

## MINORITY VIEWS ON HR 1675

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HR 1675 would revise SEC's Rule 701 by both raising and then indexing for inflation the permissible aggregate sales threshold of securities sold without certain disclosures to employees and other parties as part of their compensation from \$5 million to \$10 million. While this bill is a modest improvement from a similar bill that the Committee considered last year, which would have raised the threshold 400%, to \$20 million, more fundamental concerns remain.

Currently, if a private company provides more than \$5 million worth of compensation in the form of stock over a twelve month period, the company must make relatively simple disclosures to its employees, including two years of financial statements – which do not need to be audited – and information about the risks associated with investment in the securities. Such information is necessary for investors to fully understand the value of their stake in a company, and employees, who may be more susceptible to suggestion and coercion, deserve no less protection. In addition, to take advantage of the increased threshold under the bill, a company would have to have more than \$34 million in total assets and requiring those companies to provide minimal disclosures cannot be seen as too burdensome.

Another concern is that the bill only encourages employees to own more of their employer's stock, rather than encouraging more employees to own their employer's stock. Therefore, the bill could expose employees to concentration risk in their retirement accounts. This is made worse by the fact that the JOBS Act made it easier for privately-held companies to remain private by, for example, exempting employees who receive stock as a result of a compensation plan from being counted as "holders of record." By allowing companies to stay private longer, if not forever, the bill would enable companies to encourage overinvestment by employees in a company that they cannot value and that may never permit them to sell, except back to the company.

Some proponents of the bill cite the fear of companies in disclosing such information to employees that confidential information could be leaked to competitors. While this is an understandable concern, non-disclosure agreements and similar confidentiality agreements already provide an effective mechanism to address it.

For all of these reasons, we oppose HR 1675.

*Maxine Waters*