proposed rule provides more access to capital for businesses by exempting certain “finders” from sec registration

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MSK Client Alert

October 28, 2020

Ever since the enactment of the Securities Exchange Act of 1934 (the “Exchange Act”), the practice of compensating a so-called “finder” of investors has been risky – it exposed both the finder and the company to whom the finder introduced investors to draconian rescission liability, unless the finder was registered as a broker with the U.S. Securities and Exchange Commission (the “SEC”). However, earlier this month the SEC proposed an order[1] which would, if adopted, exempt a finder from registering as a broker in order to be paid a commission when assisting private companies and private funds raise capital from accredited investors. The proposal is intended to assist small businesses, particularly for businesses located in places that lack established, robust capital raising networks, by increasing their access to capital (through finders) while preserving appropriate investor protections.

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