

REMARKS OF  
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TWELFTH ANNUAL SEC GOVERNMENT-BUSINESS FORUM ON  
SMALL BUSINESS CAPITAL FORMATION  
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Good afternoon. I am happy to be here today to welcome you and to open the 12th Annual Government-Business Forum on Small Business Capital Formation. I ran a small business until just a couple of months ago, so I understand your concerns and assure you that I will be responsive to them. I cannot promise that we will always be on the same side of an issue, but you should know that you have a sympathetic ear at the SEC.

In establishing this annual event, Congress recognized that American small business is the most vital, vibrant part of our \$6 trillion economy. Of course, many people describe small business as the "engine of our economy." They also cite statistics as to the millions of small businesses in this country. They point to the millions of jobs that have been created in the aggregate by small businesses versus how many have been lost by the Fortune 500 in recent years.

I am sure that you often wonder, as I do, why then the government sometimes takes steps that are clearly not helpful to small businesses -- steps that have an unintended, inhibiting

effect on the ability of small entrepreneurs to conduct and expand their enterprises. Surveys of small business owners repeatedly cite government regulation and paperwork as one of the major obstacles to their growth and success.

Unlike large businesses, however, you cannot always hire an army of in-house specialists devoted to compliance work. Even if every company could do so, compliance with excessive regulation creates an enormous aggregate cost to the general economy that diverts valuable resources and hinders business growth and development. The bottom line is that jobs are lost and our standard of living is diminished by government excess.

Earlier this week you saw a major step toward curing this problem when the Vice President unveiled his National Performance Review with 800 recommendations to modernize the federal government. Although I cannot speak to the federal government as a whole, I can address the niche that concerns the SEC. Small businesses face unique problems in raising money, especially if they choose to do so through the public securities markets. This Forum represents an important step in finding solutions by bringing together small businesses, regulatory bodies and federal and state agencies with a goal of co-operating to find less burdensome, less duplicative regulation.

Compliance with all the state and federal securities laws presents one of the most significant costs for small and developing companies trying to raise capital. It follows, then, that co-ordination and elimination of redundant and conflicting requirements is the key to lowering regulatory costs. I am committed to working with the state securities regulators to further co-ordinate and streamline our regulation of securities offerings, both registered and exempt, consistent always with the protection of investors.

From 1978 to 1980, I had the opportunity to chair the White House Small Business Task Force. In that capacity, I learned first-hand that conferences like the one you are attending today are not wasted effort. In fact, this Government-Business Forum on Small Business Capital Formation has an especially effective track record of making important recommendations since 1982. These recommendations have been broad in scope -- they have covered areas ranging from liability insurance and payroll costs to financial services and SBA assistance -- all in addition to taxation and securities regulation. The wide range of recommendations is a direct result of the free exchange of ideas in the working sessions and the broad mix of participants in each group.

The recommendations are consistently timely and reflect real-life experiences. They offer thoughtful, helpful resolutions of the problems identified. Of course, many of the recommendations

are beyond the authority of the SEC to implement, but that does not mean that they are made in vain. We send the Forum's recommendations each year to members of Congress who have an interest in small business. We also send the various recommendations to the governmental agencies best able to implement them.

Equally important to our work is your own follow-through. In the last several years, Forum participants have personally presented the recommendations to their state legislators for both informational purposes and appropriate action. There is value in this activity alone since it brings your concerns to light.

Besides publicity, you should rightfully be concerned about the implementation factor -- what does the government do in response to your expressed concerns? I am happy to say that the SEC's rulemaking agenda has reflected many of the initiatives born from Forum recommendations. For example, SEC Rule 701 is a direct result of a Forum recommendation to exempt employee compensatory arrangements for small companies. Since its adoption in 1988, more than 1.7 billion dollars of securities have been offered under this Rule.

In another example, Regulation D's limited offering exemptions have been formulated and amended over the years in response to Forum recommendations. We recently revised Rule 504 -- the seed

capital rule -- to permit an issuer to raise up to 1 million dollars per year publicly without any federal compliance restrictions, except the anti-fraud provisions. This change helped to end the downward trend in the use of this exemption, with 60 million dollars more of securities being offered in 1992 than in 1991. Rule 504 has been relied upon for offerings of more than 2 billion dollars in the past five years.

Forum recommendations also influenced other features of last year's small business initiative -- such as the increase in availability of the Regulation A exemption and the removal of a ceiling restriction from the registration statement form available to small businesses through adoption of new Form SB-2. These two actions alone have given small companies the opportunity to raise many additional millions of dollars through the securities markets. In fact, in the year since the adoption of the revisions to Regulation A, the amount offered under that exemption has increased nearly 5-fold, from \$42 million in the prior year to just over \$200 million in the most recent 12-month period. Registrations filed on Form SB-2 have more than tripled the dollar amounts filed in the comparable earlier period on Form S-18.

We have much work to do to ensure that these reforms and other parts of the small business initiative can be fully implemented. Much of that work must be done in co-operation with the states, and I intend to see to it that we make every effort to work with our

state counterparts. Senior staff members from the Commission now meet regularly with representatives of state securities administrators, and I will attend the NASAA conference later this month.

I am happy to say that we have made some progress in many areas, including work towards better co-ordination of exemptions at the federal and state level. It is my goal to reach accommodations through a spirit of co-operation, rather than confrontation.

Now, I would like to leave you to the important work that you must accomplish at this conference. The SEC needs your help to identify areas that need improvement. I challenge you to think BIG. The U.S. securities markets are recognized and envied around the globe as the world's largest, safest, fairest and most efficient markets. I hope that you will put your creativity to work to help us to maintain those superlatives and to ensure that these great markets are accessible by large and small businesses alike.

Thank you.