



June 13, 2022

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

**Special Purpose Acquisition Companies, Shell Companies, and Projections
(Release Nos. 33-11048, 34-94546, IC-34549, File No. S7-13-22)**

The National Venture Capital Association (NVCA) appreciates the opportunity to comment on the proposed rules in the release cited above (the “Proposing Release”). NVCA represents the U.S. venture capital (VC) and startup community. In 2021, VCs invested \$332 billion in U.S. companies.¹ Our members provide the capital empowering the next generation of American companies that will fuel the economy of tomorrow. As the voice of the U.S. venture capital and startup community, NVCA advocates for public policy that supports the American entrepreneurial ecosystem.

Background on Venture Capital and its Economic Impact

Venture capital has enabled the United States to support its entrepreneurial talent by turning ideas and basic research into products and services that have transformed the world. Examples of venture-backed companies include Moderna, Genentech, Zoom, SpaceX, Ebay, and Amazon. Venture capitalists create partnerships with institutional investors to combine the capital held by pension funds, endowments, foundations, and others with their talent and expertise to make high-risk, long-term equity investments into innovative young companies.

Venture funds are generally partnerships that last ten to fifteen years, building investments far longer than any other asset class. VCs do not simply pick winners; they actively work with entrepreneurs to develop startups into successful companies. VCs work alongside the entrepreneurs, often taking board seats, providing strategic advice and counsel, opening their contact networks, and generally doing whatever they can to help their portfolio companies succeed.

A recent survey of companies backed by venture capital showed that four out of five respondents spent at least 70 percent of their total expenses on two activities: wages and compensation and research and development. This statistic highlights the extent to which venture capital finances job creation and

¹ NVCA 2022 Yearbook, data provided by PitchBook; available at <https://nvca.org/pressreleases/startups-in-400-congressional-districts-received-vc-funding-last-year-globally-u-s-accounted-for-less-than-50-of-vc-dollars-and-40-of-deal-count/>.

innovation despite the risks inherent in funding companies expected to operate in revenue loss positions for years.²

Despite the long odds, venture capital is a major economic engine of job growth, spurs innovation, and creates new business models that change the world. New research found that employment at VC-backed companies between 1990 and 2020 grew 960 percent, whereas total private sector employment during that same period grew only 40 percent. VC-backed jobs are distributed broadly across the entire U.S. with 62.5 percent of VC-backed jobs outside the states of California, Massachusetts, and New York.³ This illustrates a fundamental trend in the modern economy: the path to greater economic opportunity for American workers runs through technological progress and long-term investment.

NVCA Comments on Special Purpose Acquisition Companies, Shell Companies, and Projections

Through the proposed rule impacting Special Purpose Acquisition Companies (SPACs), the Securities and Exchange Commission (SEC) risks hindering rather than helping the capital formation process for some of America's most important growth companies. Given the consequences these changes may have on capital formation, we respectfully request that the SEC extend its comment period for an additional 90 days so that both the desired and unintended consequences can be more closely studied.

Venture capital finances many of the companies that ultimately go public each year and so has a direct interest in options that enable emerging companies to access the public markets. Companies backed by venture capital are responsible for over half of companies that undergo initial public offerings (IPOs) each year, including 40 percent of climate technology companies.⁴

Over the past twenty-five years, the rising cost and complexity of being a publicly-traded company has led to a meaningful shift in emerging company growth strategies. Innovative young companies with long-term project time horizons now tend to remain private for longer. For example, Microsoft went public in 1986 at a market capitalization of \$777 million,⁵ and a decade later Amazon went public at a market capitalization of \$483 million.⁶ From a market capitalization standpoint, both of these businesses were much smaller than the majority of IPOs priced in 2021 when the mean market capitalization of companies at time of IPO was \$3.2 billion.⁷ Further, many companies that don't reach a

² *Venture Capital Investment at Work*, American Startups and Job Growth Coalition (April 2021), available at <https://nvca.org/venture-capital-investment-at-work/>.

³ *An Analysis of Employment Dynamics at Venture-Backed Companies Between 1990 and 2020*, NVCA, Venture Forward, and the University of North Carolina Kenan Institute of Private Enterprise (February 2022), available at https://nvca.org/wp-content/uploads/2022/02/Employment-Dynamics-at-Venture-Backed-Companies_FINAL.pdf

⁴ *Initial Public Offerings: Updated Statistics*; Professor Jay Ritter, University of Florida; available at <https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf>.

⁵ 1986: IPO of the Year Puts Goldman Sachs on the Map With Tech Companies, Goldman Sachs, available at <https://www.goldmansachs.com/our-firm/history/moments/1986-microsoft-ipo.html>

⁶ A Look Back in IPO: Amazon's 1997 Move, TechCrunch; available at <https://techcrunch.com/2017/06/28/a-look-back-at-amazons-1997-ipo/?guccounter=1>

⁷ Based on data provided by Bloomberg, LP for 357 IPOs, excluding SPACs and best-efforts offerings, that were priced between January 1st and December 31st 2021

size where management believes they can weather the public markets will now choose to pursue a strategic sale rather than a public listing.

There is bipartisan support for efforts to make the public markets more attractive to emerging companies. For instance, former President Barack Obama signed the *Jumpstart our Business Startups Act* (JOBS Act) into law in 2012 after strong bipartisan majorities voted to advance it through Congress. And in 2018, the *Jobs and Investor Confidence Act* passed the House with an overwhelming bipartisan vote. Both bills included provisions to improve the process of going public and support the growth of emerging companies in the public markets.

SPACs Can be Part of the Solution

We are aware of a range of reasons why some venture-backed companies prefer a SPAC transaction over a traditional IPO. These include the opportunity to partner with an experienced financing and capital markets sponsor; the utilization of long-term projections in presenting their business to the public markets that better matches the long-term investment cycle of technology; more efficient price discovery; better opportunities to partner with investors that have longer-term investment horizons; and avoiding the question of underpricing of traditional IPOs by investment banking underwriters.

Many companies that have gone public via SPAC over the past several years require large equity capital investments to develop longer-term technology projects. SPACs have the potential to be a better fit for certain companies that are both capital intensive and relatively immature, where long-term projections represent the key criteria for determining value. Without our most ambitious startups having access to the deep pools of capital needed to succeed, we risk other competitive nations leapfrogging us in the development of strategic technologies. Losing our strong technological edge would be a deeply felt strategic blow for the U.S. that would have far-reaching implications over the coming decades.

The Role of SPACs in Financing Climate Technology

Climate change is one of the most important challenges facing the world today and is a top priority of the Biden administration. Fortunately, venture capital has been actively financing the development of technologies necessary for the economic transition from fossil fuels to renewable energy sources. Venture capital investment into climate technology grew at five times the overall growth rate of VC investment between 2013 to 2019,⁸ and 2021 saw all-time records of climate-focused VC investment in the U.S. Importantly, fully half of global climate-focused venture capital was invested in U.S.-based startups.⁹

2020 and 2021 also saw an increased number of climate technology companies enter the public markets, with a large proportion of them coming public via SPAC transaction. According to SVB financial, in 2021 the number of SPAC transactions in this category was more than twice the number of

⁸ *Climate Tech Report – VC Trends and Emerging Opportunities*, Pitchbook; available at: [Q1_2022_Climate_Tech_Report_1159.pdf \(pitchbook.com\)](https://pitchbook.com/reports/q1-2022-climate-tech-report-1159)

⁹ President Biden should Highlight American Leadership in Climate Technology Innovation, NVCA, available at: <https://nvca.org/president-biden-should-highlight-american-leadership-in-climate-technology-innovation-at-cop26/>

IPOs.¹⁰ Sectors in which one or more companies have raised capital via SPAC include electric vehicles (EVs), including passenger car and light-duty vehicles, trucks, busses and aircraft; charging infrastructure providers, powertrain providers and EV platform technology providers; battery makers, battery and rare earth metals providers, power storage systems providers and battery recyclers; renewables project developers, solar photovoltaics installers and renewable energy financing providers; biofuel and biogas producers; hydrogen producers, fuel cell producers and fuel cell vehicle makers; and grid network solutions providers.

SPACs have provided a means for climate technology companies to raise capital. Given that the proposed changes to SPAC regulation have the potential to create the unintended consequence of limiting capital formation for climate-focused businesses, we also recommend extending the comment period to more fully explore the potential impact on the ability of the U.S. capital markets to finance companies in one of the most critically important areas of the world economy.

Conclusion

We strongly believe this effort would benefit from a more open, collaborative and comprehensive discussion on the relative merits of SPACs, how SPACs can be further enhanced to maximize shareholder protection, and, importantly, how SPACs can continue to be utilized by environmentally important and strategically significant businesses so that we may enhance the competitiveness of U.S. business and maintain the continued leadership of the US capital markets.

NVCA would be pleased to work with the Commission on ways to amend the Proposal that could allow SPACs to continue to be a viable option for companies considering whether to enter the public markets.

Sincerely,

A handwritten signature in black ink that reads "Bobby Franklin". The signature is written in a cursive, slightly slanted style.

Bobby Franklin
President & CEO

¹⁰ “The Future of Climate Tech - A Look at the Technologies Driving a Sustainable Future”, SVB Financial, 2022, available at <https://www.svb.com/trends-insights/reports/future-of-climate-tech#>