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(Original Signature of Member)

114TH CONGRESS
2D SESSION

H. R.

To improve the operation of United States capital markets, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. GARRETT introduced the following bill; which was referred to the Committee on _____

A BILL

To improve the operation of United States capital markets, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Creating Financial Prosperity for Businesses and Inves-
6 tors Act”.

7 (b) TABLE OF CONTENTS.—The table of contents for
8 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—SMALL BUSINESS CAPITAL FORMATION ENHANCEMENT

Sec. 101. Annual review of government-business forum on capital formation.

TITLE II—SEC SMALL BUSINESS ADVOCATE

Sec. 201. Establishment of Office of the Advocate for Small Business Capital Formation and Small Business Capital Formation Advisory Committee.

TITLE III—SUPPORTING AMERICA’S INNOVATORS

Sec. 301. Investor limitation for qualifying venture capital funds.

TITLE IV—FIX CROWDFUNDING

Sec. 401. Crowdfunding vehicles.

Sec. 402. Crowdfunding exemption from registration.

TITLE V—FAIR INVESTMENT OPPORTUNITIES FOR PROFESSIONAL EXPERTS

Sec. 501. Definition of accredited investor.

TITLE VI—U.S. TERRITORIES INVESTOR PROTECTION

Sec. 601. Termination of exemption.

1 **TITLE I—SMALL BUSINESS CAP-**
2 **ITAL FORMATION ENHANCE-**
3 **MENT**

4 **SEC. 101. ANNUAL REVIEW OF GOVERNMENT-BUSINESS**
5 **FORUM ON CAPITAL FORMATION.**

6 Section 503 of the Small Business Investment Incen-
7 tive Act of 1980 (15 U.S.C. 80c–1) is amended by adding
8 at the end the following:

9 “(e) The Commission shall—

10 “(1) review the findings and recommendations
11 of the forum; and

12 “(2) each time the forum submits a finding or
13 recommendation to the Commission, promptly issue
14 a public statement—

1 “(A) assessing the finding or recommenda-
2 tion of the forum; and

3 “(B) disclosing the action, if any, the Com-
4 mission intends to take with respect to the find-
5 ing or recommendation.”.

6 **TITLE II—SEC SMALL BUSINESS**
7 **ADVOCATE**

8 **SEC. 201. ESTABLISHMENT OF OFFICE OF THE ADVOCATE**
9 **FOR SMALL BUSINESS CAPITAL FORMATION**
10 **AND SMALL BUSINESS CAPITAL FORMATION**
11 **ADVISORY COMMITTEE.**

12 (a) OFFICE OF THE ADVOCATE FOR SMALL BUSI-
13 NESS CAPITAL FORMATION.—Section 4 of the Securities
14 Exchange Act of 1934 (15 U.S.C. 78d) is amended by
15 adding at the end the following:

16 “(j) OFFICE OF THE ADVOCATE FOR SMALL BUSI-
17 NESS CAPITAL FORMATION.—

18 “(1) OFFICE ESTABLISHED.—There is estab-
19 lished within the Commission the Office of the Advo-
20 cate for Small Business Capital Formation (here-
21 after in this subsection referred to as the ‘Office’).

22 “(2) ADVOCATE FOR SMALL BUSINESS CAPITAL
23 FORMATION.—

1 “(A) IN GENERAL.—The head of the Of-
2 fice shall be the Advocate for Small Business
3 Capital Formation, who shall—

4 “(i) report directly to the Commission;
5 and

6 “(ii) be appointed by the Commission,
7 from among individuals having experience
8 in advocating for the interests of small
9 businesses and encouraging small business
10 capital formation.

11 “(B) COMPENSATION.—The annual rate of
12 pay for the Advocate for Small Business Cap-
13 ital Formation shall be equal to the highest rate
14 of annual pay for other senior executives who
15 report directly to the Commission.

16 “(C) NO CURRENT EMPLOYEE OF THE
17 COMMISSION.—An individual may not be ap-
18 pointed as the Advocate for Small Business
19 Capital Formation if the individual is currently
20 employed by the Commission.

21 “(3) STAFF OF OFFICE.—The Advocate for
22 Small Business Capital Formation, after consulta-
23 tion with the Commission, may retain or employ
24 independent counsel, research staff, and service
25 staff, as the Advocate for Small Business Capital

1 Formation determines to be necessary to carry out
2 the functions of the Office.

3 “(4) FUNCTIONS OF THE ADVOCATE FOR
4 SMALL BUSINESS CAPITAL FORMATION.—The Advo-
5 cate for Small Business Capital Formation shall—

6 “(A) assist small businesses and small
7 business investors in resolving significant prob-
8 lems such businesses and investors may have
9 with the Commission or with self-regulatory or-
10 ganizations;

11 “(B) identify areas in which small busi-
12 nesses and small business investors would ben-
13 efit from changes in the regulations of the
14 Commission or the rules of self-regulatory orga-
15 nizations;

16 “(C) identify problems that small busi-
17 nesses have with securing access to capital, in-
18 cluding any unique challenges to minority-
19 owned and women-owned small businesses;

20 “(D) analyze the potential impact on small
21 businesses and small business investors of—

22 “(i) proposed regulations of the Com-
23 mission that are likely to have a significant
24 economic impact on small businesses and
25 small business capital formation; and

1 “(ii) proposed rules that are likely to
2 have a significant economic impact on
3 small businesses and small business capital
4 formation of self-regulatory organizations
5 registered under this title;

6 “(E) conduct outreach to small businesses
7 and small business investors, including through
8 regional roundtables, in order to solicit views on
9 relevant capital formation issues;

10 “(F) to the extent practicable, propose to
11 the Commission changes in the regulations or
12 orders of the Commission and to Congress any
13 legislative, administrative, or personnel changes
14 that may be appropriate to mitigate problems
15 identified under this paragraph and to promote
16 the interests of small businesses and small busi-
17 ness investors;

18 “(G) consult with the Investor Advocate on
19 proposed recommendations made under sub-
20 paragraph (F); and

21 “(H) advise the Investor Advocate on
22 issues related to small businesses and small
23 business investors.

24 “(5) ACCESS TO DOCUMENTS.—The Commis-
25 sion shall ensure that the Advocate for Small Busi-

1 ness Capital Formation has full access to the docu-
2 ments and information of the Commission and any
3 self-regulatory organization, as necessary to carry
4 out the functions of the Office.

5 “(6) ANNUAL REPORT ON ACTIVITIES.—

6 “(A) IN GENERAL.—Not later than De-
7 cember 31 of each year after 2016, the Advo-
8 cate for Small Business Capital Formation shall
9 submit to the Committee on Banking, Housing,
10 and Urban Affairs of the Senate and the Com-
11 mittee on Financial Services of the House of
12 Representatives a report on the activities of the
13 Advocate for Small Business Capital Formation
14 during the immediately preceding fiscal year.

15 “(B) CONTENTS.—Each report required
16 under subparagraph (A) shall include—

17 “(i) appropriate statistical information
18 and full and substantive analysis;

19 “(ii) information on steps that the
20 Advocate for Small Business Capital For-
21 mation has taken during the reporting pe-
22 riod to improve small business services and
23 the responsiveness of the Commission and
24 self-regulatory organizations to small busi-
25 ness and small business investor concerns;

1 “(iii) a summary of the most serious
2 issues encountered by small businesses and
3 small business investors, including any
4 unique issues encountered by minority-
5 owned and women-owned small businesses
6 and their investors, during the reporting
7 period;

8 “(iv) an inventory of the items sum-
9 marized under clause (iii) (including items
10 summarized under such clause for any
11 prior reporting period on which no action
12 has been taken or that have not been re-
13 solved to the satisfaction of the Advocate
14 for Small Business Capital Formation as
15 of the beginning of the reporting period
16 covered by the report) that includes—

17 “(I) identification of any action
18 taken by the Commission or the self-
19 regulatory organization and the result
20 of such action;

21 “(II) the length of time that each
22 item has remained on such inventory;
23 and

24 “(III) for items on which no ac-
25 tion has been taken, the reasons for

1 inaction, and an identification of any
2 official who is responsible for such ac-
3 tion;

4 “(v) recommendations for such
5 changes to the regulations, guidance and
6 orders of the Commission and such legisla-
7 tive actions as may be appropriate to re-
8 solve problems with the Commission and
9 self-regulatory organizations encountered
10 by small businesses and small business in-
11 vestors and to encourage small business
12 capital formation; and

13 “(vi) any other information, as deter-
14 mined appropriate by the Advocate for
15 Small Business Capital Formation.

16 “(C) CONFIDENTIALITY.—No report re-
17 quired by subparagraph (A) may contain con-
18 fidential information.

19 “(D) INDEPENDENCE.—Each report re-
20 quired under subparagraph (A) shall be pro-
21 vided directly to the committees of Congress
22 listed in such subparagraph without any prior
23 review or comment from the Commission, any
24 commissioner, any other officer or employee of

1 the Commission, or the Office of Management
2 and Budget.

3 “(7) REGULATIONS.—The Commission shall es-
4 tablish procedures requiring a formal response to all
5 recommendations submitted to the Commission by
6 the Advocate for Small Business Capital Formation,
7 not later than 3 months after the date of such sub-
8 mission.

9 “(8) GOVERNMENT-BUSINESS FORUM ON SMALL
10 BUSINESS CAPITAL FORMATION.—The Advocate for
11 Small Business Capital Formation shall be respon-
12 sible for planning, organizing, and executing the an-
13 nual Government-Business Forum on Small Busi-
14 ness Capital Formation described in section 503 of
15 the Small Business Investment Incentive Act of
16 1980 (15 U.S.C. 80c–1).

17 “(9) RULE OF CONSTRUCTION.—Nothing in
18 this subsection may be construed as replacing or re-
19 ducing the responsibilities of the Investor Advocate
20 with respect to small business investors.”.

21 (b) SMALL BUSINESS CAPITAL FORMATION ADVI-
22 SORY COMMITTEE.—Title I of the Securities Exchange
23 Act of 1934 (15 U.S.C. 78a et seq.) is amended by adding
24 at the end the following:

1 **“SEC. 40. SMALL BUSINESS CAPITAL FORMATION ADVISORY**
2 **COMMITTEE.**

3 “(a) ESTABLISHMENT AND PURPOSE.—

4 “(1) ESTABLISHMENT.—There is established
5 within the Commission the Small Business Capital
6 Formation Advisory Committee (hereafter in this
7 section referred to as the ‘Committee’).

8 “(2) FUNCTIONS.—

9 “(A) IN GENERAL.—The Committee shall
10 provide the Commission with advice on the
11 Commission’s rules, regulations, and policies
12 with regard to the Commission’s mission of pro-
13 tecting investors, maintaining fair, orderly, and
14 efficient markets, and facilitating capital forma-
15 tion, as such rules, regulations, and policies re-
16 late to—

17 “(i) capital raising by emerging, pri-
18 vately held small businesses (‘emerging
19 companies’) and publicly traded companies
20 with less than \$250,000,000 in public mar-
21 ket capitalization (‘smaller public compa-
22 nies’) through securities offerings, includ-
23 ing private and limited offerings and initial
24 and other public offerings;

1 “(ii) trading in the securities of
2 emerging companies and smaller public
3 companies; and

4 “(iii) public reporting and corporate
5 governance requirements of emerging com-
6 panies and smaller public companies.

7 “(B) LIMITATION.—The Committee shall
8 not provide any advice with respect to any poli-
9 cies, practices, actions, or decisions concerning
10 the Commission’s enforcement program.

11 “(b) MEMBERSHIP.—

12 “(1) IN GENERAL.—The members of the Com-
13 mittee shall be—

14 “(A) the Advocate for Small Business Cap-
15 ital Formation;

16 “(B) not fewer than 10, and not more than
17 20, members appointed by the Commission,
18 from among individuals—

19 “(i) who represent—

20 “(I) emerging companies engag-
21 ing in private and limited securities
22 offerings or considering initial public
23 offerings (‘IPO’) (including the com-
24 panies’ officers and directors);

1 “(II) the professional advisors of
2 such companies (including attorneys,
3 accountants, investment bankers, and
4 financial advisors); and

5 “(III) the investors in such com-
6 panies (including angel investors, ven-
7 ture capital funds, and family offices);

8 “(ii) who are officers or directors of
9 minority-owned small businesses or
10 women-owned small businesses;

11 “(iii) who represent—

12 “(I) smaller public companies
13 (including the companies’ officers and
14 directors);

15 “(II) the professional advisors of
16 such companies (including attorneys,
17 auditors, underwriters, and financial
18 advisors); and

19 “(III) the pre-IPO and post-IPO
20 investors in such companies (both in-
21 stitutional, such as venture capital
22 funds, and individual, such as angel
23 investors); and

24 “(iv) who represent participants in the
25 marketplace for the securities of emerging

1 companies and smaller public companies,
2 such as securities exchanges, alternative
3 trading systems, analysts, information
4 processors, and transfer agents; and

5 “(C) three non-voting members—

6 “(i) one of whom shall be appointed
7 by the Investor Advocate;

8 “(ii) one of whom shall be appointed
9 by the North American Securities Adminis-
10 trators Association; and

11 “(iii) one of whom shall be appointed
12 by the Administrator of the Small Busi-
13 ness Administration.

14 “(2) TERM.—Each member of the Committee
15 appointed under subparagraph (B), (C)(ii), or
16 (C)(iii) of paragraph (1) shall serve for a term of 4
17 years.

18 “(3) MEMBERS NOT COMMISSION EMPLOY-
19 EES.—Members appointed under subparagraph (B),
20 (C)(ii), or (C)(iii) of paragraph (1) shall not be
21 treated as employees or agents of the Commission
22 solely because of membership on the Committee.

23 “(c) CHAIRMAN; VICE CHAIRMAN; SECRETARY; AS-
24 SISTANT SECRETARY.—

1 “(1) IN GENERAL.—The members of the Com-
2 mittee shall elect, from among the members of the
3 Committee—

4 “(A) a chairman;

5 “(B) a vice chairman;

6 “(C) a secretary; and

7 “(D) an assistant secretary.

8 “(2) TERM.—Each member elected under para-
9 graph (1) shall serve for a term of 3 years in the
10 capacity for which the member was elected under
11 paragraph (1).

12 “(d) MEETINGS.—

13 “(1) FREQUENCY OF MEETINGS.—The Com-
14 mittee shall meet—

15 “(A) not less frequently than four times
16 annually, at the call of the chairman of the
17 Committee; and

18 “(B) from time to time, at the call of the
19 Commission.

20 “(2) NOTICE.—The chairman of the Committee
21 shall give the members of the Committee written no-
22 tice of each meeting, not later than 2 weeks before
23 the date of the meeting.

1 “(e) COMPENSATION AND TRAVEL EXPENSES.—
2 Each member of the Committee who is not a full-time em-
3 ployee of the United States shall—

4 “(1) be entitled to receive compensation at a
5 rate not to exceed the daily equivalent of the annual
6 rate of basic pay in effect for a position at level V
7 of the Executive Schedule under section 5316 of title
8 5, United States Code, for each day during which
9 the member is engaged in the actual performance of
10 the duties of the Committee; and

11 “(2) while away from the home or regular place
12 of business of the member in the performance of
13 services for the Committee, be allowed travel ex-
14 penses, including per diem in lieu of subsistence, in
15 the same manner as persons employed intermittently
16 in the Government service are allowed expenses
17 under section 5703 of title 5, United States Code.

18 “(f) STAFF.—The Commission shall make available
19 to the Committee such staff as the chairman of the Com-
20 mittee determines are necessary to carry out this section.

21 “(g) REVIEW BY COMMISSION.—The Commission
22 shall—

23 “(1) review the findings and recommendations
24 of the Committee; and

1 “(2) each time the Committee submits a finding
2 or recommendation to the Commission, promptly
3 issue a public statement—

4 “(A) assessing the finding or recommenda-
5 tion of the Committee; and

6 “(B) disclosing the action, if any, the Com-
7 mission intends to take with respect to the find-
8 ing or recommendation.

9 “(h) FEDERAL ADVISORY COMMITTEE ACT.—The
10 Federal Advisory Committee Act (5 U.S.C. App.) shall not
11 apply with respect to the Committee and its activities.”.

12 (c) ANNUAL GOVERNMENT-BUSINESS FORUM ON
13 SMALL BUSINESS CAPITAL FORMATION.—Section 503(a)
14 of the Small Business Investment Incentive Act of 1980
15 (15 U.S.C. 80e–1(a)) is amended by inserting “(acting
16 through the Office of the Advocate for Small Business
17 Capital Formation and in consultation with the Small
18 Business Capital Formation Advisory Committee)” after
19 “Securities and Exchange Commission”.

20 **TITLE III—SUPPORTING**
21 **AMERICA’S INNOVATORS**

22 **SEC. 301. INVESTOR LIMITATION FOR QUALIFYING VEN-**
23 **TURE CAPITAL FUNDS.**

24 Section 3(c)(1) of the Investment Company Act of
25 1940 (15 U.S.C. 80a–3(c)(1)) is amended—

1 (1) by inserting after “one hundred persons”
2 the following: “(or, with respect to a qualifying ven-
3 ture capital fund, 250 persons)”; and

4 (2) by adding at the end the following:

5 “(C) The term ‘qualifying venture capital
6 fund’ means any venture capital fund (as de-
7 fined pursuant to section 203(l)(1) of the In-
8 vestment Advisers Act of 1940 (15 U.S.C. 80b-
9 3(l)(1)) with no more than \$10,000,000 in in-
10 vested capital, as such dollar amount is annu-
11 ally adjusted by the Commission to reflect the
12 change in the Consumer Price Index for All
13 Urban Consumers published by the Bureau of
14 Labor Statistics of the Department of Labor.”.

15 **TITLE IV—FIX CROWDFUNDING**

16 **SEC. 401. CROWDFUNDING VEHICLES.**

17 (a) AMENDMENTS TO THE SECURITIES ACT OF
18 1933.—The Securities Act of 1933 (15 U.S.C. 77a et
19 seq.) is amended—

20 (1) in section 4A(f)(3), by inserting “by any of
21 paragraphs (1) through (14) of” before “section
22 3(c)”; and

23 (2) in section 4(a)(6)(B), by inserting after
24 “any investor” the following: “, other than a

1 crowdfunding vehicle (as defined in section 2(a) of
2 the Investment Company Act of 1940),”.

3 (b) AMENDMENTS TO THE INVESTMENT COMPANY
4 ACT OF 1940.—The Investment Company Act of 1940 (15
5 U.S.C. 80a–1 et seq.) is amended—

6 (1) in section 2(a), by adding at the end the
7 following:

8 “(55) The term ‘crowdfunding vehicle’ means a
9 company—

10 “(A) whose purpose (as set forth in its or-
11 ganizational documents) is limited to acquiring,
12 holding, and disposing securities issued by a
13 single company in one or more transactions and
14 made pursuant to section 4(a)(6) of the Securi-
15 ties Act of 1933;

16 “(B) which issues only one class of securi-
17 ties;

18 “(C) which receives no compensation in
19 connection with such acquisition, holding, or
20 disposition of securities;

21 “(D) no associated person of which re-
22 ceives any compensation in connection with
23 such acquisition, holding or disposition of secu-
24 rities unless such person is acting as or on be-
25 half of an investment adviser registered under

1 the Investment Advisers Act of 1940 or reg-
2 istered as an investment adviser in the State in
3 which the investment adviser maintains its prin-
4 cipal office and place of business;

5 “(E) the securities of which have been
6 issued in a transaction made pursuant to sec-
7 tion 4(a)(6) of the Securities Act of 1933,
8 where both the crowdfunding vehicle and the
9 company whose securities it holds are co-
10 issuers;

11 “(F) which is current in its ongoing disclo-
12 sure obligations under Rule 202 of Regulation
13 Crowdfunding (17 C.F.R. 227.202);

14 “(G) the company whose securities it holds
15 is current in its ongoing disclosure obligations
16 under Rule 202 of Regulation Crowdfunding
17 (17 C.F.R. 227.202); and

18 “(H) is advised by an investment adviser
19 registered under the Investment Advisers Act of
20 1940 or registered as an investment adviser in
21 the State in which the investment adviser main-
22 tains its principal office and place of business.”;
23 and

24 (2) in section 3(c), by adding at the end the fol-
25 lowing:

1 “(15) Any crowdfunding vehicle.”.

2 **SEC. 402. CROWDFUNDING EXEMPTION FROM REGISTRA-**
3 **TION.**

4 Section 12(g)(6) of the Securities Exchange Act of
5 1934 (15 U.S.C. 78l(g)(6)) is amended—

6 (1) by striking “The Commission” and insert-
7 ing the following:

8 “(A) IN GENERAL.—The Commission”;

9 (2) by striking “section 4(6)” and inserting
10 “section 4(a)(6)”; and

11 (3) by adding at the end the following:

12 “(B) TREATMENT OF SECURITIES ISSUED
13 BY CERTAIN ISSUERS.—An exemption under
14 subparagraph (A) shall be unconditional for se-
15 curities offered by an issuer that had a public
16 float of less than \$75,000,000 as of the last
17 business day of the issuer’s most recently com-
18 pleted semiannual period, computed by multi-
19 plying the aggregate worldwide number of
20 shares of the issuer’s common equity securities
21 held by non-affiliates by the price at which such
22 securities were last sold (or the average bid and
23 asked prices of such securities) in the principal
24 market for such securities or, in the event the
25 result of such public float calculation is zero,

1 had annual revenues of less than \$50,000,000
2 as of the issuer’s most recently completed fiscal
3 year.”.

4 **TITLE V—FAIR INVESTMENT OP-**
5 **PORTUNITIES FOR PROFES-**
6 **SIONAL EXPERTS**

7 **SEC. 501. DEFINITION OF ACCREDITED INVESTOR.**

8 Section 2(a)(15) of the Securities Act of 1933 (15
9 U.S.C. 77b(a)(15) is amended—

10 (1) by redesignating clauses (i) and (ii) as sub-
11 paragraphs (A) and (F), respectively; and

12 (2) in subparagraph (A) (as so redesignated),
13 by striking “; or” and inserting a semicolon, and in-
14 serting after such subparagraph the following:

15 “(B) any natural person whose individual
16 net worth, or joint net worth with that person’s
17 spouse, exceeds \$1,000,000 (which amount,
18 along with the amounts set forth in subpara-
19 graph (C), shall be adjusted for inflation by the
20 Commission every 5 years to the nearest
21 \$10,000 to reflect the change in the Consumer
22 Price Index for All Urban Consumers published
23 by the Bureau of Labor Statistics) where, for
24 purposes of calculating net worth under this
25 subparagraph—

1 “(i) the person’s primary residence
2 shall not be included as an asset;

3 “(ii) indebtedness that is secured by
4 the person’s primary residence, up to the
5 estimated fair market value of the primary
6 residence at the time of the sale of securi-
7 ties, shall not be included as a liability (ex-
8 cept that if the amount of such indebted-
9 ness outstanding at the time of sale of se-
10 curities exceeds the amount outstanding 60
11 days before such time, other than as a re-
12 sult of the acquisition of the primary resi-
13 dence, the amount of such excess shall be
14 included as a liability); and

15 “(iii) indebtedness that is secured by
16 the person’s primary residence in excess of
17 the estimated fair market value of the pri-
18 mary residence at the time of the sale of
19 securities shall be included as a liability;

20 “(C) any natural person who had an indi-
21 vidual income in excess of \$200,000 in each of
22 the two most recent years or joint income with
23 that person’s spouse in excess of \$300,000 in
24 each of those years and has a reasonable expect-

1 tation of reaching the same income level in the
2 current year;

3 “(D) any natural person who is currently
4 licensed or registered as a broker or investment
5 adviser by the Commission, the Financial In-
6 dustry Regulatory Authority, or an equivalent
7 self-regulatory organization (as defined in sec-
8 tion 3(a)(26) of the Securities Exchange Act of
9 1934), or the securities division of a State or
10 the equivalent State division responsible for li-
11 censing or registration of individuals in connec-
12 tion with securities activities;

13 “(E) any natural person the Commission
14 determines, by regulation, to have demonstrable
15 education or job experience to qualify such per-
16 son as having professional knowledge of a sub-
17 ject related to a particular investment, and
18 whose education or job experience is verified by
19 the Financial Industry Regulatory Authority or
20 an equivalent self-regulatory organization (as
21 defined in section 3(a)(26) of the Securities Ex-
22 change Act of 1934); or”.

1 **TITLE VI—U.S. TERRITORIES**
2 **INVESTOR PROTECTION**

3 **SEC. 601. TERMINATION OF EXEMPTION.**

4 (a) **IN GENERAL.**—Section 6(a) of the Investment
5 Company Act of 1940 (15 U.S.C. 80a–6(a)) is amended
6 by striking paragraph (1).

7 (b) **EFFECTIVE DATE AND SAFE HARBOR.**—

8 (1) **EFFECTIVE DATE.**—Except as provided in
9 paragraph (2), the amendment made by subsection
10 (a) shall take effect on the date of the enactment of
11 this Act.

12 (2) **SAFE HARBOR.**—With respect to a company
13 that is exempt under section 6(a)(1) of the Invest-
14 ment Company Act of 1940 (15 U.S.C. 80a–6(a)(1))
15 on the day before the date of the enactment of this
16 Act, the amendment made by subsection (a) shall
17 take effect on the date that is 3 years after the date
18 of the enactment of this Act.

19 (3) **EXTENSION OF SAFE HARBOR.**—The Secu-
20 rities and Exchange Commission, by rule and regula-
21 tion upon its own motion, or by order upon applica-
22 tion, may conditionally or unconditionally, under sec-
23 tion 6(c) of the Investment Company Act of 1940
24 (15 U.S.C. 80a–6(c)), further delay the effective
25 date for a company described in paragraph (2) for

1 a maximum of 3 years following the initial 3-year
2 period if, before the end of the initial 3-year period,
3 the Commission determines that such a rule, regula-
4 tion, motion, or order is necessary or appropriate in
5 the public interest and for the protection of inves-
6 tors.