

STATEMENT OF COMMISSIONER JOHN R. EVANS
BEFORE A JOINT HEARING OF THE HOUSE SUBCOMMITTEE ON TAX,
ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES OF THE
HOUSE COMMITTEE ON SMALL BUSINESS
AND THE SENATE SMALL BUSINESS COMMITTEE

December 1, 1982

I am pleased to appear before you today to discuss the first SEC Government-Business Forum on Small Business Capital Formation. As Chairman of the Executive Committee of the Forum, I would like to present a brief overview of our efforts and encourage you and other members of Congress to give careful consideration to the proposals for legislative changes. According to your schedule, a number of other witnesses will discuss many of the 37 recommendations approved by the Forum participants. Among those from whom you will hear are Peter McNeish, Professor Howard Stevenson, and Frank Swain who were members of the Forum's Executive Committee and were actively involved in its planning and execution.

The Forum was held pursuant to the Small Business Investment Incentive Act of 1980, which directs the Securities and Exchange Commission to conduct an annual government-business forum "to review the current status of problems and programs relating to small business capital formation." Congress also directed that other Federal agencies concerned with small business capital formation, such as the Department of the Treasury, the Board of Governors of the Federal Reserve System, and the Small Business Administration should participate in the Forum. In addition, the legislation requires that the Commission work closely with organizations representing state securities commissioners and leading small business and professional organizations concerned with capital formation. In my view, the legislation reflects a growing awareness of the importance of small business to the national economy and of the continuing capital formation problems which small businesses encounter.

On behalf of the Forum's Executive Committee, I am pleased to transmit the final report of the First Annual SEC Government-Business Forum on Small Business Capital Formation. The recommendations contained therein reflect the majority views of the Forum participants who met in Washington for the three-day period of September 23rd through September 25th, 1982, to develop and debate proposals designed to enhance the ability of small business to obtain capital.

It should be understood that the Commission has not sought to influence the substance of the findings or recommendations contained in the report, nor has it taken a position on any particular recommendation at this time. Moreover, as Chairman of the Forum, I requested that Federal government officials not participate in the voting on proposals which took place at the final Forum session. This policy resulted in one proposal which received a tie vote not being approved by the Forum.

Planning for the Forum began in March of this year when the Commission staff, led by Mickey Beach, Associate Director, Division of Corporation Finance, and Paul Belvin, Chief, Office of Small Business Policy, helped to assemble an Executive Committee of 21 representatives from private sector organizations and government agencies in accordance with Congressional guidelines. We received considerable cooperation and support from representatives of other government agencies who served on the Executive Committee and provided resource materials and expertise. We were also greatly assisted by the many private sector organizations that contributed their valuable resources and first-hand experience in many areas related to small business capital formation.

Participants in the Forum were invited on the basis of their interest and expertise. Approximately 200 persons from throughout the nation attended the Forum, including many

small business persons, accountants, attorneys, venture capitalists, bankers, broker-dealers, academicians, and government officials. The Executive Committee encouraged maximum participation by small business persons and invited all who indicated an interest in attending. In addition, members of the Executive Committee actively sought other prospects. These efforts resulted in about 30% of the participants being from small businesses.

The Forum's substance and procedures were guided by the Executive Committee, which established task forces to examine small business capital formation problems in four areas: 1) access to financial institutions, 2) raising capital, 3) tax, and 4) credit. Although its members were generally familiar with the problems confronting small business, the Executive Committee desired additional input concerning the most useful measures that could be undertaken to encourage capital formation. Accordingly, the Commission and the

Financial Reporting Institute of the University of Southern California sponsored a survey to determine the views of small business executives. Based on the results of this survey and the guidance of the task force members, the SEC staff prepared eight issue papers which were sent to participants in advance of the Forum. These issue papers, which were designed to stimulate discussion and help participants focus their attention on specific problem areas, contained a number of proposals to encourage small business capital formation.

Most of the Forum was devoted to consideration of those proposals in working groups of fewer than 20 persons. On the final day of the Forum, the participants met in a plenary session to debate and vote on the final proposals. Many of the proposals in the issue papers and a number of additional proposals developed during the Forum working sessions were approved. In general, the recommendations propose various forms of regulatory or legislative action

to enhance the capital formation process for small businesses.

Some of the proposals would require only minor adjustments in the operation of existing programs or the implementation of current policies. Other proposals are quite innovative and would require the approval of new financing tools for small business.

The recommendations fall within the following eight subject areas:

- 1) Developing incentives for institutional investors and others to invest in small business;
- 2) Relaxing ERISA and similar regulatory restrictions to encourage investment in small business;
- 3) Reducing costs associated with securities regulation;
- 4) Developing uniform federal/state securities regulation;

- 5) Adjusting corporate tax rates and brackets to reflect the internal capital raising needs of small business;
- 6) Changing the tax treatment of capital gains to provide a stimulus to capital formation, particularly for smaller businesses;
- 7) Providing additional tax modifications to assist small business capital formation and retention; and
- 8) Revising Small Business Administration programs to assist the financing of small business.

All of these subjects have an important and direct bearing on small business capital formation. However, you will note that the subject of high interest rates was not directly addressed in the recommendations. The Executive Committee and the Credit Task Force were aware that high interest rates represent one of the most significant problems

facing small businesses today. Indeed, the survey undertaken for the Forum revealed that 93% of the respondents thought that reducing interest rates is the most important means of improving the ability of small business to secure credit financing. However, the Executive Committee believed that the subject of interest rates and the various solutions that have been proposed, such as revisions to Federal Reserve Board monetary policy, removal of the independence of the Board, and passage of a balanced budget Constitutional amendment are of such magnitude and political significance that their discussion at the Forum might have precluded full discussion of the other issues selected.

Although not addressed directly in the recommendations, the interest rate question was developed in an alternative format and was the subject of much interest and discussion at the Forum. The Honorable Lyle E. Gramley, a Member of

the Board of Governors of the Federal Reserve System, addressed the interest rate problem at a Forum luncheon and responded at length to questions and comments from Forum participants.

Although government officials made significant contributions to the work of the Forum, it is clear that the key ingredient in its success was the effective work of the many private sector participants who came to Washington at their own expense and gave freely of their time and expertise.

Small business is a vital segment of our national economy. Various studies indicate the importance of small business establishments in the creation of new jobs and important technological innovations in the United States. In this context, the efforts of the Forum take on particular significance. I am hopeful that in the coming months Congress and the various government agencies whose programs would be affected by the Forum's recommendations will give them careful consideration. I

can assure you that the Securities and Exchange Commission will seriously consider the proposals that fall within our jurisdiction, and we will be urging other government agencies whose programs and policies would be affected by the recommendations to do likewise.

The Forum helped to affirm the government's interest in the small business sector of the economy and was a valuable step in bringing the government and private sector together to work for an improved environment that will facilitate small business capital formation. I have been very pleased with the many letters and other favorable comments on the Forum and am grateful for having had the opportunity to participate.