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## SECURITIES AND CAPITAL MARKETS

**NEW STOCK EXCHANGE EMERGES FROM SILICON VALLEY**

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The U.S. Securities and Exchange Commission recently approved the creation of a new national securities exchange located in San Francisco: the Long-Term Stock Exchange (LTSE). The goal of this exchange is to provide a more liquid trading market for venture-backed companies, similar to the Investors Exchange (IEX) and the Canadian TSX Venture Exchange.

**A New Approach to Trading**

While the LTSE will resemble Nasdaq, as there will be no physical trading floor and all transactions will be completed electronically, the founders of the LTSE intend for the LTSE to distinguish itself by supporting the long-term goals of venture-backed companies. Eric Ries, the author of *The Lean Startup* and creator of the LTSE, has criticized the traditional market system dominated by the NYSE and Nasdaq as discouraging innovation and long-term planning by emphasizing short-term profits and has attempted to build the LTSE as a way to address these concerns. In order to encourage long-term strategizing over short-term pay off, the LTSE's listing standards feature provisions aimed at encouraging companies to focus on long-term innovation as opposed to quarterly earnings. The LTSE's rules limit executive bonuses for short-term accomplishments, increase disclosure requirements to investors about key milestones and plans, and reward long-term shareholders with more voting power the longer they hold the stock, in contrast to the trend away from dual-class shares following the adverse regulatory reaction to the Snap, Inc. IPO in 2017. Participating companies would also be expected to adopt policies on their impact on the environment and their approach to diversity and inclusion in addition to other long-term policies related to their commitment to stakeholders.

**Listing Standards and Potential Opportunity**

The LTSE's initial listing standards are very similar to those of its conceptual predecessor, IEX, which recently announced that it no longer plans to list companies for trading. Some of the LTSE's initial listing standards and continued listing standards are necessarily like those of other exchanges, like that the listed securities must be registered under Section 12(b) of the Exchange Act or be eligible for an exemption at the time of listing, and have a majority-independent board of directors with a standing audit committee. However, potential new public companies may find the LTSE's quantitative standards to be more burdensome than those of the NYSE and Nasdaq because some of the outstanding share and market capitalization requirements are higher than those well-established exchanges.

One key way the LTSE differentiates itself from other exchanges is by allowing companies with existing dual-class capital structures to list their primary class of common stock and secondary class of common stock (which is not required to have voting rights as robust as the primary class) on the exchange. Accordingly, once this exchange launches, it may provide a unique opportunity for later-stage, private startups with dual-class capital structures to achieve liquidity for their stockholders and to connect with

additional investors that ordinarily would limit their investment to publicly traded companies on traditional exchanges.

### **What to Do Now**

Startups, venture investors and their advisors who are interested in learning more about the LTSE or other liquidity options can contact a member of Harter Secrest & Emery LLP's [Securities and Capital Markets](#) group at 716.853.1616, 585.232.6500, or visit [www.hselaw.com](http://www.hselaw.com).

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