



July 17, 2018

The Honorable Jeb Hensarling
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
4340 Thomas P. O'Neill Federal Office Building
Washington, DC 20024

Dear Chairman Hensarling and Ranking Member Waters,

On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, I write to express our strong support for the *JOBS and Investor Confidence Act of 2018*, and to thank you for your hard work and dedication to capital formation issues impacting growth companies. From helping angel investors to focusing the debate on difficult challenges facing young companies who go public, this legislation presents a thoughtful and broad-based approach to improving the environment for investment and company growth. We look forward to working with you to pass this legislation into law and continue the critical work to increase the number of U.S. public companies.

Healthy and accessible capital markets are critical to the entrepreneurial ecosystem and the U.S. economy. Recent research shows that venture capital invests in less than one percent of all new businesses but back nearly half the companies that go public. This industry builds the product for the IPO pipeline. But today's public markets are less welcoming to innovative, small-capitalization companies. As the cost and complexity of being a public company has increased, the infrastructure and the economics that historically supported small cap companies have disappeared and our markets have grown more inclined to short-termism. As a result, the U.S. now averages less than half the number of IPOs per year than in either decade before 2000, and in twenty years has seen its number of public companies reduced by about half.

We appreciate the efforts in the bill to focus the conversation on difficult issues such as the collapse in research coverage, barriers to IPO and small company investment, and the culture of short-termism through several studies. While these are not solutions, they are effective ways to move forward on complex issues with major impacts on our capital markets. We also appreciate the inclusion of

proposals intended to reduce the cost of running a small public company, such as *the Fostering Innovation Act*.

In particular, we are extremely grateful for your inclusion of *the Developing and Empowering our Aspiring Leaders Act*, sponsored by Representative Trey Hollingsworth (R-IN). This legislation would encourage capital formation for startups by directing the Securities and Exchange Commission (SEC) to make a percentage of secondary investments qualifying for purposes of the definition of a venture capital fund. The DEAL Act would allow VC funds to continue to follow their portfolio companies along their growth path without fear of triggering a significant regulatory burden. Modernizing the SEC's definition of VC fund to more accurately reflect the industry has become one of the most significant regulatory priorities facing the startup ecosystem. We appreciate Rep. Hollingsworth's strong and effective leadership as this bill continues to advance.

There is no silver bullet that will fix all the challenges to going public as a smaller company. This legislation reflects that reality with its broad-based approach to analyzing and improving the investment environment for growth companies. NVCA and its member firms look forward to working with you to pass this legislation into law and improve the capital formation process for American startups. Thank you for your consideration of this important legislation.

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