. ZHENG: Okay, sounds good.

7 So, looking forward, to wrap things up, we
8 really expect a broader set of investors to
9 participate in venture secondaries.

10 We had notable examples of Pine Grove
11 closing its \$2.2 billion debut secondary fund, and
12 Insight Partners poaching Industry Ventures veteran to
13 create its venture secondary strategy, and we expect
14 this to emerge throughout the year as investors
15 capitalize on this rapidly developing market.

16 And dry powder is a great way to look at how
17 much this space has grown. It's grown 2.8 times since
18 2022, signaling growing appetite. But still, relative
19 to primary VC, it's about 3.9 percent of primary VC
20 dry powder, showing that there's a lot of room for
21 this market to mature.

22 Overall, to conclude, growth in 2026 may not
23 be smooth or linear, but the direction is clear. The
24 market is really moving from proving relevance to
25 becoming a vetted infrastructure. And venture

1 secondaries today sit squarely in the middle of their
2 development cycle. And 2026 will test whether the
3 market can operate efficiently, absorb volatility, and
4 really redistribute liquidity beyond a handful of
5 elite names.

6 So, thank you for your time, and I am happy
7 to answer any questions you may have.

8 MS. DAWOOD: Thank you so much, Emily. That
9 was great. Lots of good data there and information.

10 So what do you see as the main drivers
11 accelerating the demand and interest in the secondary
12 markets?

13 MS. ZHENG: So, on the buyer side, or just,
14 like, overall?

15 MS. DAWOOD: Yeah, overall.

16 MS. ZHENG: So, on the buyer side, the
17 secondary market is a great way for investors to
18 maintain or add to their allocation. So a lot of
19 times investors are doubling down on existing
20 investments, but also some are trying to get access to
21 these companies that they might not otherwise have
22 been able to access through primary rounds. And also
23 the startups overall are just becoming more
24 comfortable with having a secondary policy and
25 adopting these tender offers so they can attract more

1 employees and more talent into their companies.

2 So a lot of different factors really
3 providing tailwinds for the secondary market.

4 MS. DAWOOD: Interesting.

5 Questions for Emily? Go ahead, Bart.

6 MR. DILLASHAW: Hey, Emily. Do you have any
7 data on the sell side? what proportion is either, sort
8 of, employee/founder, or early investor?

9 MS. ZHENG: Most of these transactions are
10 between investors, so employees do play, like, a big
11 part of the tender offers, for example. But if you're
12 looking at actual, like, value that's being
13 transacted, it's mainly among investors.

14 MR. DILLASHAW: And is that -- you know, I
15 don't know if you have the insight on that, is that
16 being done at the company level? Or is this, sort of,
17 fund selling out, you know, one LP selling to another
18 LP at the, kind of, the fund level?

19 MS. ZHENG: Yeah. So, most of the volume is
20 happening on, like, the company level. It's easier to
21 underwrite, but there's a lot of fund secondaries
22 happening, as well, and I think it is rapidly growing.

23 But there is just, like, more diligence that needs to
24 happen because you have to re-underwrite every single
25 portfolio company.

1 MS. DAWOOD: Claire.

2 MS. McHENRY: Thank you. I appreciate the
3 presentation.

4 You had mentioned within this SPV context
5 that the -- there was going to be a greater
6 highlighting, a greater need for more scrutiny and
7 safeguards, particularly from regulators and
8 investors. And that the shift -- there's going to be
9 a bigger shift on the buyer to do more investigation
10 and due diligence.

11 Can you describe any challenges that that
12 investor might have in obtaining the information that
13 you were talking about, about information rights or
14 fees or ownership of the underlying shares?

15 MS. ZHENG: So, like, the reason why I
16 feel, like, it hasn't happened recently is if an
17 inexperienced investor gets an opportunity to invest
18 in OpenAI, for example, they are probably very excited
19 for that. And then they -- if they aren't really
20 familiar with all the mechanics, then they might not
21 know what questions to ask. And I think that as this
22 becomes, like, more prevalent of investors that are
23 interested in, like, buying these things just need to
24 ask more questions to the SPV fund managers, and they
25 should be providing this data if they want to have

1 people invest in their vehicle.

2 So overall, I just think that the -- this
3 conversation needs to, like, be more regular and more
4 frequent.

5 MS. DAWOOD: All right, Herbert, last
6 question. We got to go.

7 MR. DRAYTON: Yeah. My question: the second
8 part of it was, do you think that level of scrutiny
9 will cascade down to the secondary space, as well?

10 MS. ZHENG: Level scrutiny for SPVs or?

11 MR. DRAYTON: You said that you expected a
12 level of scrutiny to increase with SPVs.

13 Is there another level of scrutiny that will
14 happen with the secondary -- in the secondary market,
15 as well? And particularly fund manager to fund
16 manager when those transactions happen?

17 MS. ZHENG: Yeah. So, I think the secondary
18 market, as it matures, there will just be, like, more
19 questions being asked. And probably one reason why
20 I'm here today is because you're hearing more about it
21 and you want to learn more and understand what goes
22 behind the scenes with this.

23 So, I think SPVs are probably the first
24 level of getting more scrutiny because they're -- it
25 has a little bit of a bad reputation based on some bad

1 actors. But overall, I think with direct and fund
2 secondaries, they're happening between, like,
3 experienced investors, so there is less -- there's,
4 like, more experience behind there. So it's two
5 different types of investors.

6 MS. DAWOOD: Great. Thank you so much,
7 Emily. This was amazing.

8 And for those watching, we will be posting
9 to the Committee webpage under "Meeting Materials" if
10 you are interested in looking at Emily's slides.

11 Wonderful. Thank you so very much.

12 Our next speaker, Nigel Dawn, a Senior
13 Managing Director at Evercore. Nigel heads Evercore's
14 private capital advisor and has 20-plus years of
15 experience advising in the secondary market.

16 So, thank you so much for joining us today.

17 And we are really interested in learning more about
18 how you see the secondary market and what role LPs,
19 GPs, and continuation funds are increasingly playing
20 in the secondary market.

21 MR. DAWN: Terrific. And are you going to
22 pull the presentation up, or should I put it on the
23 screen?

24 MS. DAWOOD: If you can share that would be
25 great.

1 MR. DAWN: I'm sure I can. One second.

2 (Pause.)

3 MR. DAWN: Can you see that?

4 MS. DAWOOD: Yes. There you go.

5 MR. DAWN: Perfect. Well, thank you for the
6 invite. I appreciate it.

7 So, Nigel Dawn, I run the private capital
8 advisory business at Evercore, and we are a dedicated
9 advisor in the secondary market. We are about a team
10 of 160 people. We executed about \$120 billion of
11 secondary business last year, which makes us about 50
12 percent of the entire secondary market. So, you know,
13 the comments come from that backdrop, seeing quite a
14 material amount of the transactions. And I've been in
15 the secondary market for about 26 years now. When I
16 started, the market, I think, was about 4 billion; it
17 was 225 billion last year, so it has been a great
18 ride.

19 I just want to start with a private markets
20 backdrop. And as you can see on the left, private
21 markets has grown materially, you know, over the last
22 20 years or so. Institutional contributions to
23 private assets across private equity, private debt,
24 private real estate, private infrastructure have
25 increased multiples. And the secondary market you

1 will still see is a relatively tiny part of the
2 overall embedded private assets. So even today, the
3 secondary market turnover is around 1 percent of
4 private markets, when, if we compare that to public
5 markets, it's obviously tiny.

6 Notwithstanding that, the private secondary
7 market has been transformed from a really niche market
8 to an important part of the private markets
9 infrastructure now, as, you know, limited partners,
10 institutional investors seek to get liquidity from
11 their investments.

12 At the same time, on the right side, the
13 number of public companies has come down over time,
14 whereas the number of PE-backed companies and private
15 companies has increased materially. And one would
16 expect – we expect – this change to continue over
17 time. So much of the value creation for corporates
18 is, you know, taking place in the private markets, not
19 necessarily the public markets.

20 Now, if we double-click on the secondary
21 market, and these statistics come from a market report
22 that we issue every year and every half-year – and
23 happy to share, obviously – but the market increased
24 materially over time, as you can see, and last year
25 was \$226 billion, a material increase over the

1 previous year. And this market has changed over time
2 from one that was driven by institutional limited
3 partners effectively transacting in their fund
4 interests to a market that is now balanced, I would
5 say, between limited partners transacting, selling
6 their LP interest in underlying funds, to a market
7 that is driven by general partners who are seeking
8 liquidity in their portfolios, and many of them using
9 continuation vehicles. Continuation vehicles I'll get
10 into in a little bit more detail in a couple of
11 minutes, but effectively ways of creating liquidity
12 for their investments where their investors are
13 demanding cash back, but the GP is -- does not believe
14 it is a correct time to sell the portfolio company in
15 a final exit. So it's creating a liquidity option for
16 the LP in an interim step.

17 The other thing to really note on this page
18 is that the amount of dry powder now in the market.
19 Dry powder, obviously, is capital available to invest
20 in this asset class, which now stands at about \$216
21 billion at the beginning of the year. And in addition
22 to that, so that's what's available right now, and we
23 expect over the next 12 months secondary investors,
24 those are dedicated pools of capital just to invest in
25 this asset class, will raise another \$200 billion or

1 so.

2 Notable in the private markets ecosystem is
3 available capital is around one year of transactions.

4 That would be considered, you know, a relatively
5 small amount if we compare that to the venture capital
6 business or the buyout business, where usually you
7 have perhaps two to three years of available capital
8 available compared to the current year's transaction
9 volume.

10 So that gives you a little bit of background
11 on the growth of the secondary market and the changing
12 composition in terms of the factors and the players
13 who are driving this market.

14 And if I look at the solutions that are
15 available, the big picture, of course, is that this is
16 about getting liquidity for illiquid assets. And, you
17 know, in the -- obviously, in the public market, you
18 just go and you can sell your share immediately.
19 These are markets that have been created over time
20 specifically for alternative assets, illiquid assets,
21 so there is a reasonably functioning secondary market.

22 And there are three types of ways that liquidity is
23 being generated.

24 And, you know, the first one is limited
25 partners selling their portfolios, or their

1 individual, and this could be a diversified portfolio
2 of LP interests. And this could be a limited partner,
3 be a endowment, foundation, a public pension, a
4 sovereign wealth fund, that, sort of, you know, long-
5 term investor in this asset class, selling a portfolio
6 of LP positions, you know, typically to actively
7 manage their portfolio.

8 Sometimes they may be selling older LP
9 interest to recycle capital into new investments that
10 presumably will generate a better return than the ones
11 they're selling. Or it could be rebalancing what they
12 consider to be their core managers; managers they've
13 decided to continue investing with going forward, who
14 they may also do co-investments with, selling out of
15 old positions to generate and recycle capital into new
16 positions. Or just sector-specific sales. Sometimes
17 that, for example, an investor got into an asset class
18 or a particular sector, for example, venture capital.

19 Around 2021, many investors invested in that asset
20 class for the first time and have not done
21 particularly well. So we see some investors then
22 cycling out of that asset class, maybe into other
23 asset classes where they feel more comfortable.

24 The final one is what we call a tail-end
25 cleanup. And, you know, one of the jokes about

1 private markets, it has very, very high barriers to
2 exit, where typically in an industry you would think
3 there's high barriers to entry. You know, most of
4 private markets investments are executed through 10-
5 year limited partnership structures, and the idea
6 originally is that you would be in and out of your
7 investment within 10 years. The latest data is the
8 average life of a 10-year fund is about 15 years. So
9 often an LP will be left with lots of assets that are
10 very old in the tooth, so they look to sell them into
11 the secondary market so they can recycle that capital
12 into newer investors -- investments, which they hope
13 will generate more returned.

14 Second big category is GP-led, and the
15 biggest category of by far here is continuation
16 vehicles. And continuation vehicles have been around
17 for some time but have become very, very popular, I
18 would say, in the last seven or eight years. And they
19 come in two main flavors.

20 One is a single-company continuation
21 vehicle, and that's generally a general partner will
22 have a company in an old fund, and typically it is a
23 high-performing company that has a lot of go-forward
24 potential, and they don't want to sell it, given the
25 value creation. So they will want to sell this into a

1 new vehicle they'll continue to manage, give their
2 existing investors the option to continue investing in
3 the company or have a liquidity option, should they
4 wish to take some or all of their return from that
5 investment off the table. That's single-company.

6 Multi-company is where a general partner may
7 have, you know, more than one company that they put
8 into a continuation vehicle. Much more flexibility
9 here. They may be minority stakes, you know, they
10 could have companies from multiple funds they run, but
11 generally they're designed to generate liquidity for
12 the underlying limited partners, for their investors,
13 particularly recently at a time of, what, low
14 liquidity in general partner portfolios.

15 And the last two, equity recapitalizations
16 and tender offers, relatively small part of the
17 market. Equity recapitalizations is generally selling
18 a strip of minority interest into a new vehicle to
19 just to reduce exposure. It could be an outsized
20 exposure from a general partner which they choose to
21 sell into a vehicle.

22 And finally, perhaps one of the newest
23 areas, just structured solutions. Think about these
24 as collateralized fund obligations, in some fashion,
25 as one of the main categories, where either a general

1 partner or a limited partner uses a structured
2 transaction to generate liquidity through the capital
3 markets. So, effectively, from a limited partner,
4 using a pool of their assets, selling them into an
5 SPV, and issuing rated debt off the SPV and selling
6 them to institutional debt investors.

7 Other ways are portfolio leverage or what's
8 called NAV loans, "NAV" being net asset value, where,
9 you know, a limited partner or a general partner will
10 seek to raise funds and liquidity on their portfolio
11 to send capital back to limited partners through a
12 loan. And other, you know, preferred equity and joint
13 ventures are smaller part of the market to generate
14 capital.

15 And just in terms of the last slide, I just
16 wanted to say, you know, an illustrative GP-led
17 continuation fund, you know, at selling -- you have,
18 effectively, a legacy fund, which could be an existing
19 fund a GP's is managing. There will be one or more
20 asset, let's just keep it simple, one company, which
21 is typically done very well, it's one of the winners,
22 but it has a lot of future potential. Generally, it
23 may need additional capital, and typically the asset's
24 at a point where it would be ready to exit. So
25 typically the GP would be ready to sell the company,

1 and options are IPO, trade sale, sponsor-to-sponsor
2 transaction where they may be selling it to another
3 private equity fund, or a strategic exit.

4 However, a continuation fund usually is used
5 where the GP believes significant amount of upside,
6 and they wish their investors to be able to continue
7 taking advantage of it, so they create a continuation
8 fund vehicle where new secondary investors will
9 capitalize that continuation fund and provide
10 liquidity for the LPs who are looking to sell.

11 So it's like, think about an off-ramp for
12 LPs who are looking to get liquidity on an asset that
13 has got a lot of upside. And if you think in terms of
14 maybe public investing, it's, like, running your
15 winners, effectively. I mean, usually you cut your
16 losers, you run your winners. This is a way of, once
17 you've figured out which is a really great asset, a GP
18 may continue, choose to issue a continuation fund to
19 continue running their winners.

20 And that's really what I had today. I've
21 gone through this a little quickly, given that some
22 overlap with the previous presenter.

23 MS. DAWOOD: No, that's great. Thank you so
24 much, Nigel.

25 I have a clarifying question. Earlier you

1 said that there's \$216 billion in dry powder. And you
2 thought that there would be another \$200 billion,
3 what, over the next year?

4 MR. DAWN: Yeah, over the next -- yeah,
5 raised over the next 12 months or so.

6 MS. DAWOOD: And where will that extra \$200
7 billion be coming from? Will there be new investors
8 in the marketplace? Or do you think people will just
9 be -- yeah, where do you think money's coming from?

10 MR. DAWN: Yeah, it's usually existing
11 limited partners.

12 MS. DAWOOD: Okay.

13 MR. DAWN: The other part of it is there's a
14 growing part of the wealth management channel, which
15 is investing into alternative assets which, you know,
16 they haven't before, so that that is a meaningful part
17 of the market.

18 Also, in terms of private market investors,
19 affiliated insurance companies investing in, you know,
20 more private credit, and probably private equity. And
21 sometimes the -- I'd say another area that's growing
22 is sovereign wealth funds, which is a part of the
23 market, which has -- you know, were petrodollars and
24 the rest of it become a much more important investing
25 group.

1 MS. DAWOOD: Go ahead, Rose.

2 MS. STANDIFER: All right, thanks, Marcia.

3 Nigel, would you mind stopping the share to
4 facilitate the discussion over Teams?

5 MR. DAWN: Excuse me?

6 MS. STANDIFER: Would you mind stopping the
7 share screen to better facilitate the discussion over
8 Teams? Thank you.

9 I just had a question, what are you seeing
10 in terms of, you know, pricing and valuation
11 discovery? And is it different -- you know, you put
12 up for a variety of situations here. Is it different
13 in each of those secondary contacts or is there really
14 an overarching of, as you say, these are existing LPs,
15 they already have the availability to see that data.
16 I'd be interested to understand how that valuation
17 discovery is occurring.

18 MR. DAWN: Yeah. I mean, typically, the --
19 you know, our role is to execute a competitive auction
20 process for each of the execution methods that I
21 showed. And so, you know, we all -- you know, in some
22 cases, we would go out to literally hundreds of
23 investors to get bids. And, you know, there's -- you
24 know, typically the underlying information will be
25 shared with the new investors. They may -- you know,

1 a -- an investor bidding on a certain situation could
2 be an existing investor in that asset.

3 So, yeah, I mean, typically. So price
4 discovery is usually through a competitive auction
5 process.

6 MS. STANDIFER: So a competitive auction
7 process, primarily with sophisticated players under
8 NDA?

9 MR. DAWN: Yes. Like institutional --
10 usually institutional investors often dedicated
11 secondary funds, so pools of capital that have been
12 put together, that have -- you know, groups that are
13 investing over many, many years in these situations.

14 MS. STANDIFER: And so are you -- and I --
15 apologies if this was part of what you were talking
16 about, but it sounds, like, you're not -- at Evercore
17 not necessarily involved in the tender offers with the
18 employees --

19 MR. DAWN: No.

20 MS. STANDIFER: -- selling? Or are you?
21 that part of the market.

22 MS. STANDIFER: No, we don't really. We're
23 not active in that part of the market.

24 MS. DAWOOD: Okay. All right. Thank you.
25 Nigel. What is, like, too small for -- to

1 get onto the secondary markets? Is there a place
2 where you're just seeing like, no, like, that's just
3 too small of a fund or too small of a company that
4 it's all these bigger guys that are really taking up
5 the secondary markets?

6 MR. DAWN: You know, there's really a role
7 for all, all shapes and sizes in the market. Some
8 very small secondary buyers. You know, but obviously
9 that, you know, it tends to be the top five investors
10 is probably, like, 50 percent of the market. So it's
11 like, you know, like, the rest of private markets,
12 there's there's a move to scale. Secondary market is
13 no longer. But we certainly -- I mean, for example, I
14 mean, we've transacted in the hundreds of thousands; I
15 think when it gets smaller than that, it tends to be
16 more challenging.

17 MS. DAWOOD: And I'm curious, like, what do
18 you foresee the secondary markets, how -- impacting
19 IPOs and the public markets in general?

20 MR. DAWN: Could you just repeat the
21 question? Sorry.

22 MS. DAWOOD: Well, how do you see the
23 secondary markets impacting companies who will IPO or
24 could IPO? And then, you know, how are we going to
25 see the public markets in the future if these

1 secondary markets are going to keep growing so much?

2 MR. DAWN: Well, I think that, you know, it
3 feels, like, there's still a robust public market now,
4 and there'll be certainly a role because the size of
5 the largest companies that were way too big for the
6 secondary market. So this is, you know, more if you
7 think about, you know, mid-market firms, smaller firms
8 but some of the data we saw on the largest private
9 raises, I mean, they're just massive. So our sense is
10 you need a robust public market, a robust private
11 market, but the size of the private market, I think,
12 is likely to grow further just given -- just to keep
13 pace with the growth of the underlying growth in
14 private markets. Generally, the secondary market has
15 to continue to grow.

16 So I'm not sure that the -- that there's
17 going to be a direct -- you know, like, you need both
18 of them for different reasons.

19 MS. DAWOOD: Um-hmm. And you think that the
20 smaller companies, smaller funds will actually
21 participate more in the secondary markets so that
22 maybe they can grow a little bit more and then they
23 could IPO? Is that possible?

24 MR. DAWN: I think it's possible more, like,
25 on the direct side of the market, you know. Well, the

1 previous speaker was talking about direct secondaries
2 of that nature, but it's probably going to be more
3 relevant there.

4 MS. DAWOOD: Um-hmm. Rose.

5 MS. STANDIFER: Yeah, follow-up question on
6 your last slide around continuation funds. Are you
7 seeing any trends where, you know -- obviously there
8 is the rise in continuation funds, we're changing the
9 owners of assets, that's on the rise. Are we also
10 seeing, you know, the rise of there's more assets to
11 change hands? Or are we just turning over -- is the
12 recycling of the capital that owns the assets versus,
13 you know, adding new assets to be owned to the mix?

14 MR. DAWN: Well, I think -- I mean, this is
15 more the, you know, the recycling the assets and
16 extending their life. In a sense, I mean, a private
17 equity hold period in terms of the period of time, a
18 GP would expect to hold an asset was probably
19 historically about four years. Now, in the current
20 environment, that's been extended, to probably six to
21 seven, you know, given the, you know, change in the
22 debt markets, you know, the change in the public
23 markets, changing multiples. So it's taking longer to
24 achieve a business plan. So as a result of that,
25 there's pressure, you know to -- for limited partners

1 who want that capital back faster, you know, to, you
2 know, drive it -- drive the growth in the secondary
3 market.

4 MS. DAWOOD: Okay, Herbert.

5 MS. STANDIFER: Yeah, I guess, let me --
6 Sorry, Marcia.

7 Let me just ask that a separate way. Like,
8 so when that LP or that GP is getting liquidity
9 sooner, right, because yes, it used to be four or six
10 years, not eight, 12 years depending on the data set.

11 Do you have a sense of are they recycling that
12 capital into a net new investment? Or is that capital
13 getting recycled into a secondary, right? Like --

14 MR. DAWN: Well, the short answer is I don't
15 know.

16 MS. STANDIFER: Okay. Thank you.

17 MR. DAWN: But the likely answer is --
18 because I -- each individual investor is going to
19 decide what they want to do. But I think it's fair to
20 say that some will get recycled into brand new
21 investments, into new vintages for managers they've
22 always supported. Some could well be recycled into
23 secondary funds. So I think it could go both ways and
24 across different asset classes.

25 MS. DAWOOD: All right, Herbert, last

1 question.

2 MR. DRAYTON: Nigel, when you think of
3 secondaries, which verticals you see is most promising
4 or prime for acceleration?

5 MR. DAWN: You know, I think that we see a
6 lot, not surprisingly, in private credit, because the
7 holding periods of -- for private credit portfolios
8 have been extended given the underlying companies are
9 being held for longer and there's refinancing events.
10 So that -- and capital is being formed with the right
11 cost of capital now to buy those positions. In other
12 words, you know, capital that has a debt-like return
13 expectation, not an equity-like. So I think that is
14 interesting.

15 Certainly private secondary infrastructure,
16 in the same way as, you know, probably the bright spot
17 in fundraising last year in private markets was
18 infrastructure. So that is a growing asset class.
19 The growing -- it's a growing part of the secondary
20 market. Probably 10 percent of the secondary market
21 is definitely growing.

22 So I --

23 MR. DRAYTON: Roads --

24 MR. DAWN: Sorry?

25 MR. DRAYTON: When you say,

1 "infrastructure," you're talking roads and that type
2 stuff?

3 MR. DAWN: I'm talking --

4 ASSISTANT SECRETARY DRAYTON: -- what do
5 you mean by "infrastructure"?

6 MR. DAWN: From digital infrastructure to
7 toll roads.

8 MS. DAWOOD: Great. Thank you so much,
9 Nigel, for your presentation today and coming here and
10 sharing your knowledge with us. We really appreciate
11 it.

12 MR. DAWN: Me, too. Thank you very much.

13 MS. DAWOOD: And our next speaker this
14 afternoon is Billy Duvall, Special Counsel at Cooley
15 LLP. Billy's practice focuses on emerging companies
16 and venture capital, and he has experience
17 representing issuers companies as they navigate the
18 expansion of the secondary market, including insight
19 on company tender offers. So, Billy, thanks for being
20 here today.

21 MR. DUVAL: Thank you very much for having
22 me. Can everyone see the slides?

23 MS. DAWOOD: We can. Perfect.

24 MR. DUVAL: Awesome. So I work with a lot
25 of our late stage private companies. And that means

1 helping them prepare for IPOs or exits, as well as
2 handling the crossover financings and the secondary
3 liquidity transactions for those companies. A few
4 years ago, unsurprisingly, that meant a lot more IPO
5 preparation, and recently it's meant a lot more
6 secondary liquidity type transactions.

7 On this slide on the right, you're going to
8 see a graph that several other speakers have already
9 showed you in a few different forms. And so I won't
10 spend a lot of time, but just highlight that we saw,
11 you know, a historical high of IPO volume in 2021,
12 followed by a steep drop off and a slow recovery over
13 the next three years. And while we have been seeing
14 the IPO market start to reopen, it has remained closed
15 for a lot of companies, and we have not returned to
16 even the, you know, pre-2021 peaks.

17 During that closed window, many companies
18 have sought alternative sources of liquidity,
19 including secondary liquidity transactions. Now, the
20 data is a little bit more fragmented here, and Emily
21 gave you a lot of great cuts on this already. One of
22 the platforms that handles a lot of these tender offer
23 style secondary transactions is Nasdaq Private Market.

24 This graph on the left is just showing their deal
25 volume over the same time period, and you'll see it

1 has a similar shape to the IPO market. But two things
2 to call out are that the trough in 2022 was not nearly
3 as severe, and the recovery has been much faster, with
4 the 2025 deal volume actually exceeding the 2021 peak
5 in terms of dollars that passed through that platform.

6 So I'd like to talk a little bit about
7 what's driving these secondaries, because it can be
8 any of the stakeholders at the private company level
9 that are pushing for these transactions. From the
10 founder or key employee perspective, they can be
11 looking to get liquidity and take some money off the
12 table while preserving upside potential on remaining
13 holdings. This is very common if the stock is deeply
14 in the money, so it doesn't mean that a founder has to
15 sell a significant portion of their ownership to take
16 some cash off the table, and they still maintain
17 control. From the company perspective, while it might
18 seem counterintuitive to do a deal that is costly,
19 that doesn't result in much cash to the company, it is
20 non-dilutive and it can help clean up the cap table by
21 swapping out small holders with institutional
22 investors who can support a crossover or an IPO
23 transaction down the line.

24 You've heard a consistent theme about
25 companies staying private longer, and this has

1 resulted in many of these VC funds holding those
2 illiquid assets as they near the end of that fund
3 lifecycle, that original 10 years that Nigel was just
4 talking about here. And this is a great way for them
5 to actually get some liquidity and exit.

6 I am also seeing a lot of these deals where
7 newer versions or newer vintages of the funds come in,
8 allowing LPs to choose whether they are selling and
9 getting a return or rolling into the newer vintage as
10 part of that tender offer. A sale today can actually
11 result in a higher IRR, internal rate of return, than
12 an IPO in several years, depending on the valuation
13 that they originally bought and the holding period.

14 And lastly, for those later stage or new
15 investors that actually have the dry powder and
16 capital available for putting new money in, it lets
17 them really double down on big bets, because they're
18 coming in in what isn't necessarily a priced round,
19 and so they can negotiate a discount and lock in a
20 gain for that eventual IPO or exit down the line.

21 These are a few of the most common deal
22 structures that we see in these types of secondary
23 transactions. Each of these could either be one-off
24 secondaries or secondary structures, a tender offer,
25 so it's not exclusive to that type.

1 Redemption is where the company is redeeming
2 and repurchasing stock directly from investors and
3 using existing cash reserves. This is common for late
4 stage companies that are generating excess cash and
5 are looking for somehow to deploy it beyond just
6 growth. It can also be funded through venture debt or
7 other sources of cash.

8 One very common source of cash is the direct
9 investment followed by redemption. This is where
10 investors are purchasing stock directly from the
11 company, and one of the uses of proceeds of that
12 financing round is then to redeem stock from the
13 company in order to reduce the dilution impact of that
14 financing. This happens a lot when the offering is
15 oversubscribed and the company or its existing
16 stockholders are not willing to take the extra
17 dilution of upsizing the round, and so they instead
18 utilize that cash to buy out investors and even key
19 employees who are looking for some liquidity.

20 The next structure we see a lot is a
21 secondary sale, where investors just buy stock
22 directly from selling stockholders and then hold it.
23 This can either be a standalone transaction or in
24 connection with a direct investment into the company.
25 That is a priced round. The most common structure I

1 am seeing these days is this combined transaction, and
2 I believe it's because the primary investment round
3 sets the reference price for the secondary
4 transaction, where otherwise you might have quite a
5 bit of back and forth trying to figure out how to
6 price that secondary.

7 And the last structure is just really a
8 variation of that combined transaction, where instead
9 of the investors holding the Common stock and
10 preferred stock that they are purchasing from the
11 selling stockholders, they exchange that stock with a
12 company issuing them new preferred stock. So they end
13 up holding just a single class of preferred from both
14 their direct investment and their secondary investment
15 that has all of the economic and control protections
16 they negotiated as part of the primary financing
17 round.

18 There are a number of unique challenges in
19 private secondaries. Structurally, it can be quite
20 difficult to determine if a transaction needs to be a
21 tender offer or not. The Wellman test and the eight
22 factor analysis is subjective rather than objective,
23 and several of those criteria are more applicable in
24 the public company context than the private company
25 context.

1 As you heard from Emily, the typical
2 venture-backed company is going to have a right of
3 first refusal and co-sale agreement, which has
4 contractual rights, which would mean that a founder
5 trying to sell their shares needs to give all
6 preferred stockholders a right to either purchase
7 those shares or sell along those shares at the same
8 price. That can transform a simple one-off secondary
9 transaction into a transaction where we need to go out
10 to a large number of individuals if the company is
11 complying with those rights rather than seeking a
12 waiver, and turn it into a type of deal where we need
13 tender offer rules in order to comply with securities
14 laws. That can take a small transaction that made
15 sense and make it not economically feasible because of
16 the increased legal and compliance risk of doing a
17 tender offer deal.

18 You know, these are not companies that are
19 '34 Act reporting companies, and they are not as
20 familiar with preparing the types of disclosure that
21 you would need to prepare an offering document that's
22 compliant with tender offer rules in many instances,
23 and so it does significantly increase their deal costs
24 if they're going to have to go that route.

25 From a control perspective, the market

1 standard for many of these companies is that preferred
2 stock does not have the same level of transfer
3 restrictions that common stock has. You've heard a
4 lot about Emily saying the most common type of
5 transaction is investor-to-investor direct trades, and
6 this is the preferred stock to preferred stock. As
7 long as this transaction is being done in a securities
8 law compliant manner, and it's not one of those
9 companies that have significant leverage, like, OpenAI
10 that has put transfer restrictions on all stock, a
11 company really can't block these deals. And so these
12 types of deals can be happening simultaneously, and
13 the investors on both sides may have very little
14 visibility into all of the different transactions
15 involving the company stock that are occurring
16 simultaneously among different investors.

17 And last, just from a disclosure
18 perspective, if we were doing a broad tender where all
19 company stockholders are eligible to sell, that would
20 typically mean we have employees, former employees,
21 institutional investors, founders and board members
22 all potentially able to sell in the deal. That's a
23 broad spectrum of investor sophistication that we're
24 dealing with, as well as some significant differences
25 in terms of access to current company information and

1 information on the company's plans and future
2 prospects. And if there is a third party purchaser
3 who's coming in and making this bid, they have likely
4 engaged in a fairly robust diligence process in order
5 to set the price and get comfortable and may have had
6 access to management and forecasts, and so we need to
7 prepare a disclosure document that provides all
8 material information to all parties and puts them on
9 information parity. And while that's old hat for our
10 public '34 Act reporting companies, it is a very new
11 exercise for most private companies that haven't done
12 it before, and particularly when we're balancing
13 against confidential and commercially sensitive
14 information, it can be a real challenge for them.

15 And so with that, I'd like to open it up for
16 questions?

17 MS. DAWOOD: Thank you so much, Billy, for
18 that presentation.

19 As far as the control thing, can you talk
20 more about that? Like, I was under the impression
21 that -- or maybe I should ask; when can companies,
22 like, not have any idea that shares are being, you
23 know, traded between investors, like, and they don't
24 even know it? Like, what --

25 MR. DUVAL: Yeah.

1 MS. DAWOOD: -- how much --

2 MR. DUVAL: So, the company is going to
3 know; it's the investors who won't know who else is
4 doing it, right? So there's going to be a '33 Act
5 legend on the shares that says you cannot trade these
6 shares unless there's a valid Securities Act
7 exemption. There may be an additional legend on
8 common stock, for example, that says you need the
9 company's permission to trade these shares and there's
10 a right of first refusal and co-sale on these same
11 shares.

12 With the preferred stock, typically, if
13 there's an opinion of counsel that says a securities
14 exemption is available, one investor can sell those
15 shares to another investor and just give the company a
16 notice that says change in your books and records that
17 this investor owns these shares. So the company sees
18 it. But as an investor who is potentially soliciting
19 or saying, I'd like to purchase shares, they might not
20 know that there are several other investors also
21 soliciting the same employees and key holders for
22 their shares at the same time, possibly at the same or
23 different prices.

24 MS. DAWOOD: I was going to say, wouldn't
25 there sometimes be different prices then? Yeah.

1 MR. DUVAL: There are. And this is where it
2 can be tough to make the determination and we'll
3 sometimes have to tell investors, we think you should
4 pause and think about whether this needs to be
5 restructured as a tender offer, because we're seeing a
6 lot of solicitations in a short time period.

7 MS. DAWOOD: Um-hmm. Questions for Billy?
8 Go ahead, Bart.

9 MR. DILLASHAW: Just in general, when you're
10 talking with companies, how are they weighing the pros
11 and cons of a secondary offer versus an IPO? Like,
12 can you provide a little bit of insight as to what
13 that decision framework looks like?

14 MR. DUVAL: Yeah, I have never heard them be
15 talking about secondaries where an IPO is truly on the
16 table is the, sort of, the starting point. It's
17 usually a question of our IPO timeline has lengthened,
18 is it worth doing a secondary in the interim? And,
19 you know, again, it's who is driving for it. So one
20 of the most common drivers of a secondary is receipt
21 of investors who are looking to double down on their
22 position, right? They've heard the IPO may be
23 happening in a few years or it's a ways out, and they
24 are looking to lock in some gain today, because they
25 also know that some of the early investors are ready

1 to sell and take a 10x return today rather than
2 waiting for a 12x in two years.

3 And so these are sort of many of the big
4 drivers. And I do expect that it might generate some
5 pressure down the line of if an investor came in, in a
6 secondary, expecting, you know, an IPO in two years
7 and that doesn't materialize, are they going to start
8 pushing these companies to go public? And I think a
9 real key question there is, are they continuing to see
10 primary financing valuation step ups along the line
11 that gives them, you know, confidence that the company
12 is building towards that eventual exit.

13 MR. DILLASHAW: And I guess a quick follow
14 up there. Like, are you seeing differentials in, sort
15 of, evaluation metrics? I mean, so you know, again if
16 you've got the sellers, you know, now you know how
17 much they're actually driving the conversation, but
18 are they perceiving a difference between the
19 valuations that they get in the public markets or in
20 the private secondaries?

21 MR. DUVAL: You know, it's not apples to
22 apples when you're talking public versus private.
23 Where I'm actually thinking about valuations is priced
24 rounds versus secondaries. And so there's a lot of
25 pressure on, you know, are you pricing at the most

1 recent venture backed financing round? Are you
2 pricing at a percentage discount? Or are you pricing
3 even at a premium, which I'm seeing in some. And so,
4 typically the conversations I've been part of have
5 been not about public versus private valuations, it's
6 been priced round versus secondary. And actually, how
7 much of a discount are you doing for different
8 classes?

9 You know, as you approach an IPO, the value
10 of the Common stock should be collapsing with the
11 preferred stock since it's all going to be converting.

12 And so the further out you are, the more you might
13 see these secondary structured with different prices
14 for common stock and different classes of preferred
15 stock, since it would have those downside protections
16 if the price were to decrease.

17 MS. DAWOOD: That's interesting.
18 Rose.

19 MS. STANDIFER: I guess a couple questions
20 here.

21 So first, just to clarify something in your
22 last answer. So these premiums, you're seeing those
23 on the direct, right? So the funds going into the
24 issuers themselves are the ones that are being, you
25 know, issued at a premium. Is that correct?

1 MR. DUVAL: I've seen it both. So I have
2 seen, you know, if the primary financing was a \$1
3 billion valuation, I've seen the secondary conducted
4 at the same time at, you know, a 20 percent discount,
5 and I have seen it conducted at a premium, as well.
6 So it -- most common is the same valuation. But I
7 have seen it in both other ways as well.

8 MS. STANDIFER: And, I mean, equally on the
9 sell side on the secondary being the premium or being
10 at a 20 percent discount? Or is it weighed --

11 MR. DUVAL: Discount is most common.

12 MS. STANDIFER: -- one way or --

13 MR. DUVAL: Yeah. So the most common is the
14 same price. And then discount is by far the most
15 usual. Usually if it's a premium, the financing has
16 not been simultaneous. You know, you're looking back
17 five months from the most recent raise, and you're
18 saying we are doing a premium to our last raise, but
19 we are not raising fresh capital simultaneous with
20 this secondary.

21 MS. STANDIFER: And when the issuers are
22 looking at the situation that you've talked about, the
23 investor wanting to double down or an investor -- new
24 investor wanting to get more points on the cap table
25 than maybe the round allowed, you know, what are you

1 seeing from the market in choosing to have that be a
2 secondary, which is going to liquidity of investors as
3 opposed to the business itself, you know, getting that
4 capital through a direct raise?

5 MR. DUVAL: Yeah. I mean, the biggest thing
6 is that the companies that are doing these are the
7 ones that don't need the cash, right? If they need
8 the cash, they're going to be doing primary rounds of
9 financing. And so the secondaries are for ones who
10 are -- have less need for this capital, usually, in
11 what I'm seeing. And they're -- if it's a company
12 sponsored and assisted tender offer, typically there's
13 got to be a rationale for the company of why it really
14 makes sense.

15 You know, it can be something along the
16 lines of, you've got a lot of former employees that
17 you're trying to clean up off the cap table. You've
18 got insiders who are looking to sell. You've got
19 early investors on the cap table who you're looking to
20 help get some liquidity to, so usually there's got to
21 be a reason for the company to really assist with this
22 type of deal. They wouldn't, you know, take the time
23 and expense and effort to do it if it didn't make
24 sense for, kind of, one of the reasons that I was
25 laying out earlier.

1 MS. STANDIFER: So let me open up the
2 aperture just a little bit, then. So if we're having
3 more of this capital go to a combination direct
4 secondary, primarily secondary, and the issuer doesn't
5 necessarily, you know, need the funds, are you seeing
6 this capital being recycled into net new investments,
7 right? Are you seeing that there are smaller
8 companies that are unable to raise because the
9 institutional VC is going to double or triple down on
10 one of their larger investments?

11 MR. DUVAL: I mean, it's going to be
12 anecdotal for me, but I can tell you that I have angel
13 investors writing checks in some of my companies the
14 week after they're getting secondary liquidity on my
15 other companies. And so, you know, for many of these
16 smaller investors, we are seeing it recycled and going
17 right back in.

18 Now on the key holder, and in a, you know,
19 officer side of things, that is my -- I'm looking to
20 put a pool on my house in many type of those; it's the
21 first real liquidity for some of these founders. And
22 while they might have large gains on paper, they have
23 no cash. And so for them it's a de-risking and
24 they're not taking that money and writing a check
25 somewhere else into a new company.

1 MS. DAWOOD: Any more questions for Billy?
2 (No audible response.)

3 MS. DAWOOD: No. Billy, thank you so much
4 for being here today and sharing your knowledge with
5 us and giving us your presentation.

6 MR. DUVAL: Thank you.

7 MS. DAWOOD: Great. All right, we will now
8 turn it over to our own discussion.

9 I would just first like to hear from any of
10 the Committee members who are dealing with secondaries
11 firsthand. What have you -- what are some of the most
12 recent stories? Things that you're seeing?
13 Especially if you're a fund manager or work with
14 startups all the time.

15 (No audible response.)

16 MR. DILLASHAW: I can kick it off, and
17 others can, sort of, chime in.

18 I think the area -- so for context, I'm
19 particularly working with early stage, sort of, VC-
20 backed, so that, kind of, Series C, Series B, kind of,
21 stage, and the secondary scenario that I see more
22 often than not is what Billy was talking about, where
23 it's sort of, a combined primary and secondary, where
24 you have key holders and then maybe early investors,
25 maybe some other employees that are getting liquidity

1 opportunity to sell some of their shares. The most
2 common transaction structure that I see is with that
3 exchange on the back end, so that the investors wind
4 up with preferred stock, but there's a variety in the
5 market.

6 MS. DAWOOD: Yeah. Erica.

7 MS. DUGNAN MINNIHAN: Yeah. I'm seeing a
8 lot of, sort of, institutional secondary vehicles
9 being spun up in the market, you know, very
10 specifically looking to be gotten by strategic assets
11 out of GP portfolios. So it's actually, kind of, a
12 nice option to have. I think it gets a little bit
13 complicated because, you know, as we've discussed
14 here, you know, it's not as easy as, hey, somebody
15 wants to buy this from me, I'll sell it. It's, kind
16 of, a delicate situation, you know, with making sure
17 that the founders are onboard and you've, sort of,
18 complied with all of the other co-sale and right of
19 first refusal requirements. But I think it is really
20 helpful to GPs and LPs to, you know, have an
21 additional source of liquidity because companies are
22 staying private far longer than we ever expected.

23 But I think the other thing, you know,
24 that's been covered a little bit over the course of
25 the day is we're seeing a lot of activity happen in

1 secondary markets and, you know, some of these other
2 things that we talked about, even just investment
3 overall. But we can't be distracted from the fact
4 that the vast majority of the transactions are
5 happening both within a very small number of names
6 and, you know, the AI sectors and very specific
7 sectors that are hot right now. So I don't think
8 it's, you know, widely available options for the
9 majority of, you know, just the various types of
10 companies that drive the U.S. economy. But, you know,
11 I think as more people use it and become familiar with
12 these options, they could be more and more useful
13 going forward.

14 MS. DAWOOD: Rose.

15 MS. STANDIFER: Yeah. Building on what
16 Erica just said, there was an interesting comment
17 earlier around the destigmatizing secondaries, because
18 as a pathway and, you know, regulatory pathway,
19 including under the SEC's rules, these aren't new,
20 right? These have existed. I have handled secondary
21 transactions for the last 25 years. Absolutely, that
22 volume has picked up in the last handful of years.
23 You're now seeing dedicated funds and structures.

24 So I wonder if, as it becomes, you know,
25 seen as a viable tool to recycle capital, right, is it

1 another third stool of the exit of, you know, the IPO
2 or the M&A? Do we now have a third exit stool of
3 secondaries that might trickle down to smaller
4 companies beyond the absolutely huge numbers that were
5 just put in front of us as to who's taking all this
6 capital?

7 I would be interested to see, and maybe
8 explore, if there's a way to further open up that
9 third leg of the stool for smaller companies to help
10 some of that capital, you know, trickle down and
11 recycle, because that's, you know, my concern
12 listening to this, as this capital is getting put into
13 secondaries for liquidity of these large companies.
14 And then maybe that investor is just doubling down on
15 another bet in that same sector, as opposed to moving
16 out of that sector or smaller companies, I'm not sure
17 we're really feeding the engine.

18 The other thing is, I less often see the
19 tender offers with the information parity. I know we
20 heard this in some of the remarks, and this has been
21 said publicly by some of the Commissioners, but I more
22 see, like, the what's more opaque in terms of, you
23 know, that information asymmetry and that price
24 discovery. I mean, it seems every week we're reading
25 a news story about somebody locked in a gain on an

1 undisclosed price, and then maybe there was a later
2 round and people got it at a discount. And so it just
3 seems, like, people are coming to the table with all
4 sorts of different information assumptions, especially
5 in the direct secondary market.

6 The other thing that we heard in the remarks
7 this morning, and it was somewhat touched upon by our
8 presenters, is you're seeing structures in the market
9 to get around the rights of first refusal and transfer
10 restrictions by putting up SPVs, special purpose
11 vehicles, that are, for lack of a better word,
12 monkeying as to who is the beneficial or indirect
13 owner of the revenue coming out of that. And are you
14 actually changing the beneficial owner or not under
15 the SEC's current rules? Because people are clamoring
16 to get into these secondaries. And again, I just see
17 it's opaque, funneling capital to this top end of the
18 super high valuation companies that may or may not go
19 public. And I'm not sure we have an answer yet as to
20 how that's impacting the capital raise -- the direct
21 raise down here for smaller companies that continue to
22 struggle.

23 MS. DAWOOD: Yeah. We heard a lot today
24 about the size of these deals, I mean, trying to get a
25 little bit of context about how small is too small and

1 things like that so could we get back to actually
2 helping some of these smaller businesses and some of
3 the startups that are, you know, coming up, not
4 necessarily all the way at the top. But it does seem,
5 like, there's a lot of capital at -- in the
6 secondaries at the much later stages.

7 So what can we -- what would we think about
8 as a committee that we can help the Commission think
9 about what we're seeing? The things we're learning?
10 I mean, we haven't seen secondary markets like this
11 really ever. And the IPO markets, one of the slides
12 that we saw, we saw was, you know, flat or even
13 declining a little bit and the secondaries are going
14 up. So what are some of the things that, as a
15 committee, we could discuss that would be helpful?

16 Rose.

17 MS. STANDIFER: I thought there was
18 interesting commentary about -- I mean, yes, tender
19 offer rules are written for public companies. They
20 can be tricky to apply in the private market context.

21 Would you facilitate, you know, more
22 information parity if you had tender offer rules
23 designed for secondary markets? I think that could be
24 something that would be interesting. And then you may
25 actually see more recycling of capital at smaller

1 companies because it is a cost burden, right? You're
2 not going to see tender offers for widespread
3 liquidity to recycle capital at mid-market to small
4 companies. It's -- I mean, it goes, kind of, to the
5 cost burden of, you know, Reg A that we talked about.

6 It's not all the way up there to an IPO, but it's not
7 nothing. So if you had scaled rules for that, that
8 could be one, you know, one potential, I think, that
9 would, you know, benefit the overall, you know, market
10 discovery and while it's potentially recycling of
11 capital.

12 MS. DAWOOD: Um-hmm. What about as we talk
13 about the companies that will or could IPO? We've
14 heard from Chairman Atkins quite a bit on, "We want to
15 make IPOs great again." How do we do that? We need
16 the costs to come down, or there needs to be, you
17 know, some easier routes for the companies that are
18 smaller.

19 You know, again, we heard a lot today about
20 the bigger companies and what they're doing to get
21 money and to gain capital, but we didn't hear as much
22 about smaller companies and what they can do.

23 Anyone, feel free to chime in.

24 MR. DRAYTON: Marcia, I don't know how you
25 make -- (audio interference) -- without really giving

1 some strong consideration to the cost and regulatory
2 burdens, the reporting everything. I just -- if I
3 were in a position having a conversation with someone
4 considering IPO, I would steer them away, you know,
5 without fail, all the time.

6 MS. DAWOOD: Um-hmm.

7 MR. DRAYTON: And maybe this is the new
8 normal.

9 MS. DAWOOD: Maybe. I don't know the answer
10 to that.

11 Go ahead, Rose.

12 MS. STANDIFER: I was just going to say, and
13 maybe that new normal is a bifurcation, right?
14 Because, I mean, a lot of these companies that we just
15 heard about, that don't necessarily need the cash,
16 they're doing combination of direct raises as well as
17 secondaries. They can cover the cost burden of going
18 public, but they're able to give liquidity to people
19 that are end of life on their funds, or the people
20 that need to put the pool in their house, or, you
21 know, often in the Bay Area, just buy a house and can
22 cover the mortgage.

23 So I think that cost burden is more felt by
24 the small businesses where maybe these robust
25 secondaries aren't even an option to give the

1 liquidity, and they would benefit from being able to
2 have a pathway to a public market to then, right, give
3 liquidity.

4 I mean, it's interesting. If you want to
5 think about the cost and the disclosure burden, we
6 have rules that scale that already for the size of the
7 company, so I don't know if you reduce those, if
8 you're going to impact the money going to this one
9 sector, but I think maybe you could recreate that exit
10 pathway for the smaller public companies. And so
11 that's the bifurcation I see, Herbert, right.

12 Like, we would -- should definitely look at
13 it, right, because that's going to focus over here on
14 these smaller companies, right, which would be the
15 smaller public companies. But I don't necessarily
16 know that it's going to change this sector continuing
17 to take, what was the number, like, 84 percent or
18 something, like, that?

19 MR. DRAYTON: Yeah, Rose, I'll just add a
20 footnote to that. All of our active investments, what
21 I've communicated to the founders is that once we
22 reach a certain ARR, I'm shopping my position in the
23 secondary market, and if they want to go IPO, they're
24 going to do that without me. I don't want to be along
25 for that ride. I would rather, you know, exit my

1 position and use the capital to reinvest.

2 MS. DAWOOD: And Herbert, are you seeing
3 that there's a -- that you're able to do that? That
4 you're able to go and shop in the secondary market in
5 order to get out of your position?

6 MR. DRAYTON: Marcia, that's TBD.

7 MS. DAWOOD: Okay. Got it. Go ahead.

8 MR. DILLASHAW: I would say I do think that,
9 sort of, raises a thread that we've seen a couple
10 times, because one of the comments that was made
11 throughout was funds have longer exit periods. You
12 know, again, a 10-year fund is now 15 years. I think
13 that has to have a meaningful impact on the cash that
14 is available for new companies in the coming through.
15 So to the extent that we can get money recycled, we
16 can get funds some form of liquidity, presumably
17 you're going to see a lot of that cash get freed up to
18 invest in the next generation companies.

19 It's hard for me to believe that there is
20 not a relationship between going public for those
21 folks seeking liquidity and the robustness of the
22 secondary markets right now that are keeping companies
23 out of the public markets further. But that's
24 probably a topic worth more exploration.

25 MS. DAWOOD: I thought somebody else had

1 their hand up? No.

2 The -- I mean, just the -- what Rose was
3 talking about earlier, about, you know, what we've
4 been seeing over the last, especially four years
5 after, from 2022, when we started to see interest
6 rates go up and the capital started to dry up a little
7 bit, I mean, at least what I'm seeing at the angel
8 level is that there just is not very much M&A
9 activity, and most of the times that we would get
10 liquidity was from an M&A transaction.

11 To Herbert's point, we didn't really expect
12 a lot of our companies, the angel level, to go public.

13 So having this secondary option is interesting. But
14 I think, again, we're talking about a lot of very big
15 companies and not necessarily, here we are, we are the
16 Small Business Capital Formation Advisory Committee,
17 and we're -- you know, this is -- these are a lot of
18 the very big companies that we're talking about.

19 Love to hear some -- from some other
20 Committee members. George, what are you seeing out
21 there?

22 MR. COOK: Well, just something I guess I'm
23 thinking about from an operator seat is when Jenny
24 shared her report, and I think Herb called out this
25 point, that there was something like, what was it, 60

1 percent of business owners are seeking capital that --
2 smart money; they're seeking helpful money onto their
3 cap table, right? And, you know, as someone who has
4 raised money in several rounds, we try to be really
5 thoughtful about what capital we're bringing onto our
6 cap table.

7 We've not been in a position where we've had
8 a secondary market transaction. And I recognize that
9 there's, you know, some complexity and some protection
10 as an operator about how a fund could sell their
11 position in Honeycomb. But it's just something, I
12 think there's a flip side to this as well. Like,
13 startups are intentional; good startups are
14 intentional about who they're bringing onto their cap
15 table. And this idea that people can just swap in and
16 out of the cap table without the business having any
17 say in the matter, that's something that makes me a
18 little nervous.

19 MS. DAWOOD: Yeah, I haven't seen that in my
20 personal experience.

21 Anyone else? Wendy or Jennifer?

22 CMT. MEM. Stevens: Only, Marcia, I had the
23 same thought as you, that that presentation did -- let
24 me say in a different way. Atkins has not only said
25 it -- Commissioner Atkinson not only said it this

1 morning, but he said it in a number of speeches about
2 "Make IPOs Great Again." And I take -- you know, I'm
3 thinking -- not -- I'm about what Bart said -- or no,
4 Herbert said about maybe this is the new normal, and I
5 don't -- I don't know that that -- I don't know that I
6 accept that as a trend. So, you know, I -- I don't
7 know that I want to recommend something that would get
8 our growth of an IPO for smaller businesses.

9 MS. DAWOOD: Um-hmm. And I think in a lot
10 of cases the public markets, they do bring, you know,
11 information symmetry, whereas, like, we said today,
12 the secondary markets could be all over the place.
13 Same with price. But I still think it's probably an
14 important thing to be looking at, the how do we help
15 smaller companies be able to do that?

16 MS. STEVENS: Well, I think the pricing is
17 what's really challenging for these -- you know, those
18 companies that want to step it on up. I mean, that's
19 what we've heard from all of our clients; that they're
20 just seeking other alternatives because of the
21 pricing. So if the commitment by the SEC, at least,
22 is to make it more palatable, you know, easier for
23 companies to do it, we might see a turnaround, and
24 maybe we could think about what that might mean or
25 what that might look like.

1 MR. DRAYTON: Marcia, can I just ask Wendy a
2 follow-up?

3 MS. DAWOOD: Yeah.

4 MR. DRAYTON: Wendy, say that the new
5 normal, you don't accept the new normal as secondaries
6 as a path where we should lean more into Chair
7 Atkinson's position of Making IPOs Great Again.

8 Is that what I'm hearing? Just for
9 clarification.

10 MS. STEVENS: I think we should entertain
11 it. I can't -- you know, we -- I can't make a future
12 that doesn't exist. But I think I don't want to
13 promote a future that continues to see reduction in
14 IPOs.

15 MS. DAWOOD: So would that be a topic maybe
16 for our next meeting? To get some speakers around
17 that?

18 MS. STEVENS: Yes, that would be great,
19 Marcia, because I think what I've heard is a lot of
20 those providers, whether it's the attorneys or the
21 accountants or the smaller investment banks, and I
22 know some people on this call have experience, have
23 tilted in other directions because there just hasn't
24 been the appetite.

25 MS. DAWOOD: Um-hmm.

1 MS. STANDIFER: I would specifically like to
2 hear from folks with, you know, small cap offering
3 experience and the feedback that they're getting,
4 because I think an illuminating part of this
5 discussion, right, I mean, we can see it in the
6 markets, we can see it in the news cycle, but to have
7 three speakers back to back show us where the capital
8 is going right now to very large cash-heavy companies
9 that don't actually need the cash, they are not the
10 ones that are feeling this burden, which is why I
11 think maybe it's not a new normal across the entire
12 market, right? But I do think there is a bifurcation
13 happening. And I would need to think more about are
14 there any levers to undo that bifurcation? Or do we
15 need to continue to focus on the small cap, how to
16 make that pathway to, you know, liquidity, however
17 that liquidity looks, because the liquidity, you know,
18 in theory, we believe there's this flywheel, this
19 liquidate -- you know, this recycling of capital, and
20 knowing -- I think there's always been this segment of
21 the market, and now it's more just very obvious, that
22 is staying private and accumulating capital in the
23 private markets. And, I mean, my theory is that this,
24 we have seen this ever since the JOBS Act increased
25 the number of people you can have on your cap table

1 before you have to have public disclosure, right? I
2 mean, that -- that's where we are.

3 MS. DAWOOD: Yeah, I agree with you, Rose.
4 We did hear quite a bit today about these bigger
5 companies, and if they need capital, they either just
6 go out and raise or they have a tender offer so that
7 their employees can get liquidity. I mean, there's a
8 lot of things that are happening with the bigger
9 companies, but what are the smaller companies doing
10 and how can we help them not feel so small?

11 Other things people would want to hear about
12 at the next meeting?

13 MR. COOK: I'll just add, you know, I think
14 it -- we talked a lot about equity, obviously, but one
15 of the speakers, Nigel, was talking about how actually
16 a really significant portion of what he's talking
17 about is private credit and the debt side of the
18 house, as well. So I know we're talking a lot about
19 the equity markets, but the bond markets, I think, are
20 also interesting and just there's other forms of
21 capital access and public markets. And I think
22 broadening that conversation would be helpful.

23 MS. DAWOOD: Yeah, that's really great,
24 George.

25 You know, you've personally expanded my view

1 on a lot of things just because of everything you've
2 done with Honeycomb, and thinking about, you know,
3 debt in a different way. I know a lot of founders
4 have thought of it as, oh, it's scary, but you know,
5 the things that you're doing to really help companies
6 see that there's a pathway depending on the type of
7 company, it really, I think, we have to keep our minds
8 open, right?

9 All right, anyone else?

10 (No audible response.)

11 MS. DAWOOD: Okay.

12 Well, I appreciate everybody hanging in
13 there with us on this very long virtual call, but thank
14 you for being here, and for the pivot from yesterday
15 due to the weather.

16 And we will have our next meeting on April
17 28th, 2026. We will have another meeting on July 1st,
18 and also on October 7th. So please mark your
19 calendars.

20 So I move to adjourn the meeting. Thank you
21 all for coming.

22 (Whereupon, at 3:01 p.m., the meeting was
23 adjourned.)

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CERTIFICATE OF REPORTER

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I, Elaine LaRosee, reporter, hereby certify that the foregoing transcript is a complete, true, and accurate transcript of the testimony indicated, held on Tuesday, February 24th, 2026 in the matter of:

SMALL BUSINESS ADVISORY COMMITTEE MEETING

I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared under my direction.

Date: 2/24/2026

Official Reporter: Elaine LaRosee