

In my home state of Michigan, NASAA members have worked tirelessly to become a leading voice for improving investment education, protected investors by utilizing securities enforcement, and helped build stronger communities by assisting in capital formation projects.

Today, NASAA is the oldest international investor protection organization with a membership consisting of 67 state, provincial, and territorial securities regulators in the 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico, Canada, and Mexico.

I want to congratulate NASAA on their first 100 years and look forward to their work continuing for many years ahead. I urge passage of this resolution acknowledging the superb work of this outstanding organization.

The SPEAKER pro tempore. The question is on the motion offered by the gentlewoman from California (Ms. WATERS) that the House suspend the rules and agree to the resolution, H. Res. 456.

The question was taken; and (two-thirds being in the affirmative) the rules were suspended and the resolution was agreed to.

A motion to reconsider was laid on the table.

IMPROVING INVESTMENT RESEARCH FOR SMALL AND EMERGING ISSUERS ACT

Ms. WATERS. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 2919) to require the Securities and Exchange Commission to carry out a study to evaluate the issues affecting the provision of and reliance upon investment research into small issuers.

The Clerk read the title of the bill.

The text of the bill is as follows:

H.R. 2919

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Improving Investment Research for Small and Emerging Issuers Act”.

SEC. 2. RESEARCH STUDY.

(a) **STUDY REQUIRED.**—The Securities and Exchange Commission shall conduct a study to evaluate the issues affecting the provision of and reliance upon investment research into small issuers, including emerging growth companies and companies considering initial public offerings.

(b) **CONTENTS OF STUDY.**—The study required under subsection (a) shall consider—

(1) factors related to the demand for such research by institutional and retail investors;

(2) the availability of such research, including—

(A) the number and types of firms who provide such research;

(B) the volume of such research over time; and

(C) competition in the research market;

(3) conflicts of interest relating to the production and distribution of investment research;

(4) the costs of such research;

(5) the impacts of different payment mechanisms for investment research into small issuers, including whether such research is paid for by—

(A) hard-dollar payments from research clients;

(B) payments directed from the client’s commission income (i.e., “soft dollars”); or

(C) payments from the issuer that is the subject of such research;

(6) any unique challenges faced by minority-owned, women-owned, and veteran-owned small issuers in obtaining research coverage; and

(7) the impact on the availability of research coverage for small issuers due to—

(A) investment adviser concentration and consolidation, including any potential impacts of fund-size on demand for investment research of small issuers;

(B) broker and dealer concentration and consolidation, including any relationships between the size of the firm and allocation of resources for investment research into small issuers;

(C) Securities and Exchange Commission rules;

(D) registered national securities association rules;

(E) State and Federal liability concerns;

(F) the settlement agreements referenced in Securities and Exchange Commission Litigation Release No. 18438 (i.e., the “Global Research Analyst Settlement”); and

(G) Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as implemented by the European Union (“EU”) member states (“MiFID II”).

(c) **REPORT REQUIRED.**—Not later than 180 days after the date of the enactment of this Act, the Securities and Exchange Commission shall submit to Congress a report that includes—

(1) the results of the study required by subsection (a); and

(2) recommendations to increase the demand for, volume of, and quality of investment research into small issuers, including emerging growth companies and companies considering initial public offerings.

The SPEAKER pro tempore. Pursuant to the rule, the gentlewoman from California (Ms. WATERS) and the gentleman from Kentucky (Mr. BARR) each will control 20 minutes.

The Chair recognizes the gentlewoman from California.

GENERAL LEAVE

Ms. WATERS. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks on this legislation and to insert extraneous material thereon.

The SPEAKER pro tempore. Is there objection to the request of the gentlewoman from California?

There was no objection.

Ms. WATERS. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I thank the ranking member of our Investor Protection, Entrepreneurship, and Capital Markets Subcommittee, Representative HUIZENGA, and Representative

MCADAMS, for working across the aisle on this bipartisan bill to improve investment research coverage for small issuers.

Investment research helps to raise investor awareness, understanding, and interest about a company, which in turn can promote informed investment and overall trading in a company’s securities.

However, reports indicate significant declines in analyst research on small

public companies. In fact, it appears that most exchange-listed companies with less than \$100 million in market capitalization have no research coverage at all.

To address this concerning trend, H.R. 2919 would direct the SEC to conduct a study on the issues that are affecting the availability of research coverage for small issuers, including emerging growth companies, companies considering an initial public offering, and minority-, women-, and veteran-owned businesses. It also directs the SEC to report back recommendations to improve the quality and availability of investment research for small issuers.

I urge my colleagues to support this bipartisan bill to enable us to identify some of the barriers small businesses face when attempting to get their story out to investors in our public capital markets.

Mr. Speaker, I reserve the balance of my time.

Mr. BARR. Mr. Speaker, I yield myself such time as I may consume.

Mr. Speaker, I rise in support of H.R. 2919, the Improving Investment Research for Small and Emerging Issuers Act. I thank my colleagues, Congressman HUIZENGA and Congressman MCADAMS, for their efforts on this bipartisan legislation that will help small companies and our capital markets.

The U.S. capital markets have, and continue to be, a vibrant ecosystem, fueling America’s economic growth and generating millions of private sector jobs. These markets provide financing and needed resources to the smallest startups and the largest international companies.

However, a company’s size often impacts how easily it can access capital. For example, larger companies have generally found capital markets easier to access than smaller ones.

While the number of IPOs in the U.S. has rebounded from its post-crisis glut—thanks in large part to the success of the bipartisan JOBS Act of 2012—smaller companies still face significant regulatory and market impediments that disincentivize them from accessing capital via the public markets.

There are differing perspectives as to why fewer companies, particularly small companies, have gone public over the past few decades. The data suggest that in fulfilling its capital formation mandate, the Securities and Exchange Commission needs to tailor its approach to account for the varying nature and size of companies.

□ 1745

An important piece to this approach is recognizing insufficient research coverage of microcap, small-cap, and emerging companies can undermine the liquidity necessary to attract investor interest and facilitate capital necessary for growth.

This bipartisan legislation would direct the SEC to study, evaluate, and

report on issues affecting the ability of emerging growth companies and other small issuers to obtain research coverage, including SEC rules, FINRA rules, State and Federal liability concerns, the 2003 Global Analyst Research Settlements, and MiFID II.

Again, I thank Congressman HUIZENGA and Congressman MCADAMS for this commonsense and bipartisan legislation, which I support.

Mr. Speaker, we have no further speakers, so at this time, I will close. Let me once again urge my colleagues to support this commonsense legislation, and I yield back the balance of my time.

Ms. WATERS. Mr. Speaker, I yield myself the balance of my time.

Mr. Speaker, I am pleased that Mr. HUIZENGA and Mr. MCADAMS worked in a bipartisan manner to bring forth H.R. 2919. Markets work best when there is adequate public information, and the study on additional research provided for in this bill will help ensure that this is the case.

I urge my colleagues to join me in supporting this important legislation, and I yield back the balance of my time.

Mr. HUIZENGA. Mr. Speaker, initial public offerings, or IPOs, have historically been one of the most meaningful steps in the lifecycle of a company. "Going public" was the ultimate goal for entrepreneurs. You start a business from scratch, build it up into a successful enterprise, and then open up an opportunity for the public to share in your success.

By completing an IPO, a company is able to raise much-needed capital for job creation and expansion opportunities, while allowing main street investors the opportunity to have an economic piece of the action and ability to participate in the growth phase of a company.

However, over the past two decades, our nation has experienced a 37 percent decline in the number of U.S. listed companies. Equally troubling, we have seen the number of public companies fall to around 5,700. These statistics are concerning because they are similar to the data we saw in the 1980's when our economy was less than half its current size.

For myriad reasons, the public model is no longer viewed as an attractive means of raising capital. Instead, small and emerging growth companies are choosing to go public much later in their lifecycle or choosing not to go public at all.

We must work to change the trajectory. In speaking to the New York Economic Club, SEC Chairman Clayton stated that "Regardless of the cause, the reduction in the number of U.S.-listed public companies is a serious issue for our markets and the country more generally. To the extent companies are eschewing our public markets, the vast majority of Main Street investors will be unable to participate in their growth. The potential lasting effects of such an outcome to the economy and society are, in two words, not good."

I share Chairman Clayton's concerns. We need to ensure that our capital markets are open for innovators and job creators and we must work to right-size regulations for smaller companies as well.

One way that Congress worked to lift burdensome regulations and help small compa-

nies gain access to capital markets was the bipartisan Jumpstart Our Business Startups Act—popularly known as the JOBS Act.

Section 105 of the JOBS Act changed the "gun-jumping rules" to provide an exception from the definition of an offer to allow for the publication or distribution by a broker or dealer of a research report about an emerging growth company that is the subject of a proposed public offering. However, few investment banks have published any pre-IPO research since passage of the JOBS Act, and research coverage in general on small issuers continues to be an issue. This negatively affects investor interest and awareness in a company as well as trading liquidity.

This provision was intended to increase research but unfortunately it has had the opposite effect and instead, there has been a significant decline over recent years in analyst research covering small public companies. According to the U.S. Chamber, "61% of all companies listed on a major exchange with less than a \$100 million market capitalization have no research coverage at all."

For equities with a market cap below \$750 million, the average number of research analysts covering that stock is one, while equities above \$750 million in market cap have an average of 12 research analysts covering the stock.

Additionally, the amount of research written on small companies has declined even as the percentage of individual ownership in small cap companies has increased. Little to no research coverage generally corresponds with lower stock liquidity, and reduced research coverage may be particularly disadvantageous to individual investors who have limited research capabilities on their own.

In fact, one study published June 2017 in the Journal of Finance found that an increase in the number of analysts covering an industry improved the quality of analyst forecasts and information flow to investors. For that reason, it is important to examine current SEC rules and regulations affecting the ability of investment research coverage regarding small issuers. The Treasury Report on Capital Markets recommended a holistic review of rules and regulations regarding research, including the Global Settlement, to determine, which provisions should be retained, amended, or removed.

Our bipartisan bill, the Improving Investment Research for Small and Emerging Issuers Act, would direct the SEC to study and evaluate issues affecting the ability of emerging growth companies and other small issuers in obtaining research coverage, including SEC rules, FINRA rules, state and federal liability concerns, the 2003 Global Research Analyst Settlements, and MiFID II. Not later than 180 days after enactment, the SEC will be required to submit to Congress a report that includes the results of the study and recommendations to assist EGCs and other small issuers in obtaining research coverage.

Among the issues the SEC must consider are factors related to the demand for such research by institutional and retail investors, cost considerations for such research, and the impact on the availability of research coverage for small issuers due to a variety of market and regulatory conditions. The SEC's report must include recommendations to increase the demand for, volume of, and quality of investment research into small issuers, including EGCs.

I'd like to thank the Financial Services Chairwoman, Mrs. WATERS, and Rep. BEN MCADAMS, for recognizing the importance of research in our capital markets and working with me to address this issue.

The SPEAKER pro tempore. The question is on the motion offered by the gentlewoman from California (Ms. WATERS) that the House suspend the rules and pass the bill, H.R. 2919.

The question was taken; and (two-thirds being in the affirmative) the rules were suspended and the bill was passed.

A motion to reconsider was laid on the table.

EXPANDING INVESTMENT IN SMALL BUSINESS ACT OF 2019

Ms. WATERS. Mr. Speaker, I move to suspend the rules and pass the bill (H.R. 3050) to require the Securities and Exchange Commission to carry out a study of the 10 per centum threshold limitation applicable to the definition of a diversified company under the Investment Company Act of 1940, and for other purposes, as amended.

The Clerk read the title of the bill.

The text of the bill is as follows:

H.R. 3050

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Expanding Investment in Small Businesses Act of 2019".

SEC. 2. SEC STUDY.

(a) IN GENERAL.—The Securities and Exchange Commission shall carry out a study of the 10 per centum threshold limitation applicable to the definition of a diversified company under section 5(b)(1) of the Investment Company Act of 1940 (15 U.S.C. 80a-5(b)(1)) and determine the impacts of such threshold limits upon the protection of investors, efficiency, competition, and capital formation.

(b) CONSIDERATIONS.—In carrying out the study required under subsection (a), the Commission shall consider the following:

(1) The size and number of diversified companies that are currently restricted in their ability to own more than 10 percent of the voting shares in an individual company.

(2) How the investing preferences of diversified companies have shifted over time with respect to companies with smaller market capitalizations and companies in industries where competition may be limited.

(3) The expected impact to small and emerging growth companies regarding the availability of capital, related impacts on investor confidence and risk, and impacts on competition, if the threshold is increased or otherwise changed.

(4) The ability of registered funds to manage liquidity risk.

(5) Any other consideration that the Commission considers necessary and appropriate for the protection of investors.

(c) SOLICITATION OF PUBLIC COMMENTS.—In carrying out the study required under subsection (a), the Commission may solicit public comments.

(d) REPORT.—Not later than the end of the 180-day period beginning on the date of enactment of this Act, the Commission shall issue a report to the Congress, and make such report publicly available on the website of the Commission, containing—

(1) all findings and determinations made in carrying out the study required under subsection (a); and