



May 20, 2025

The Honorable French Hill
Chairman
Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Financial Services Committee
U.S. House of Representatives
Washington, DC 20515

Re: Financial Services Committee May 20th Markup

Dear Chairman Hill and Ranking Member Waters:

The Small Business Investor Alliance (SBIA) submits this letter for the Financial Services Committee markup scheduled to begin on May 20th. SBIA commends the Committee for its ongoing work to support small business capital formation.

SBIA is a national association that develops, supports, and advocates on behalf of policies that benefit investment funds that finance small and mid-size businesses in the lower middle market, as well as the investors that provide capital to these funds. Our membership consists of the advisers of traditional 3(c)(1) and 3(c)(7) private funds, small business investment companies ("SBICs"), rural business investment companies ("RBICs"), funds registered as business development companies ("BDCs") under the Investment Company Act of 1940, and the investors that invest in these funds including banks, family offices, and fund of funds.

SBIA supports the following bills that will be considered by the Committee:

H.R. 2225, the "Access to Small Business Investor Capital Act"

SBIA commends the work of Reps. Sherman, Huizenga, Garbarino, and Bynum who re-introduced the Access to Small Business Investor Capital Act on March 18th. This legislation addresses a fundamentally misleading disclosure requirement that overstates the actual costs of investment in business development companies (BDCs).

In 2006, the Securities and Exchange Commission (SEC) adopted a rule called acquired fund fees and expenses (AFFE). AFFE is intended to provide investors with a picture of total costs when a mutual fund they are invested in invests in other funds. However, when applied to BDCs, AFFE effectively "double counts" the expenses of a BDC investment. This is due to the unique structure of BDCs, which are a hybrid between an operating company and an investment fund.

Investors are left ill-informed about the costs of an investment which negatively affects their ability to make sound decisions about their portfolio.

BDCs are an indispensable source of capital for thousands of middle market businesses in the United States. BDCs are required by law to invest 70% of their assets in “eligible portfolio companies” which are generally defined as U.S.-based businesses with a value of \$250 million or less. BDCs are also required by law to provide managerial assistance to their portfolio companies in order to help these businesses grow and prosper. Today there are roughly 139 BDCs with over \$300 billion invested in businesses across the country. SBIA maintains a database that catalogs overall investment by the BDC industry as well as a state-by-state breakdown of companies that receive investment from a BDC.¹

Because of the treatment of BDCs under AFFE, certain index providers began dropping BDCs from indices, which in turn led to an outflow of institutional investor dollars in BDCs. This translates to a reduction in capital that BDCs can deploy to middle market and lower middle market businesses throughout the country. Exempting BDCs from the AFFE rule is necessary to incentivize institutional investment back into BDCs.

Additionally, according to a recent report from Compass Point Research & Trading, there may also be substantial tax revenue generated if BDCs were exempted from AFFE.² The report estimates that if there were \$100 billion in additional BDC investment, Treasury could collect over \$5 billion in new tax revenue. As the report explains:

In the roundest of figures, \$100B of new BDC equity sold into taxable accounts would generate ~\$10B in annual dividends and ~\$2B in potential new tax annual payments. Assume the equity is levered 1:1 with debt and you can double the dividends and tax payments. The \$100B in new BDC debt obligations would also generate ~\$6B in interest payments and another potential ~\$1.2B in new annual tax payments. So roughly \$100B in new BDC equity into taxable accounts could conceivably increase tax payments by ~\$5.2B annually while encouraging small & medium-sized business growth and by definition job growth.

SBIA has appreciated the chance to work with both members of the aisle on this critical issue, We are hopeful that Congress will continue to work on a bipartisan basis to enact an AFFE fix in the coming months.

Legislation to amend the accredited investor definition

SBIA also supports several bills that would modernize the SEC’s definition of an “accredited investor,” or individuals eligible to invest in certain private offerings of securities. The current definition equates sophistication with wealth and generally prohibits individuals from investing in private offerings unless they meet minimum income or net worth thresholds. This has the effect of being both overinclusive and underinclusive at the same time – a wealthy person with no knowledge of the financial markets is free to invest in private offerings, while an experienced,

¹ <https://sbia.org/bdc/>

² BDC 4Q24 Earnings Preview. Compass Point Trading (January 31, 2025)

sophisticated investor who may not be “wealthy” enough by the SEC’s definition is prohibited from doing the same.

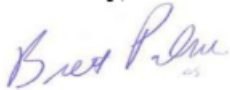
The reforms under the Fair Investment Opportunities for Professional Experts, Accredited Investor Definition Review Act, and Equal Opportunity for All Investors Act would expand the definition and permit an individual to demonstrate their financial sophistication and be deemed “accredited,” regardless of how much they are worth or how much they make per year.

This will help further democratize the financial markets and open investment opportunities for more households at a time when the private capital markets have substantially grown. It can also help investors manage overall risk of their investments by allowing them to have a mix of both private and publicly-traded investments. Furthermore, modernizing the accredited investor definition will increase capital access for private businesses that rely on institutions and accredited investors for capital.

Conclusion

SBIA thanks all members for their consideration of these views and looks forward to working with the Committee as these bills advance through the legislative process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Brett Palmer".

Brett Palmer
President
Small Business Investor Alliance