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The Case for Micro-Offerings

A Commonsense Exemption for America's Smallest Businesses

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Raising capital in America is astronomically expensive. The disclosure process required to publicly list securities prices out all but the largest firms, forcing small businesses to rely on other means of raising capital. About 740,000 small businesses choose to tap into the private capital markets to find willing investors, but even then, they discover that heavy-handed regulations block their access to those investors.[1]

One solution to this regulatory problem is a micro-offering exemption. This exemption would be a straightforward fix that allows securities offerings below a maximum dollar threshold. It would have no complex filings or requirements, better enabling small businesses to connect with the millions of Americans who want to invest in them.

REGULATORY RESTRICTIONS' STRANGLEHOLD ON SMALL BUSINESS

The current securities framework, created under the Securities Act of 1933, requires that offerings of securities be registered with the Securities and Exchange Commission (SEC). The lengthy registration process requires issuers to file a document called a prospectus, which can take many years and cost millions of dollars to complete.[2] Businesses must provide the SEC with pertinent financial information and wait for SEC staff to clear the prospectus. Even after approval, companies are subject to costly periodic disclosures.

The disclosure process is so expensive that most small businesses cannot afford to complete it. Fortunately, the Securities Act of 1933 gave the SEC the authority to create pathways—called exemptions—that businesses can use to privately offer securities as long as they comply with the


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rules of the exemptions.[3] There are 10 different exemptions that make up the "exempt offering framework," but the ones present in Regulations A, CF, and D are by far the most important.

While not as stringent as a full registration, Regulation A, occasionally titled the Mini-IPO, has two tiers of disclosure requirements dependent on the amount of proceeds raised. Tier 1 offerings (up to $20 million) are required to provide a small disclosure document, Form 1-A, which the SEC estimates will take 748 hours to fill out and costs $74,800 in external legal fees.[4] Tier 2 offerings (up to $75 million) must also submit Form 1-A as well as semiannual, annual, and continuing reports, which the SEC estimates will cost businesses an *additional* $71,600 per year on top of the initial $74,800.[5]

Regulation CF, which authorizes investment crowdfunding, faces a similar disclosure structure, but with more tiers that cap out at far lower amounts (up to $5 million). The regulatory burden at the lowest level (up to $124,000) is estimated by the SEC at around $2,500 per year, which contributes to an overall offering cost that can exceed 10 percent of proceeds for Regulation CF issuers.[6]

Unlike Regulations A and CF, two exemptions in Regulation D, Rule 506(b) and Rule 506(c), have no mandated disclosure. Rule 506(b) allows businesses to sell an unlimited amount of securities in nonpublic offerings to accredited investors and up to 35 non-accredited but "sophisticated" investors.[7] This rule relies on the "accredited investor standard," which was designed to reduce risks of fraud by restricting participation to those who fit the SEC's definition of "financially sophisticated."[8] To be considered accredited, an investor must earn $200,000 annually ($300,000 if married) or have a net worth (excluding their residence) of $1 million.[9]

However, securities under 506(b) are rarely offered to non-accredited investors, as doing so invokes mandatory financial disclosure, significantly driving up costs for the business issuing the securities. Rule 506(c), unlike 506(b), allows general solicitation (advertising through mail, email, radio, etc.); however, non-accredited investors are not allowed to participate. Rule 506(c) also requires issuers to apply more scrutiny to ensure that their investors are accredited, leading to higher costs. While 506(c) seems more advantageous because businesses can reach accredited investors more easily, the associated costs make it less attractive. In 2019, there were 24,636 new 506(b) offerings raising aggregate proceeds of $1.49 trillion, compared to 2,269 new 506(c) offerings raising aggregate proceeds of $66 billion.[10]

The SEC recently updated the accredited investor standard to also include those with professional licenses such as Series 7 and 65 trading licenses.[11] But only 0.01 percent of accredited investors rely on professional certification, keeping accreditation largely determined by a bright-line wealth test. Such a test acts as a poor proxy for sophistication and restricts more than 87 percent of Americans from accessing private capital markets simply because they lack the financial means to participate.[12]

Since the inception of the accredited investor standard in 1982, it has only been more broadly implemented. Regulation CF now incorporates the accredited investor standard, as does Tier 2 of Regulation A.[13] These expansions are a step in the wrong direction. The accredited investor standard, or any form of wealth limitation, is unnecessary in exemptions that require financial disclosure.[14] Financial disclosure exists to provide investors with the information they need to make more informed decisions so that they can more safely participate in the market. Regulations A and CF already incorporate mandated financial disclosure, leaving no reason to restrict access for investors who already have enough information to make sound financial decisions.

Besides the accredited investor standard, some federal exemptions must comply with state "Blue Sky" laws, significantly increasing the regulatory burden. Whereas the federal securities regime uses disclosure as its mechanism and allows investors to make up their own minds, many state regimes review the so-called merit of a business. States with merit reviews don't operate a disclosure-based system to allow businesses to offer securities. Instead, many judge the likelihood that a business will succeed, taking on the traditional role of the investor. Massachusetts is known for its strict application of the merit review, most infamously in 1980, when the commonwealth banned its citizens from purchasing Apple Inc. stock. Massachusetts deemed Apple "too risky," showcasing the government's inability to pick winners and losers.[15]

Rule 504 offerings, a Regulation D exemption that allows issuers to offer up to $10 million to any investor using general solicitation, must comply with Blue Sky laws. While the cost of completing Rule 504's Form D is estimated at only $300 and 4 hours of preparation time, the true cost lies in complying with multiple state securities regimes.[16] (So much so, in fact, that this exemption is rarely used.)[17] Similarly, Tier 1 of Regulation A, which is also beholden to Blue Sky laws, had just 91 issuers and only $354 million of aggregate proceeds between 2015 and 2024. In contrast, Tier 2 offerings are federally preempted and therefore do not have to comply with Blue Sky laws. Even though Tier 2 offerings have a far larger compliance cost, the benefit of this federal preemption is clear: There were 726 Tier 2 issuers and over $9 billion of aggregate proceeds between 2015 and 2024.[18]

Aside from the explicit costs, Blue Sky laws do not make investors more secure, and they also reduce investment opportunities. Exemptions that federally preempt Blue Sky laws are utilized far more than those without preemption and have not led to a significant number of fraud cases.[19] The evidence demonstrates that compliance with Blue Sky laws burdens issuers with an additional layer of cost but offers little additional investor benefit.

BUT DOES THE GOVERNMENT BELONG HERE?

The restrictions present in the exempt offering framework, largely due to fixed costs, can disproportionately affect smaller businesses.[20] Regrettably, this problem is a case of regulatory discretion gone awry. Congress's statutory language in the Jumpstart Our Business Startups (JOBS) Act of 2012 clearly tried to provide small businesses with regulatory relief through a new crowdfunding exemption. Nonetheless, the SEC took Congress's crowdfunding statute and bogged it down in so much regulation that it effectively excludes the smallest businesses from benefiting from the exemption.[21]

As with much financial regulation, the SEC justifies its disclosure and investor standards in securities transactions as necessary to prevent information asymmetries, a type of market failure. But a mismatch of the level of information between investors and businesses does not necessitate a market failure or a government solution. While there is plenty of room for government regulation for general fraud prevention and restitution, the market is much better equipped to solve such inefficiencies.

Exchanges are one private-market solution to this efficiency problem. Public stock exchanges connect investors and businesses and are incentivized to increase financial disclosure to draw more market participants. Congress, when writing the legislation to establish investment crowdfunding, allowed for crowdfunding platforms to compete for issuers. This process mimics the market forces that brought public exchanges into existence in the first place—no matter how regulated they may now be. Another solution to information asymmetries is financial data firms, companies that can provide relevant financial and nonfinancial information for public companies *and* privately offered companies that are not listed on exchanges.[22] Financial data firms bridge the information gap and can reduce risks associated with investing in both public and private securities.

Market inefficiencies are not failures that demand government intervention. They are simply opportunities for actors to profit by identifying and solving inefficiencies for market participants. Rather than mandating the terms of agreements between parties in financial markets, the government's role should be confined to general fraud prevention, such as identity verification for issuers and establishing clear processes for reporting potential fraud.

In contrast to such a role, Congress decided in the 1930s that the best way to prevent fraud was to mandate the terms of agreements between parties in financial markets. Securities fraud and excess trading were major concerns of lawmakers in that decade and were believed to have caused the Great Depression. Such concerns—which were vastly overstated—led to the adoption of the Securities Act of 1933 and the Securities Exchange Act of 1934.[23] While fraud could in theory have market-wide effects dependent on a business's size and extent of involvement in the economy, fraud in small offerings is unlikely to cause irreversible investor harm or contribute to market destabilization due to the limited reach of smaller businesses.

In principle, the government has no place involving itself in voluntary transactions between willing parties, especially in smaller transactions where the risk of large losses is slim. Yet the government continues to police even the smallest private securities offerings, even though a presumption of autonomy for one's financial decisions should generally be the status quo. To provide broader access, policymakers have proposed adjusting Regulation CF, creating a "micro-tier" that would lower reporting requirements and set a lower investment cap (e.g., $250,000 or $100,000).[24]

While these proposed micro-tiers would certainly allow more small businesses to take advantage of Regulation CF, regulatory costs on small Regulation CF issuers only amount to roughly 4.2 percent of an offering.[25] Yet issuers must still pay large costs to funding platforms for their services. Median costs to conduct transactions through Regulation CF portals or brokers are 7.3 percent and 10.2 percent, respectively.[26] These cost figures include commissions and flat fees, the latter of which disproportionately affect smaller offerings. Given the nonregulatory costs associated with conducting a small Regulation CF offering, a micro-offering exemption that allows issuers and investors to transact directly would be the best solution.

MICRO-OFFERINGS: A GOOD PLACE TO START

The SEC has regulated smaller transactions since its inception in the 1930s. The 73rd Congress delegated this authority through Section 3(b)(1) of the Securities Act, specifically stating that the SEC can exempt securities if it "is not necessary in the public interest and for the protection of investors by reason of the small amount involved or the limited character of the public offering."[27] The clause limits the small amount to $5 million. Therefore, removing government involvement in small securities sales is neither radical nor unprecedented. Regulation A was originally authorized under Section 3(b)(1) and has since been expanded under the JOBS Act.[28]

It is well within the SEC's statutory authority under Section 3(b)(1) to establish a micro-offering exemption. But with each new administration come differing philosophies concerning financial freedom, which can lead to regulations being changed every four years. To prevent this type of cyclical regulatory change, Congress should instead pass a law codifying a micro-offering exemption, similar to the implementation of Regulation CF through the JOBS Act, bypassing future whims of the executive branch.

While both pathways to a micro-offering exemption have been explored in the past, far more attention has been paid in Congress than at the SEC. A few bills have even made it out of the House.[29] Independent of the track taken to create a micro-offering exemption, it is important to parse previous attempts and identify the optimal structure for such a proposal.

REFORM OPTIONS

Previous congressional micro-offering exemption bills have placed offering limits at $250,000 or $500,000 per year, but given that the average offering raised under Regulation CF hovers just above $100,000, a lower limit could still work. Somewhere between $50,000 and $100,000, for instance, would cover the gap below the $113,000 median Regulation CF offering.[30] A cap set too low, however, would put issuers who are unable to afford crowdfunding costs but who need more funds than the cap at a disadvantage.

With a reasonable fundraising cap in place, mandatory financial disclosures would be unneeded in a micro-offering exemption—a benefit, as small businesses don't have a long financial history to report on. Investors tend to judge the newest business's value based on its "story" rather than its balance sheet.[31]

Additionally, a micro-offering exemption *should* federally preempt Blue Sky laws, especially merit reviews. States no longer compete to capture exchanges or securities issuances, giving them no incentive to fine-tune their securities regime. While broad preemption solidifies the federal government's domain over securities issuance—minimizing state sovereignty—the federal regime based on disclosure has proven to be far more effective than the web of state securities regimes.

Previous proposals have included additional restrictions, usually justified as increasing investor protection, that would likely make a micro-offering exemption ineffective. For instance, requiring issuers and investors to maintain a "prior relationship" reduces the impact of opening new channels of funding, restricting investors to local and familial relationships. Similarly, mandating the use of intermediaries to facilitate transactions erases the benefits of a micro-offering exemption, forcing issuers to pay expensive fees. A micro-offering exemption *should not* require such restrictions or limitations on either the number of investors or size of contribution, as the low offering cap already constrains these risks.

The most principled micro-offering exemption would include no restrictions other than a fundraising limit and federal preemption of Blue Sky laws. However, two restrictions, a bad actor restriction and a resale restriction, would be unlikely to negatively affect issuers or investors. A bad actor clause would restrict individuals who have previously been found guilty of violating securities law and is neither radical nor unprecedented.[32] Likewise, requiring investors to hold private securities for at least one year poses no serious problem with the implementation of a micro-offering exemption, as private securities are likely to be held far past the mandated holding period of one year.[33]

Critics of expanding investor access to private companies argue that this would allow issuers to take advantage of unsophisticated investors.[34] Yet a micro-offering exemption already accounts for this problem: A simple investment cap between $50,000 and $100,000 limits the potential loss of large sums of investor funds, setting aside any concern over possible danger to investors.

RECOMMENDATIONS

Congress should pass legislation that would create a micro-offering exemption but should also seriously consider how adding stipulations into the legislation would affect the efficacy of the exemption.

To provide Americans with all the benefits of a micro-offering exemption, Congress should pursue an exemption that:

1. Sets a reasonable yet not-too-low annual cap for a micro-offering;
2. Preempts state Blue Sky laws;
3. Excludes requirements that limit issuers to investors with whom they hold a prior relationship (i.e., family and friends);
4. Excludes requirements that intermediaries be present for transactions to occur; and
5. Excludes limits on either the number of investors or investment amounts.

A micro-offering exemption will succeed if investors and businesses are allowed to transact with each other freely. While a micro-offering exemption that includes a bad actor restriction and a resale restriction would still help investors and small businesses, an exemption that follows the recommendations above would be the most appropriate and principled route to take.

CONCLUSION

The exempt offering framework, even after 93 years of fine-tuning, still prices out the smallest businesses and bars most Americans from participating. Disclosure mandates, investment limits, and Blue Sky laws all impede transactions between issuers and investors without significantly improving investor protection. No one is hurt more by these standards than the smallest businesses, which possess neither the capital nor the experience to navigate complex legal infrastructure.

A principled micro-offering exemption would give businesses previously shut out from the markets their first step to accessing investor capital. Placing an investment limit on the size of the offering and little more would allow small firms to gain access to capital and investors to gain access to a wider range of investment options, all while restoring fairness and aligning the market with the original intent of the Securities Act.

NOTES

1. 740,000 firms comprise 2 percent of the 36.2 million firms in the US. See “2025 Small Business Profile,” Office of Advocacy, US Small Business Administration, updated June 30, 2025.

2. Mike Bellin and Doug Chu, “Considering an IPO? First, Understand the Costs,” PwC US.

3. “Overview of Capital-Raising Exemptions,” Office of Small Business Policy, Securities and Exchange Commission, updated November 6, 2024.

4. The SEC expects Form 1-A to take a total of 748 hours (2 hours from the 2020 “Harmonization” Final Rule subtracted from the 750 hours based on the 2019 “Small Issues Exemptions” Final Rule), 187 of which are external, at a rate of $400 per hour, costing the issuer on average $74,800. See

Conditional Small Issues Exemptions Under the Securities Act of 1933 (Regulation A), 84 Fed. Reg. 521, 528 (January 31, 2019); and Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets, 86 Fed. Reg. 3496, 3586, 3605 (January 14, 2021).

5. The SEC estimates that Form 1-K will take 150 hours of external work at a rate of $400 per hour, Form 1-SA will take roughly 28 hours at a rate of $400 per hour, and Form 1-U will cost roughly $300, totaling $71,500. See Amendments for Small and Additional Issues Exemptions Under the Securities Act (Regulation A), 80 Fed. Reg. 21806, 21889–21890 (April 20, 2015).

6. Crowdfunding, 80 Fed. Reg. 71388, 71524 (November 16, 2015); and Angela Huang and Vladimir Ivanov, "Analysis of Crowdfunding Under the JOBS Act," Division of Economic and Risk Analysis, Securities and Exchange Commission, May 28, 2025.

7. The SEC defines a non-accredited, sophisticated investor as one who "has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment." See 17 C.F.R. § 230.506(b)(2)(ii).

8. Under the Small Business Incentive Act of 1980, Congress directed the SEC to define an accredited investor as "any person who, on the basis of such factors as financial sophistication, net worth, knowledge, and experience in financial matters, or amount of assets under management qualifies as an accredited investor under rules and regulations which the [SEC] shall prescribe." The SEC finally created the standard in 1982 through Rule 501(a) of Regulation D, choosing to strictly use net worth as a proxy for financial sophistication. See 15 U.S.C. § 77b(15)(ii) and 17 C.F.R. §§ 230.501(a)(5)–(6).

9. 17 C.F.R. §§ 230.501(a)(5)–(6).

10. "Report to Congress on Regulation A / Regulation D Performance, as Directed by the House Committee on Appropriations in H.R. Rept. No. 116-122," Securities and Exchange Commission, August 2020.

11. "SEC Harmonizes and Improves 'Patchwork' Exempt Offering Framework," press release, Securities and Exchange Commission, November 2, 2020.

12. Katherine Carman et al., "Exploring Accredited Investors and Private Market Securities Ownership," Office of the Investor Advocate Working Paper 2025-1, Securities and Exchange Commission, June 2025.

13. 17 C.F.R. § 227.100(a)(2).

14. Jennifer J. Schulp and Christian Kruse, "A Dash for Cash: What to Do About Crowdfunding?," *Cato at Liberty* (blog), Cato Institute, July 11, 2025.

15. See Richard E. Rustin and Mitchell C. Lynch, "Apple Computer Set to Go Public Today; Massachusetts Bars Sale of Stock as Risky," *Wall Street Journal*, December 12, 1980.

16. Exemptions to Facilitate Intrastate and Regional Securities Offerings, 81 Fed. Reg. 83494, 83543 (November 21, 2016).

17. In 2019, there were only 476 new offerings raising an aggregate $200 million, just 0.01 percent of the amount Rule 506(b) offerings raised that same year. See Katherine Carman et al., "Exploring Accredited Investors and Private Market Securities Ownership," Office of the Investor Advocate Working Paper 2025-1, Securities and Exchange Commission, June 2025.

18. Angela Huang, "Analysis of the Regulation A Market: A Decade of Regulation A," Division of Economic and Risk Analysis, Securities and Exchange Commission, May 2025.

19. Prior to 2020, only 16 cases of fraud referenced exempt offerings, and as of 2025, there has been only one case of fraud involving crowdfunding. See Rachita Gullapalli, "Misconduct and Fraud in Unregistered Offerings: An Empirical Analysis of Select SEC Enforcement Actions," Division of Economic and Risk Analysis, Securities and Exchange Commission, August 2020; and "SEC Charges Crowdfunding Portal, Issuer, and Related Individuals for Fraudulent Offerings," press release, Securities and Exchange Commission, September 20, 2021.

20. Since 41 percent of small businesses (fewer than 500 employees) need only $50,000 or less, fixed costs affect a substantial number of businesses. See Cornelius Johnson et al., "2024 Report on Employer Firms: Findings from the 2023 Small Business Credit Survey," Federal Reserve Banks, March 7, 2024, data appendix.

21. Jennifer J. Schulp and Christian Kruse, "A Dash for Cash: What to Do About Crowdfunding?," *Cato at Liberty* (blog), Cato Institute, July 11, 2025.

22. See Private Company Database, PrivCo, accessed December 11, 2025; Private Market Data and Financial Research Platform, PitchBook, accessed December 11, 2025; and Predictive Intelligence on Private Companies, CB Insights, accessed December 11, 2025. (These all require signing up for a free trial to access.)

23. Paul G. Mahoney, "Was Market Manipulation Common

in the Pre-SEC Era?," chap. 6 in *Wasting a Crisis: Why Securities Regulation Fails* (University of Chicago Press, 2015); and Robert F. Bruner and Scott C. Miller, "The Great Crash of 1929: A Look Back After 90 Years," *Journal of Applied Corporate Finance* 31, no. 4 (Fall 2019): 43–58.

24. Brian Belley, "CfPA Presents Case for Nuanced Reg CF Reform at SEC Small Business Forum," Crowdfunding Ecosystem, April 14, 2025; and "2018 SEC Government-Business Forum on Small Business Capital Formation, Final Report," Securities and Exchange Commission, June 2019.

25. Based on the costs of a $100,000 offering. See Crowdfunding, 80 Fed. Reg. 71388, 71499–71500 (November 16, 2015).

26. Angela Huang and Vladimir Ivanov, "Analysis of Crowdfunding Under the JOBS Act," Division of Economic and Risk Analysis, Securities and Exchange Commission, May 2025.

27. 15 U.S.C. § 77c(b)(1).

28. 15 U.S.C. § 77c(b)(2).

29. Micro Offering Safe Harbor Act, H.R. 2201, 115th Cong. (2017); and Accelerating Access to Capital Act of 2016, H.R. 2357, 114th Cong. (2016).

30. The median crowdfunding offering is $113,000, according to the SEC's Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) filings. Angela Huang and Vladimir Ivanov, "Analysis of Crowdfunding Under the JOBS Act," Division of Economic and Risk Analysis, Securities and Exchange Commission, May 2025.

31. John M. Aland, "Equity Crowdfunding and Offering Page Disclosure," *Journal of Financial Reporting* 8, no. 2 (Fall 2023): 25–53.

32. Every federal exemption from registration includes a bad actor restriction. See "Overview of Capital-Raising Exemptions," Office of Small Business Policy, Securities and Exchange Commission, updated November 6, 2024.

33. According to different sources, the average holding periods of private equities range from 5 to 9 years depending on the industry. See Karl Angelo Vidal, "Valuation Mismatch Prolongs Private Equity Buyout Holding Periods," S&P Global, June 26, 2025; and Andy Jones, "Holding Periods Continue to Grow, but Could Peak in 2025," Private Equity Info, February 19, 2025.

34. Tyler Gellasch et al., "How Exemptions from Securities Laws Put Investors and the Economy at Risk," Center for American Progress, March 22, 2023.