# Regulation A: Crowdfunding's ugly older brother

Increasing the opportunities for startups to raise financing is all the rage in Congress. So, with the changes proposed by H.R. 2930, H.R. 2940, and S.1791, it might be easy to miss another important piece of legislation with bipartisan support: *The Small Company Capital Formation Act* or H.R. 1070. While legislation to allow crowdfunding and public solicitation might capture all the headlines, it's H.R. 1070 that might just have the biggest impact on financing successful startups.

**Startups, exemptions, and Regulation A**

Companies seeking to raise financing must file with the SEC unless an exemption applies. Regulation D is the most well known exemption, but it has a less commonly used companion exemption, Regulation A. Regulation A provides an exemption for qualifying companies to avoid certain regulatory hurdles put in place by the SEC for public offerings. Essentially, Regulation A enables startups to engage in a sort of "mini-offering," by allowing "companies to sell up to $5 million in shares annually without having to submit to the same extensive reporting requirements as full public companies." The cap of $5 million, however, has precluded many companies from exploring this option. According to Representative Anna Eshoo, a co-sponsor of H.R. 1070, only three companies took advantage of the exemption in 2010.

H.R. 1070 would change Regulation A by increasing the cap to $50 million. H.R. 1070 is premised on the idea that capital intensive ideas require more funding today than when the Regulation was first created. This is particularly important for capital intensive areas like biotech or cleantech.

**Bipartisan support**

Like it's legislative cousins, H.R. 2930, H.R. 2940, and S.1791, H.R. 1070 has widespread support. Indeed, the House passed the Bill in a 421-1 vote, surpassing the House's approval of H.R. 2930 in a 407-17 vote. H.R. 1070 is also part of the White House's Job Stimulus plan, meaning Executive support is pretty much guaranteed as well.

**What it means for new ventures**

By itself Regulation A doesn't do much for the bootstrapped startup. Most bootstrapped startups don't need $5 million, they need access to $1 million or less. Rather, Regulation A is most likely to impact successful startups that are beginning their hyper-growth and need access to capital at a delicate stage of their development: revenue growing, but still capital starved. By increasing the cap to $50 million, those startups should be able to access more capital, faster, at a cheaper cost.

That said, the changes proposed in H.R. 1070 multiply when combined with the proposed changes of H.R. 2930, H.R. 2940, and S.1791. Together the changes to Regulation D and Regulation A, would make it easier for a company to raise an initial round of capital at the very early stages, then easily raise a second and possibly third round of capital to support their growing success. In effect, creating a smoother process during the startup phase, for new companies to raise cheap capital until they can stand on their own two-feet.