SEC weighs new rules for private companies' stock

April 8 2011, By DAVID KOENIG and DANIEL WAGNER , AP Business Writers

(AP) -- The Securities and Exchange Commission is considering whether to ease rules on private companies that issue shares.

Chairman Mary Schapiro said in a speech Friday that she has asked the SEC staff to review the rules. The changes might make it easier for companies such as Facebook and Twitter to raise money by issuing stock, without facing costly reporting requirements imposed on public companies.

Private companies can keep their finances secret if they have fewer than 500 shareholders. If they have more, they must provide details on their companies and finances.

The new rules might replace the process by which technology companies and other startups offer shares publicly through initial public offerings. Companies that have IPOs must disclose financial details about themselves.

Earlier this week, Schapiro sent a letter to Rep. Darrell Issa, R-Calif., notifying him of the review. Issa, who is chairman of the House Oversight and Government Reform Committee, had previously raised concerns with Schapiro that the current rules discourage investment and limit economic growth

The current rules are designed to stop insiders from trading shares using

information that is not available publicly. In her letter to Issa, Schapiro said the agency must walk a fine line, protecting investors from insider trading while making it easier for private companies to raise money.

Companies "should not be overburdened by unnecessary or superfluous regulations," Schapiro said in the letter. "At the same time, all offerings must, of course, provide the necessary information and protections to give investors the confidence they need to invest in our markets," she said.

The staff review aims to develop ideas to reduce companies' cost of compliance without sacrificing investor protection, she said.

In addition to Facebook and Twitter, the rules would affect the daily discount site Groupon and Zynga, the maker the online game "FarmVille."

Many of these companies are startups in name only. They have thousands of employees and estimated billions of dollars in yearly revenue. But they have put off going public. That's partly because they already have access to capital from deep-pocketed investors and venture capitalists.

Going public also requires a time commitment from top executives. Facebook's 26-year-old CEO, Mark Zuckerberg, seems to prefer keeping his focus on the company's product development, rather than cashing out through an IPO or answering analysts' questions about earnings and revenue in quarterly conference calls.

Facebook has been trying to put off reaching the 500-shareholder threshold. For example, it has barred current employees from selling their shares. Nonetheless, it has indicated that it is likely to file its IPO plans by the end of April 2012.

Before the companies' IPOs, shares of privately held companies can be traded on private stock exchanges, such as SecondMarket, based in New York, and SharesPost, based in San Bruno, Calif. The shares are generally sold by former employees or early investors in these companies, and often there are more buyers than sellers. Only institutional investors or high net-worth individuals - those worth more than $1 million - can buy the shares.

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