



April 4, 2025

The Honorable French Hill
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Ann Wagner
Chair
Subcommittee on Capital Markets
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Brad Sherman
Ranking Member
Subcommittee on Capital Markets
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Re: National Venture Capital Association (NVCA) Response to Financial Services Committee Requests Feedback on Legislative Proposals to Increase Investor Access and Facilitate Capital Formation

Thank you for the opportunity to provide the venture capital perspective as it relates to the critical role of capital formation in driving economic growth. It has been almost thirteen years since the passage of the bipartisan Jumpstart Our Business Startups (JOBS) Act of 2012, which reduced regulatory barriers and expanded access to capital for entrepreneurs across the nation. Today, we find ourselves with the opportunity to re-examine the JOBS Act's impact on the entrepreneurial ecosystem, explore remaining regulatory obstacles, and consider reforms to enhance capital formation and investment opportunities, particularly for underrepresented entrepreneurs and communities.

On behalf of the National Venture Capital Association (NVCA), all U.S.-based venture capital firms, and the infinite entrepreneurs across the country who leverage venture capital support, I write to express our support for last month's hearing on identifying policy solutions to strengthen both the public and private markets, and to provide the Committee with recommendations on legislative solutions to help further capital formation and fuel economic growth.¹

Founded over 50 years ago, NVCA is the trade association that represents the U.S. venture capital ecosystem. Our organization advocates for policies that encourage American innovation and reward long-term investment across all critical technology areas. Our goal is to empower the next generation of American companies that will fuel the economy of tomorrow.

To begin, we must address a critical issue facing most American entrepreneurs – access to capital. Those most affected by the lack of capital span early-stage startups, underrepresented founders, and businesses located outside of the major tech hubs. Limited capital limits the potential for business growth.

¹ About NVCA. <https://nvca.org>



Notably, many companies experiencing these capital constraints are pursuing companies in key critical development areas identified by the government, spanning defense, biotech, energy, industrial production, supply chain rehousing, and more.^{2 3} We applaud the recognition of these vital development areas but underscore the financial needs many of these entrepreneurs face daily.

We also find ourselves in a market where fewer companies are going public, due to a multitude of factors - the strength of late-stage markets, increased regulatory/compliance costs associated with going public, market volatility, and more.

Despite the current market trend towards the private market, it is important to underscore that private capital is not guaranteed and having a viable path for IPOs remains critical. NVCA supports solutions to enhancing the IPO pathway to enable more entrepreneurs to achieve the American dream of going public.

Our comment explores challenges and potential solutions to build a stronger IPO market, while maintaining the robust private market we have today.

Building Regional Ecosystems

Over the past 50 years, America has seen a concentration of start-up talent in traditional hubs like Silicon Valley, Boston, and New York. We celebrate the strides made in American innovation, largely thanks to venture capital, but must acknowledge there is more work to be done to build regional ecosystems outside the coasts. Important steps have been taken in recent years. Fundraising in non-traditional ecosystems has more than doubled in the last decade, increasing from 5.9 billion in 2014 to 12.2 billion in 2024. While some progress has been made in the quantity of VCs (out of 14,818 active VC investors in the U.S., 7,679 of them are outside non-traditional ecosystems), NVCA remains committed to identifying capital access solutions to create sustainable opportunities for entrepreneurs throughout the country, and support legislative solutions such as the following:

- **The Promoting Opportunities for Non-Traditional Capital Formation Act (Waters):** The draft bill would require the Securities & Exchange Commission’s Advocate for Small Business Capital Formation to provide educational resources and host events to promote capital-raising options for underrepresented small businesses and businesses in rural areas.
- **The Helping Angels Lead Our Startups (HALOS) Act (Lawler):** The draft bill would define an angel investor for purposes of the federal securities laws, and clarify the definition of general solicitation contained in the Securities Act of 1933 to ensure that startups can discuss their products and business plans at certain events, known as “demo days,” without such discussions being considered an investment offering. Allowing startups to engage investors during demo days can expedite capital access opportunities and encourage greater participation for entrepreneurs and investors. Demo days are fundamental to supporting startups and are where entrepreneurs can pitch their ideas to investors and help educate the broader startup ecosystem.

² <https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/02/Critical-and-Emerging-Technologies-List-2024-Update.pdf>

³ <https://www.cto.mil/osc/critical-technologies/>



- **The Small Business Investor Capital Access Act (Barr):** The draft bill amends the Investment Advisers Act of 1940 to increase the exemption from registration threshold for advisers to small private funds to reflect changes in inflation.

State Initiatives

For funds around the median size or less (most of the funds in the rest of the country), the regional geographic preference is strong. Ideally, regional VCs prefer deals in their “backyards” and often co-invest with peers – investment by these groups is often regional and does not stop at state borders.

State initiatives are critical to building available capital for entrepreneurs but can create parochial restrictions at state borders that inhibit regional syndication. Creating state-based solutions that encourage regional investment would increase regional collaboration.

SSBCI Program

Another way to bolster public-private partnership is by leveraging federal initiatives, like the State Small Business Credit Initiative (SSBCI). NVCA supported the development of the SSBCI program, which was signed into law as part of the American Rescue Plan Act of 2021 to provide funding for state, territory, and Tribal government small business credit support and investment programs.

While we look at the implementation of this initiative and consider additional funding opportunities, NVCA would encourage the Committee to consider avenues to bolster foster additional regional cooperation. The program is an impactful addition to the small funds of nontraditional regions and the private sector matching requirements ensures that private sector managers remain disciplined by the market. Creating the ability to syndicate and collaborate regionally, in addition to opportunities within the state, would help build stronger and longer-lasting ecosystems.

Regional Tech Hubs and RECOMPETES

As we look toward potential solutions to build up these ecosystems across the country, previous bipartisan achievements should not be discounted. For example, NVCA worked diligently with the 117th Congress to identify solutions in the CHIPS and Science Act. Upon implementation, we worked alongside the Technology, Innovation, and Partnerships Directorate at the National Science Foundation and the Regional Technology Hubs and RECOMPETES Programs at the Department of Commerce to create strong regional ecosystems that would attract and retain strong talent.

The government plays an important role in supporting robust early funding – a key element needed in technological development. Enhancing nontraditional technology hubs in communities across America will create jobs, expand economic opportunity, and preserve American leadership in the next generation of technologies critical to our economic and national security. Building upon these programs will only catalyze R&D taking place across the country.

Empowering Emerging Managers



Research shows that a VC ecosystem that better reflects the demographics of our country – this includes non-traditional tech hubs – results in better business outcomes. Expanding the universe of check writers leads to investments in more entrepreneurs, creating a more innovative and competitive American economy.

To make strides towards this goal, in 2020 NVCA formally launched Venture Forward, a 501(c)(3) supporting organization with a mission to educate and empower VC investors to advance the industry and maximize impact and returns.⁴ As part of this mission, Venture Forward launched VC University, a certificate course on the fundamentals of venture capital co-led with NVCA and UC Berkeley, along with full scholarships (over 600 to date) and dedicated mentorship opportunities to democratize access to the venture capital ecosystem.⁵

As we look at the success of this program in educating the next generation of check writers, we are faced with a new challenge: enabling the longevity of these new industry entrants. We support policies that could bolster emerging fund managers in their efforts raising follow-on funding rounds, including:

- **The Improving Capital Allocation for Newcomers (ICAN) Act (Timmons):** The draft bill would modify the Qualifying Venture Capital Fund Exemption under Section 3(c)(1) of the Investment Company Act of 1940 by increasing the cap on aggregate capital contributions and uncalled capital commitments from \$10 million to \$150 million. This title would also increase the allowable number of beneficial owners in a qualifying venture capital fund from 250 to 600. These changes would expand capital access for smaller venture capital fund managers, particularly those operating in emerging ecosystems. Additionally, the ICAN Act aligns with recommendations from the SEC’s Small Business Capital Formation Advisory Committee, aiming to provide greater flexibility and resources for new and diverse entrepreneurs across various regions.

Access to Capital – Innovative Funding Models

NVCA has long championed the passage of the *Developing and Empowering our Aspiring Leaders (DEAL) Act* to account for the changing market landscape in how emerging fund managers raise capital.⁶ This legislation supports the growth and sustainability of the VC ecosystem by easing burdensome regulations and enhancing liquidity options for funds, founders, and long-term employees that are compensated through equity.

Under current law, a VC fund must register with the SEC if more than 20 percent of its portfolio is comprised of “nonqualifying investments”. To maintain status as an Exempt Reporting Adviser and, therefore, be exempt from registering, at least 80 percent of a VC’s portfolio must be in “qualifying investments,” defined as direct investments in private companies. These parameters do not reflect the current market. We ask the Committee to consider expanding the “qualifying investments” bucket to include:

- *Secondary Markets:* As companies have stayed private longer, secondary investments have become more prominent in VC financing rounds. These secondary investments are a significant source of

⁴ About Venture Forward. <https://ventureforward.org/about/why-venture-forward/>

⁵ Venture Forward’s VC University. <https://ventureforward.org/programs-initiatives/vc-university/>

⁶ NVCA Letter on DEAL Act & HFSC Cap Markets Hearing, February 8, 2023. <https://nvca.org/document/nvca-letter-re-02082023-hfsc-cap-markets-hrg-final-1-2/>



liquidity for founders and early-stage investors who can then recycle the capital into a new round of companies.

- *Fund of Funds*: “Fund of funds” investments from established VC funds seed emerging managers and encourage greater distribution of venture capital activity. Venture capital funds of funds are still dramatically impacted by the Volcker Rule, as they are not treated in the same manner as venture capital funds, even though oftentimes the funds are largely invested in venture capital.

Fund of funds’ ability to operate in the Midwest, for example, has been significantly hampered by their ineligibility for investments by financial institutions under Volcker, especially for smaller funds. One smaller VC estimated that their SEC compliance work takes up over 5% of its entire budget, which hampers their work supporting entrepreneurs.

In summary, the *DEAL Act* would allow VC funds to provide capital to emerging VC funds without triggering the costs and burdens of fund registration, an important reprieve as a previous NVCA survey found that Registered Investment Adviser (RIA) funds report annual compliance costs eight times as large as ERA funds⁷. These early-stage investors would then be able to reinvest their gains into the next generation of new American companies, enhancing the flywheel effect that drives so much of our nation’s innovation and economic growth.

Accredited Investor Criteria

NVCA supports the modernization of the accredited investor criteria to be more inclusive in nature. Updating the definition beyond personal wealth and income measures to consider education, professional qualifications, and similar factors would expand the number of individuals that would be able to become accredited and participate in private market investment opportunities, while retaining the investor protection intent of the definition.

Going Public: Barriers & Solutions

While the bipartisan JOBS Act made great inroads in creating an on-ramp to going public, continued compliance burdens and its associated costs remain some of the biggest barriers preventing companies from going public. A greater proportion of companies today are unable to go public until they are significantly profitable to be able to take on the outsized cost burden.

The NVCA supports legislative recommendations that would continue to right-size compliance burdens for public companies and lessen the frictions that prevent more companies, especially smaller cap companies, from going public. Despite many regulations being designed with large-cap issuers in mind, smaller companies are often significantly affected and lack the resources to manage complex compliance requirements. As a result, many times these overly complex disclosure requirements limit smaller issuers’ ability to focus on growth and innovation.

⁷ NVCA Compliance & Financial Reporting Costs Group Therapy: Analyzing the Impact with Data, November 2, 2017. <https://nvca.org/document/compliance-financialreporting-costs-group-therapy-analyzing-the-impact-with-data/>



Similarly, many smaller cap companies are negatively impacted by the lack of tailored regulatory relief. We would note that current definitions of new and smaller issuers (Emerging Growth Companies, Smaller Reporting Companies, Accelerated Filer and Large Accelerated Filer) often exclude companies based on market cap and revenue thresholds, even if they have a lean operational footprint. To that end, we support bills that right-size the definitions, which serve as critical gatekeepers of ensuring that smaller cap companies receive the tailored regulatory relief that make IPOs financially feasible, including:

- **The Smaller Reporting Company, Accelerated Filer, and Large Accelerated Filer Thresholds:** The draft bill raises the thresholds and removes overlap in the definitions to qualify as a smaller reporting company, accelerated filer, and large accelerated filer. The bill also exempts certain low-revenue issuers from being required to have their management’s assessment of the effectiveness of internal controls over financial reporting attested to, and reported on, by an independent auditor, as currently required under Section 404(b) of the Sarbanes-Oxley Act. While this provision can be valuable for investor protection, it imposes high costs on smaller companies that may not have mature financial reporting infrastructure.
- **The Helping Startups Continue to Grow Act (Steil):** The draft bill gives Emerging Growth Companies (EGC) five extra years to continue expanding and developing their businesses under the scaled disclosure and filing requirements if they otherwise meet the requirements of being an EGC. The bill also increases the maximum threshold amounts to qualify as an EGC to \$3 billion and removes the disqualification for “large accelerated filers.” Currently, EGCs can maintain their status as an EGC for up to five years after they become a public company. EGCs are young, public companies that are continuing to invest in innovation. However, many of these companies are not generating enough revenue five years after becoming public to support the compliance costs that come with a loss of EGC status. By providing this five-year extension, startup companies do not have to spend their time and money on bureaucratic regulations and burdensome compliance procedures meant for larger and more mature firms.
- **A bill to amend the Securities Exchange Act of 1934 to specify certain registration statement contents for emerging growth companies, to permit issuers to file draft registration statements with the Securities and Exchange Commission for confidential review, and for other purposes (Nunn):** The draft bill updates the emerging growth company (EGC) financial statement requirements to clarify that an EGC may present two years, rather than three years, of audited financial statements in both IPOs and spin-off transactions. The bill allows a spin-off of an EGC to benefit from the two-year financial statement accommodation, which is currently only available during an IPO.
- **Remove Aberrations in the Market CAP Test for Target Company Financial Statements (Salazar):** The draft bill clarifies that a company’s market capitalization, for purposes of testing the significance of an acquisition or disposition and determining whether a target company’s financial statements are required, may include the value of all shares of stock, including preferred stock and non-traded common shares that are convertible into, or exchangeable for, traded common shares.
- **A bill to amend the Federal securities laws to specify the periods for which financial statements are required to be provided by an emerging growth company, and for other purposes:** The draft bill establishes that an Emerging Growth Company (EGC), as well as any



issuer that went public using EGC disclosure obligations, only needs to provide two years of audited financial statements.

- **A bill to expand WKSJ Eligibility (Steil):** The draft bill expands the availability of Well-Known Seasoned Issuer (WKSJ) status by updating the WKSJ definition to apply to all companies that otherwise satisfy the WKSJ definition with a public float of \$75 million, rather than the current public float of \$700 million. This will make it easier for smaller reporting companies with a good track record to be able to engage in public offerings more nimbly and quickly through automatic shelf registration, which becomes effective immediately upon filing without SEC review or comment.
- **The Encouraging Public Offerings Act (Wagner):** The draft bill codifies current SEC rules by allowing any issuer to communicate with sophisticated, institutional investors to determine interest in a securities offering, either before or after the filing of a registration statement (i.e. test the waters). Previously, the ability to test the waters was limited to EGCs only. The bill also allows all issuers to submit a confidential draft registration statement to the SEC for review prior to public filing, provided that it is thereafter publicly filed at least 10 days before the effective date of the registration statement.

The NVCA also supports efforts to obtain better data on the costs of going public for smaller companies, such as:

- **The Middle Market IPO Underwriting Cost Act (Himes):** The draft bill would require the U.S. Government Accountability Office to study and report on the costs encountered by small- and medium-sized companies when undertaking IPOs and certain offerings exempt from securities registration requirements.
- **The Small Entity Update Act (Wagner):** The draft bill would direct the SEC to assess the definition of “small entity” under the Regulatory Flexibility Act that it uses to ensure the agency appropriately considers the regulatory costs of compliance for small and growing businesses.

Going forward, NVCA would welcome opportunities to engage with the Committee on other challenges that companies face in going public, including the continued liability landscape facing public companies, and the cost of Directors and Officers (D&O) liability insurance, which can cost north of \$5 Million per year for young companies, a profound challenge to bear.

Additional Challenges for Small Public Companies – Market Structure

Small public companies face a unique set of challenges that hinder their ability to thrive in the modern, and at times tumultuous, public market. These challenges stem from both the compliance burdens discussed above, but also unique market structure inefficiencies, which collectively make it harder for small issuers to grow, attract investors, and maintain healthy trading dynamics. Oftentimes, smaller cap companies suffer from low visibility and a poor secondary market, which can result in a lower trading volume and limited liquidity, less research coverage to attract long-term investors, and being excluded from major indices thus limiting demand from index funds and ETFs. NVCA supports legislative that would incentivize additional research coverage through safe harbors or issuer-sponsored models that maintain transparency and independence, such as:



- **To amend the Securities Act of 1933 to expand the research report exception to include reports about any issuer that undertakes a proposed offering of public securities (Williams):** The draft bill promotes greater access to investment research for companies by ensuring that the liability safe harbor for research reports for companies that undertake a proposed public offering of securities applies to all issuers, and not just Emerging Growth Companies.

Evolving Private/Public Company Dynamics

Many of the burdens included above outline the rationale for why many companies have chosen to stay private for longer – under the current market structure, the cost-benefit analysis favors remaining in the private market or pursuing acquisition over IPO as an exit strategy. In addition to easing regulatory burden, costs, and limitations for smaller cap companies, easing the tension between the two markets would be to make it easier for employees and management to sell shares in secondaries, and we look forward to working with the Committee on legislative solutions.

Thank you for your consideration, we welcome the opportunity to work with the House Committee on Financial Services on this legislation and broader solutions to expand opportunities in both public and private markets.

Sincerely,

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

Bobby Franklin
President and CEO
National Venture Capital Association (NVCA)