

# Capital Formation Outlook 2025

**This article summarizes recent activity from two of the SEC’s advisory groups on small business capital formation. Here is what you should know from the Office of the Advocate for Small Business Capital Formation’s (OASB) [annual report](#) and the Small Business Capital Formation Advisory Committee’s (SBCAF) recommendations. Given the new administration and SEC chair nominee Paul Atkins’ track record, expect to see some positive changes in 2025, especially for alternative paths to public offerings for private company capital raising.**

The OASB’s 2024 annual report highlights various challenges entrepreneurs face in accessing capital to grow their business. Some recent statistics include:

- 77% of small business owners are concerned about their ability to access capital.
- Lack of financing and running out of cash remain the two reasons startups fail.

The SEC has three primary tasks: protect investors, maintain fair and orderly markets, and facilitate capital formation. During SEC Chair Gary Gensler’s tenure, new regulation concentrated mostly on investor protection and market structure. Atkins has championed capital formation policies in his previous tenure at the commission, including scaled requirements for smaller companies under the Sarbanes-Oxley Act. Based on previous administration transitions, Atkins’ approval could happen as early as March or April (at the time of publication, Senate hearings have not been scheduled). Both current Republican-appointed Commissioners Mark Uyeda (acting chair) and Hester Peirce have worked with Atkins during his previous SEC stints, which could make for quick regulatory change once confirmed. The semiannual publication of the SEC’s regulatory agenda in 2Q 2025 is likely to see updates to the accredited investor definition, Regulation D reforms, and modifying 144a private placement holding periods.

Even before Atkins’ Senate approval, the SEC is moving on some capital formation initiatives. On March 3, 2025, the Division of Corporation Finance enhanced the accommodations available for nonpublic review of draft registration statements to include additional registration statements. These accommodations were initially part of the *Jumpstart Our Business Startups Act* for emerging growth companies.

---

*“Over the years, staff have observed companies seeking to raise capital are taking advantage of the nonpublic review process when available. Expanding these popular accommodations will provide new and existing companies greater flexibility to explore and plan public offerings. These enhanced accommodations will further support capital formation while retaining investor protections available to purchasers in public offerings.”*

*– Cicely LaMothe, Acting Director of the SEC’s Division of Corporation Finance*

---

## A. 2024 Capital Formation Trends

The OASB report highlights the most common ways companies raise capital:<sup>1</sup>

---

<sup>1</sup>This data excludes pooled funds. Pooled funds raised \$1.7 billion in Rule 506(b) offerings, \$125 billion in Rule 506(c) offerings, and \$99 billion in Reg S and Rule 144a offerings.

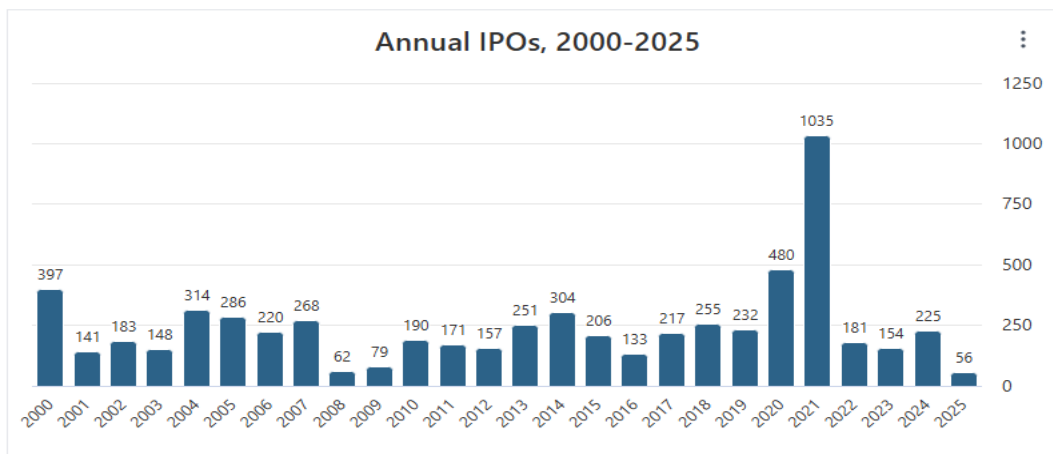
## FORsights

- Registered offerings
  - Initial public offerings, \$28 billion
  - Other registered offerings, \$1.2 trillion
- Exempt offerings
  - Reg S & Rule 144a, \$949 billion
  - Rule 506(b), \$170 billion
  - Rule 506(c), \$12 billion
  - Regulation A, \$1.5 billion
  - Crowdfunding, \$249 million
  - Rule 504, \$246 million

See the [Appendix](#) for a summary of exempt offerings.

### 1. Initial Public Offerings (IPOs)

The number of IPOs continues to fall since their peak in the first half of 2021, primarily due to a sharp reduction in both large company offerings and special purpose acquisition company (SPAC) issues after new [SEC regulations](#) in January 2024. Another reason for the drop in IPOs is the increased availability of private funds, which allows companies to stay private longer. For the year ending June 24, 2024, the top industries raising capital in IPOs included technology (\$10 billion), manufacturing (\$4.1 billion), business services (\$3.7 billion), banking and financial services (\$3.1 billion), healthcare (\$3.0 billion), and hospitality (\$1.3 billion).



Source: [Stockanalysis.com/ipos/statistics](https://stockanalysis.com/ipos/statistics)

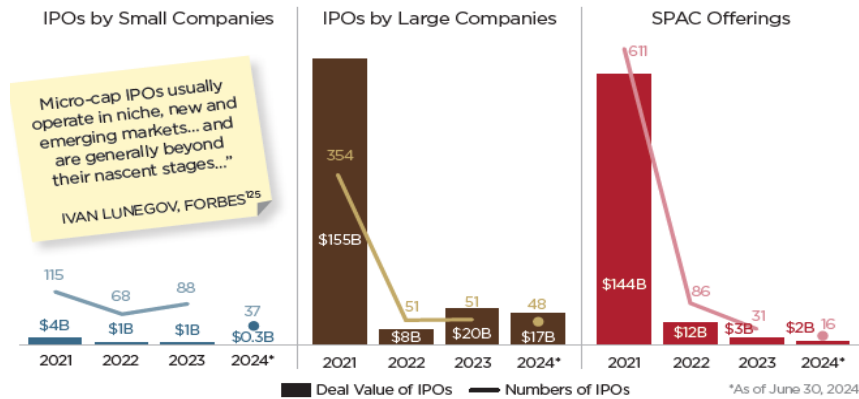
### Small Public Companies

The number of small public companies continues to decline while the number of small company IPOs has held steady. The OASB report highlights the following drivers of this trend:

- **Mergers and acquisitions.** Private companies get acquired prior to reaching a stage in which they are ready to go public.

## FORsights

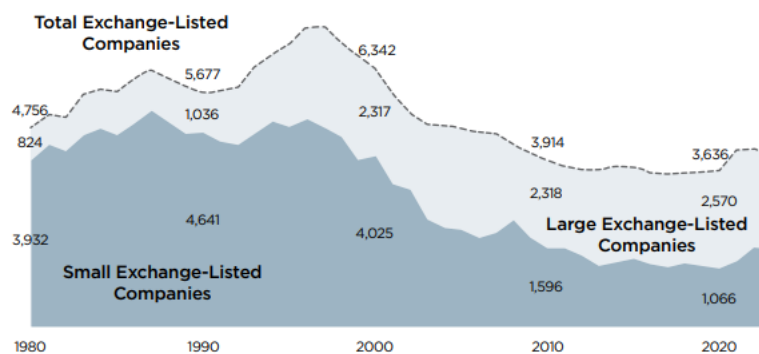
- **Regulatory costs.** The regulatory cost of being a public company deters private companies from listing. The incremental annual costs of being a public company include enhanced disclosures, \$36,000; SOX 404 compliance, 129,000; and governance, \$361,000.
- **Private equity.** Private equity funding can reduce the need to go public.



Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

The number of exchange-listed companies has declined from a peak of more than 8,000 in 1996,<sup>2</sup> and small exchange-listed companies (less than \$250 million market capitalization) account for most of the decrease. The aggregate market capitalization of small exchange-listed companies also has declined.

Small public companies are about half of all public companies, but one-third are not exchange-listed. Investors tend to focus on larger companies with revenue-generating capacity. Public companies with less than \$500 million market capitalization or annual revenues below \$50 million traded down at higher levels than larger public companies.<sup>3</sup> The OASB report noted that 44% of small and midsize cap stocks have no analyst coverage that is correlated with a reduction in market capitalization and limited liquidity.

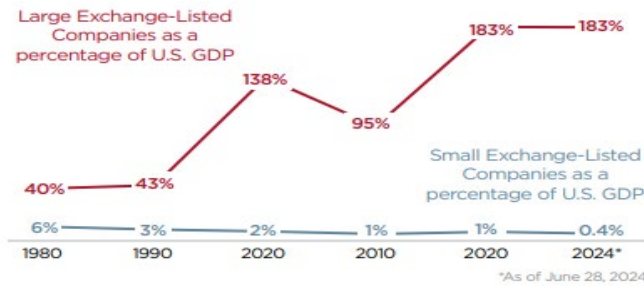


Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

<sup>2</sup>USA: Listed companies," theglobeconomy.com.

<sup>3</sup>"Do I need to make money to go public?" corpgov.law.harvard.edu, August 25, 2024.

FORsights

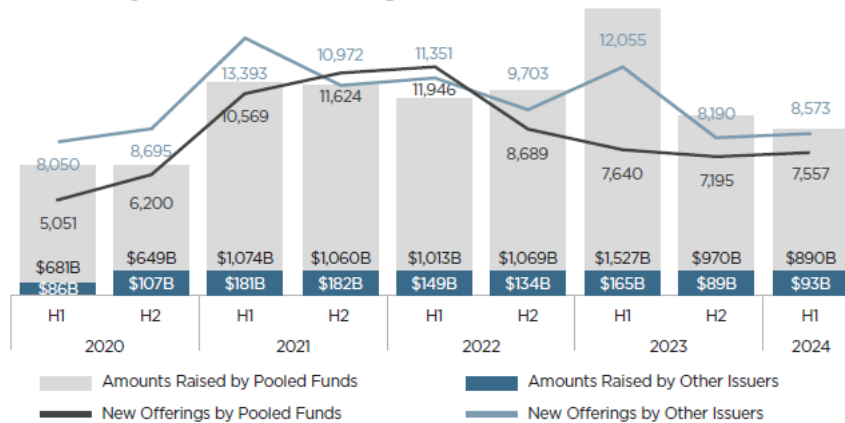


Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

## 2. Exempt Offerings

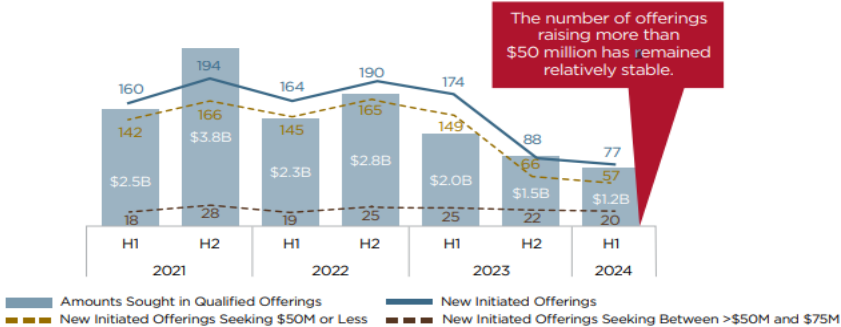
Private placements are unregistered, nonpublic securities offerings that rely on an available exemption from SEC registration. On an annual basis, the amount of capital raised in exempt offerings is twice the size of registered offerings. Regulation D is the most frequently used pathway to raise capital from investors and works well for companies that have access to accredited investors. There are three distinct exemptions under Regulation D: Rule 506(b), private placements; Rule 506(c), general solicitation offerings; and Rule 504, limited offerings.

### New Regulation D Offerings



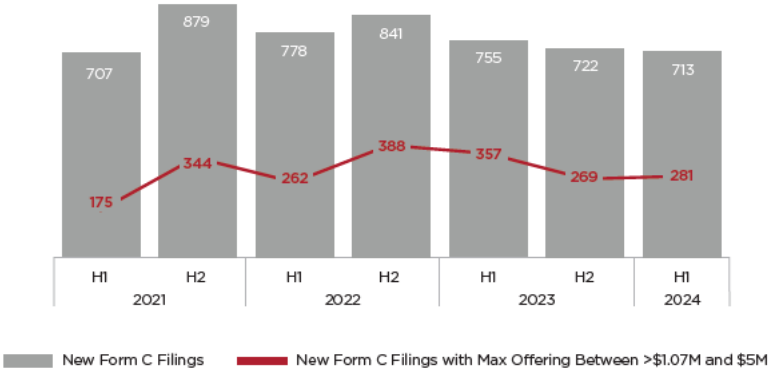
Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

New Regulation A Offerings



Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

New Crowdfunding Offerings

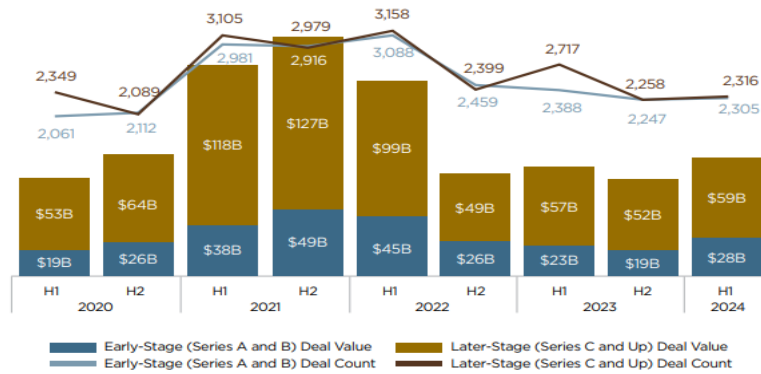


Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

**3. Venture Capital (VC)**

Mature and later-stage businesses are generally looking for larger amounts of capital to fund operations, develop new product lines, or prepare for public markets. Capital for these businesses frequently comes from VC funds. VC deal activity has trended up for the first half of 2024 but well below the peak in 2021. VC fundraising is below 2020 levels and is more concentrated than ever. The OASB report notes that 63% of VC capital is concentrated in funds with more than \$500 million in assets. A continued reduction in portfolio company exits has reduced distributions and reinvestment into new VC funds.

FORsights



Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

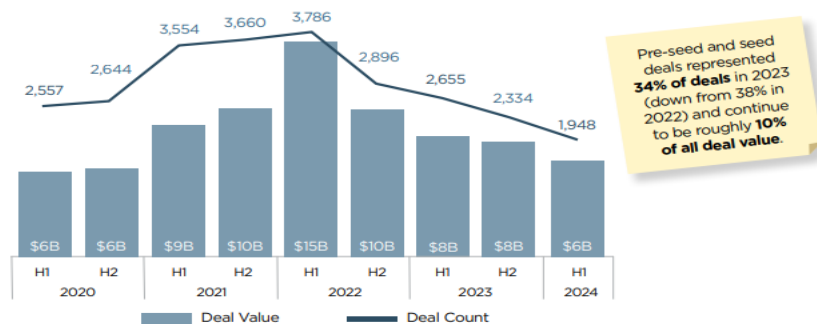
### 4. Angel Investors

The angel investor market continued to retract in 2023, according to the Center for Venture Research at the University of New Hampshire:<sup>4</sup>

- Total angel investments in 2023 were \$18.6 billion, down from \$22.3 billion in 2022 and \$26.5 billion in 2021.
- Businesses receiving angel funding decreased to 54,735 in 2023, down from 62,325 in 2022 and 69,096 in 2021.
- Deal size also decreased to \$339,390 from \$356,650 in 2022 and \$421,572 in 2021.
- The number of active angel investors continues to increase. From 2022 to 2023, the number of angel investors increased 15% to 422,350.

### 5. Seed Fundraising

A pre-seed or seed round is typically a company's first funding round and is often used for product development and market research. This round may include funding from friends and family, angel investors, or early-stage funds. Seed activity has slowed in both overall deal value and count from its peak in the first half of 2022.



Pre-seed and seed deals represented **34% of deals** in 2023 (down from 38% in 2022) and continue to be roughly **10% of all deal value.**

<sup>4</sup>"The Angel Market in 2022: The Rising Impact of Women Angels," paulcollege.unh.edu, May 20, 2023.

Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2024

## B. Recommendations

### OASB

The 2024 policy recommendations are similar to prior years. Nonregulatory recommendations focused on interagency collaboration, education, and mentorship.

- **Small Public Companies.** Harmonize the frameworks governing smaller reporting company (SRC) and accelerated filer definitions by aligning the SRC and non-accelerated filer categories. This alignment would allow all SRCs to enjoy all the benefits of being non-accelerated filers—namely the exemption from the auditor attestation requirement under Section 404(b) of the Sarbanes-Oxley Act.
- **Accredited Investor Definition.** Consider the impact that any change to the income and net worth thresholds would have on minorities and populations located in rural areas.
- **Regulation D (Reg D) & Form D**
  - Do not make the Form D notice and associated requirements more burdensome, especially for smaller operating companies raising smaller amounts of capital.
  - The SEC should separately assess amounts raised by operating companies and pooled funds.
  - Amounts raised by 3(c)(7) funds should be excluded, as investors in those funds must be “qualified purchasers,”<sup>5</sup> a much higher standard than the accredited investor definition.
- **Regulation Crowdfunding**
  - Allowing flexibility in the type of accounting a company uses for small businesses raising up to \$500,000.
  - Increasing the offering size threshold under which an issuer may meet its financial statements requirements by providing financial statements and income tax return information certified by the principal executive officer.
  - Congress should amend §4A(f)(3) of the Securities Act to modify the provision that prohibits investment companies from using the Regulation Crowdfunding exemption.
- **VC & Emerging Fund Managers.** The SEC has the authority to amend the “venture capital fund” definition in the *Investment Advisers Act of 1940*, but Congress would need to act to amend the beneficial owner limit and “qualifying venture capital fund” definition in the *Investment Company Act of 1940*.
  - Amend the “venture capital fund” definition in Rule 203(l)-1 of the *Investment Advisers Act of 1940* to treat VC funds’ investments in other VC funds as “qualifying investments.” This would allow these investments to be excluded from the 20% nonqualifying basket limit. A fund of funds model would permit larger funds to invest in smaller funds—managed by emerging managers—that write smaller checks, potentially unlocking capital otherwise earmarked for later-stage companies to be reallocated to early-stage companies.
  - Increase the current 100 beneficial owners limit for funds that rely on the exemption in §3(c)(1) of the *Investment Company Act of 1940*. This limit makes it difficult for emerging fund managers—who may not have access to a network of investors who can write large checks—to raise sufficient capital.

---

<sup>5</sup>An individual, married couple, family office, or trust is a qualified purchaser if they have \$5 million or more in investments or joint investments. An investment manager qualifies if they manage at least \$25 million in investments for other qualified purchasers.

## FORsights

- Increase the limit on investors in—and expand the \$10 million maximum size<sup>6</sup> of—the “qualifying venture capital fund” exemption in §3(c)(1) of the *Investment Company Act of 1940*. A qualifying venture capital fund can have no more than \$10 million from no more than 250 investors. Raising the \$10 million limit would improve the exemption’s utility by allowing for a diversified portfolio of investments and the fund’s operating costs. Expanding the \$10 million cap and the related 250-investor limit would equip emerging managers to raise a meaningful-sized fund while covering their expenses.

## SBCAF

- **Regulation CF.** Increase the threshold at which reviewed financial statements are required from \$124,000 to \$350,000. This would allow companies that are offering less than \$350,000 in securities within a 12-month period to use certified financial statements and certain tax return information, in lieu of financial statements reviewed by a public accountant that is independent of the issuer. Two years after the \$350,000 threshold becomes effective, the SEC should review the threshold to consider a further increase.
- **Accredited Investor.**
  - The SEC should leave the current financial thresholds in place and not adjust such financial thresholds for inflation (either retroactively or going forward).
  - For individuals who do not meet the wealth and income thresholds, create a way to qualify as accredited by satisfactorily completing an educational program, which would then allow such person to invest up to 5% in total of the greater of their income or net worth over a 12-month rolling period and consider the analogous framework used in Regulation Crowdfunding.

## Conclusion

Whether you are an accelerated filer or a fast-growing company thinking about going public, Forvis Mazars can help you navigate the ever-changing accounting and reporting landscape. The assurance team at Forvis Mazars delivers experience and skilled professionals to help align with your objectives. Our proactive approach includes candid and open communication to help address your financial reporting needs. At the end of the day, we know how important it is for you to be able to trust the numbers; our commitment to independence and objectivity helps provide the security and confidence you desire. Forvis Mazars works with hundreds of publicly traded companies in the delivery of assurance, tax, or consulting services, within the U.S. and globally. For more information, visit [forvismazars.us](https://forvismazars.us).

## Contributor

**Anne Coughlan**

Director

[anne.coughlan@us.forvismazars.com](mailto:anne.coughlan@us.forvismazars.com)

---

<sup>6</sup>In 2024, the SEC adopted a final rule adjusting the dollar threshold for a “qualifying venture capital fund” under the *Investment Company Act of 1940* from \$10 million to \$12 million as an inflation adjustment.



## Appendix – Summary of Exempt Offerings

Source: Office of the Advocate for Small Business Capital Formation, Annual Report Fiscal Year 2022, 2023, 2024

Summary of Exempt Offerings		(includes pooled funds)		
Exemption	Description	Capital Raised July 1, 2021– June 30, 2022	Capital Raised July 1, 2022– June 30, 2023	Capital Raised July 1, 2023– June 30, 2024
Rule 506(b) Private Placements	Companies can raise unlimited capital from investors with whom the company has a relationship and who meet certain wealth thresholds or have certain professional credentials. A company cannot use general solicitation in a 506(b) private placement.	\$2.3 trillion	\$2.7 trillion	\$1.8 trillion
Rule 506(c) General Solicitation Offerings	Companies can raise unlimited capital by broadly soliciting investors who meet certain wealth thresholds or have certain professional credentials.	\$148 billion	\$169 billion	\$ 137 billion
Rule 504 Limited Offerings	Companies can raise up to \$10 million in a 12-month period, in many cases from investors with whom the company has a relationship.	\$624 million	\$258 million	\$246 million
Regulation Crowdfunding	Eligible companies can raise up to \$5 million in investment capital in a 12-month period from investors online via a registered funding portal.	\$368 million	\$352 million	\$249 million
Intrastate Offerings	Allow companies to raise capital within a single state according to state law. Many states limit the offering to between \$1 million to \$5 million in a 12-month period.	Not available	Not available	Not available
Regulation A Offerings	Eligible companies can raise up to \$20 million in a 12-month period in a Tier 1 offering and up to \$75 million in a 12-month period in a Tier 2 offering through a process similar to—but less extensive than—a registered offering.	\$1.8 billion	\$1.5 billion	\$1.5 billion

## FORsights

Rule 701 Employee Benefit Plans	A company can sell at least \$1 million of securities under this exemption—regardless of its size—to compensate employees, consultants, and advisors. These are restricted securities and may not be freely traded unless the securities are registered, or the holders can rely on an exemption.	Not available	Not available	Not available
Regulation S	Regulation S provides that offers and sales of securities that occur outside of the U.S. are exempt from the registration requirements of §5 of the <i>Securities Act of 1933</i> .	\$2 trillion  (breakout not available)	\$1.3 trillion  (breakout not available)	\$1.1 trillion  (breakout not available)
Rule 144a	Rule 144a provides a safe harbor exemption to the sellers which can be used for reselling securities to the qualified buyers and allows institutions to trade these securities among themselves, avoiding a registration process under §5 of the <i>Securities Act of 1933</i> .			