

nvca

Series D.C.

July 29, 2022

Count: 4.3 mins... 1,586 words

Presented this week by [Mitsubishi Heavy Industries](#).

We're excited to welcome new members [Carbide Ventures](#), [Michigan Biomedical Venture Fund](#), [Rackhouse Ventures](#), and [Seldor Capital](#)!

1 Big Thing: Democratic Spending and Tax Package Deal



In a shocking turn of events, hours after bipartisan passage of the CHIPS & science package, Senator Joe Manchin (D-WV) announced a deal with Senate Majority Leader Chuck Schumer (D-NY) on a \$940 billion climate, tax, and health care package, that includes a provision **increasing taxes on carried interest**.

Schumer is racing to finish this package before the August recess and tentative plans are to hold votes late next week or into the weekend. Summary and revenue score for this package is [here](#).

The carried interest provision included in the package is the same proposal from the House bill that would require assets be held for at least 5 years before they qualify for long-term capital gains tax treatment.

- While the structure is a compromise over previous proposals that would have taxed all carried interest as ordinary income or imposed annual taxes on funds' assets under management, the technical language in the bill is particularly damaging for the venture capital model.

Key concerns:

- The 5-year clock doesn't start running for any asset in the fund until substantially all investments have been made by the fund. This means a follow-on financing would reset the clock for all investments made previously.
- The 5-year clock doesn't start running until substantially all of the partnership interests have been acquired by the partner. This means that partners must be fully vested before the 5-year clock begins to run on any asset.

- Immediate recognition of gain on transfer of partnership interests to unrelated parties.

In better news:

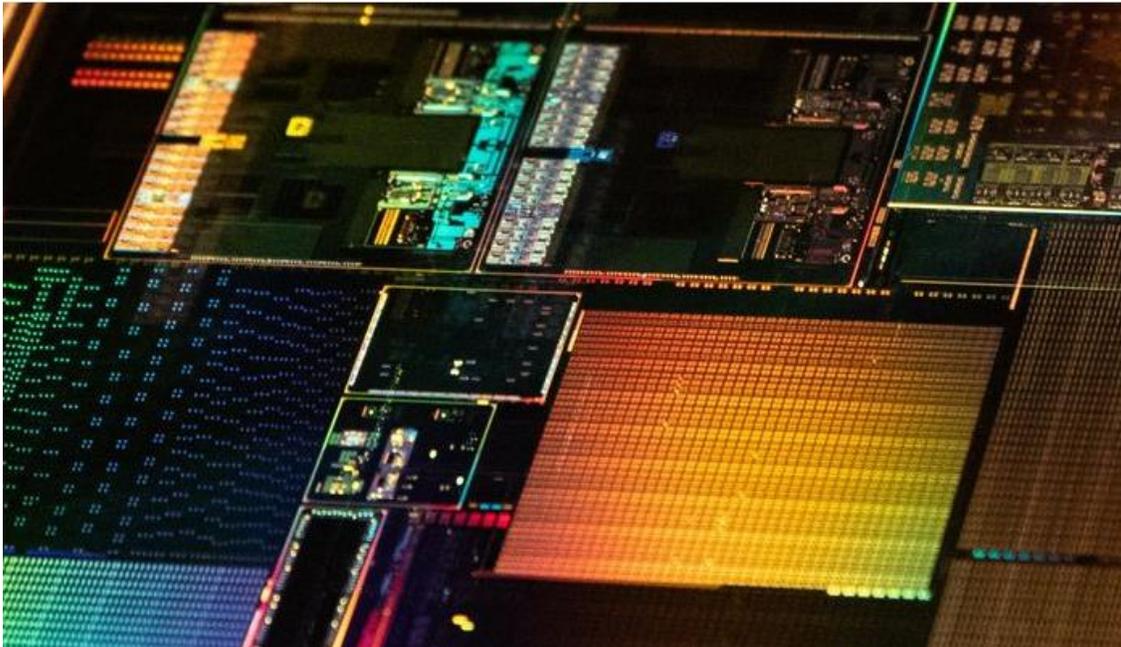
- No QSBS tax increase provision is included.
- No high-income surtax (5% on income +\$10M, additional 3% on income +\$25M) provision included.
- No common control provision (would have required companies majority owned by an investment fund to file as one corporate entity) included.

NVCA continues to engage and will update you as we learn more.

Other bill elements:

- \$370B in a range of climate provisions, including new and expanded energy tax credits, funding for energy efficiency and carbon capture, a new climate technology accelerator program, several sustainable agriculture programs, and environmental justice block grants.
- A proposal to allow Medicare to negotiate the prices of certain drugs.
- An extension of expanded Affordable Care Act tax credits.
- A number of workforce development programs.

2. CHIPS/Science Bill Heads to POTUS



The [NVCA supported](#) competitiveness legislation formerly known as USICA, now known as the Chips and Science Bill, passed both chambers of Congress this week and is expected to be signed into law by President Biden shortly.

A moment of jeopardy: Bipartisan support for the House vote was in doubt after the surprise Schumer-Manchin reconciliation move, but ultimately progressive Democrats and more than 20 Republicans supported passage to advance the largest research, technology commercialization, and production bill in at least a generation.

We detailed the bill in a member [update](#), but here's a recap:

- Up to \$250B for semiconductor research, domestic manufacturing, the new tech commercialization directorate at the National Science Foundation (NSF), new test bed facilities for startups and other entities, basic research at NSF and Dept. Of Energy, a new regional tech hub

program, and programs to promote tech commercialization and entrepreneurship at national laboratories.

What's next: Once signed into law, the implementation work at the agencies begins. NVCA will continue to educate members and map out agency engagement strategy. If you're interested in updates on implementation, please contact: c_savercool@nvca.org and jfield@nvca.org.

3. DEAL or No DEAL (Act)



What's new: The House passed a revised DEAL Act, a longtime [NVCA priority](#) championed by Rep. Trey Hollingsworth (R-IN) and Sen. Mike Rounds (R-SD) that directs the SEC to modernize the definition of a venture capital fund for purposes of fund registration.

Revised DEAL Act: The bill has two significant changes made by Financial Services Committee Democratic staff:

- The SEC is now required to review whether an updated definition is helpful to capital formation and would not compromise investor protection. If it is, they would be required to make the change.
- The bill no longer includes a provision requiring that fund-of-fund investments into other VC funds be qualifying investments.

We are [thrilled](#) with the renewed bipartisan momentum behind this development, but concerns remain with the revised text and potential for the SEC not to take the time to explore the beneficial impact that modernizing the definition of a venture capital fund will have on capital formation and early-stage liquidity.

What's next: If the bill fails to get a Senate vote this year, or if the SEC does not thoroughly review the issue upon passage, we believe there is a path forward in the next Congress. It's a key piece of the Senate Republican JOBS 4.0 package that will be a priority should Republicans win back the majority in November.

4. Boots on the Ground



SEC 10b5-1 MEETING: This week, NVCA met with key SEC staff about its proposed changes to 10b5-1 securities trading plans. In April, we [filed comments](#) in the proceeding and this week's meeting reinforced and advanced our arguments.

We focused on the culture of compliance at venture firms and how 10b5-1 plans are a useful tool that balance compliance with the securities laws and the need to maximize returns to LPs.

- We also encouraged the SEC to distinguish between trading plans between natural persons and venture capital funds. The SEC record reflects concerns with 10b5-1 plans utilized by natural persons and does not demonstrate concerns with VC funds. Therefore, we conveyed to the SEC team that any amendments to the rules governing these plans should not implicate venture funds.

At the meeting was NVCA board member Patrick Enright (Longitude); NVCA members Max Eisenberg (Versant), Kevin Gillis (Third Rock), and Cristiana Oliveira (Longitude), and Adam Slutsky (Goodwin). All did a tremendous job

explaining the importance of venture capital and why 10b5-1 plans are important and should not be disrupted.

Looking ahead: The SEC staff appreciated the VC perspective since most of the stakeholders in this proceeding come from a different angle. The staff appears to be examining the comments and taking meetings. It is not clear when next steps will occur, but we'll keep you updated.

5. ESG Workshop



The graphic is a dark blue rectangle with white and orange text. At the top, it features the logos for Nasdaq Entrepreneurial Center, NVCA, PitchBook, THE VENTURE EQUITY PROJECT, and venture forward>. Below the logos, the text reads: 'YOU'RE INVITED' in orange, followed by 'ESG in VC: Moving Beyond Talk to Action' in large white serif font, and 'August 24, 2022 | 8:45am - 12:00pm' in white sans-serif font.

NEW: Venture Forward, NVCA, the Nasdaq Entrepreneurial Center, and PitchBook are hosting an in-person workshop on August 24 in San Francisco with industry leaders to discuss the state of ESG in VC, demystify ESG, and dive deeper into diversity, equity, and inclusion in VC.

We invite VC professionals to join us for this important educational program.

[Learn More & Register](#)

6. VC University ONLINE- Register Now for Cohort 11

VC UNIVERSITY ONLINE

StartUp@
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nvca

venture
forward >

Check it out: Cohort 11 of [VC University ONLINE](#) starts September 1, 2022, and registration is now open!

Jointly produced by NVCA, Venture Forward, and Startup@BerkeleyLaw, this self-paced certificate course is perfect for new VC professionals, and practitioners that want to reinforce their understanding of venture fundamentals.

Course components include:

- Self-paced, online course, with interactive activities and assessments
- Live virtual office hours, monthly webinars with leading venture capitalists
- Networking opportunities and access to alumni network
- Curriculum designed to be completed in 8 weeks

- Access to course platform for 5 months
- Certificate awarded upon course completion

To date, the program has served 10 sold-out cohorts and 2000+ participants. NVCA members receive a 20% discount, and space is limited.

[Learn More and Register](#)

7. Quick Reads



- A [divided Congress](#) is making bipartisan progress
- Toomey, Sinema eye [exempting](#) small crypto purchases from capital gains tax
- New given entrepreneur resources on [STEM immigration](#)
- [Mehlman Castagnetti](#) explains the counter-revolutions driving politics and policy
- U.S. economy [shrank](#) 0.9% last quarter, its 2nd straight drop

- FTC sues to block Meta's [acquisition](#) of VR company
- [Solar stocks](#) jump as Schumer, Manchin announce climate spending deal

8. Factoid



One of the most interesting developments of the last few years has been the rise of the Special Purpose Acquisition Company or SPAC. SPAC registrations exploded in 2020 and 2021.

However, the recently released Q2 2022 [PitchBook-NVCA Venture Monitor](#) shows that SPAC registrations have dropped off sharply in 2022.

- The value of SPAC registrations dropped from \$135 billion in 2020 to \$9.6 billion in H1 2022. [NOTE: chart shows \$9.6b, NOT \$9.8b as previously written]
- SPAC registration count was down from 557 to 58.

- Even if full-year figures double by year's end, they will still represent a considerable decline.



Mitsubishi Heavy Industries Group is supporting the development and commercialization of much-needed technologies that reduce carbon emissions through strategic investments in some of the most impactful solutions for net zero, from hydrogen to electrofuels to novel applications of methane pyrolysis to the production of green ammonia.

Watch [this short video](#) to learn how MHI invests in the hydrogen value chain to produce good energy.

NVCA Preferred Provider Program

Did you know? NVCA members have access to special deals and discounts through the [Preferred Provider Program](#). Visit the [Marketplace](#) hosted by Proven to learn more!





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