



July 17, 2017

**VIA ELECTRONIC FILING**

The Honorable Ajit Pai  
Chairman  
Federal Communications Commission  
445 12<sup>th</sup> Street, N.W.  
Washington, DC 20554

Re: *Restoring Internet Freedom*, WC Docket No. 17-108

Dear Chairman Pai:

On behalf of our nation's venture capital investors and the entrepreneurs they support, we write to express our strong support for robust net neutrality rules that allow startups to compete on a level playing field. Net neutrality protections provide venture capitalists with confidence to make bold investments in technology and Internet startups that support economic growth, create American jobs, and lead to technological advancement.

*Background on venture capital and its impact on startups and entrepreneurship*

Venture capitalists invest in our nation's startups, often when the startup has little more than an idea and a couple of people. Venture capitalists work shoulder-to-shoulder with entrepreneurs to build and scale an innovative company. Successful venture capitalists do not just *pick* winners; they *build* them in partnership with entrepreneurs. Venture investors hope all their companies succeed against huge risks and grow into successful companies, but the reality is the majority fail because entrepreneurship is inherently risky and challenging.

Research continues to show that new businesses are the engine of job creation in the United States, creating an average of about three million new jobs each year and accounting for virtually all net new job creation, according to data from the U.S. Department of Labor and the U.S. Census Bureau.<sup>1</sup> A recent research paper produced by Stanford University found that of the 1,339 companies that have gone public between 1974 and 2015, a full 42 percent can trace their

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<sup>1</sup> "The Importance of Startups in Job Creation and Job Destruction," Kauffman Foundation Research Series: Firm Foundation and Economic Growth, (July 2010), available at <http://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/the-importance-of-startups-in-job-creation-and-job-destruction>.

roots to venture capital.<sup>2</sup> Those venture-backed companies account for an astounding 85 percent of all research and development spending by companies that have gone public since 1974.<sup>3</sup>

Venture capital is deeply intertwined with the development of the United States as a global technology and Internet leader. Iconic American companies like eBay, Skype, Netflix, and LinkedIn can trace their roots back to venture capital. On July 29, 2016, an important milestone was reached when five companies that had been backed by venture capital—Alphabet, Amazon, Apple, Facebook, and Microsoft—held the top five spots on the ranking of largest U.S. companies by market capitalization. Venture capitalists continue to bring the ‘next big thing’ to life, and in 2016 they invested \$36.5 billion in approximately 3,600 technology and Internet startups.<sup>4</sup> Given the imaginations of our nation’s entrepreneurs and venture capitalists, perhaps the next frontier will be disruption of the broadband industry to deliver faster, better, and less expensive Internet access to the public.

### *Importance of net neutrality to the startup ecosystem*

On May 18, 2017, the Commission adopted a *Notice of Proposed Rulemaking* (NPRM) on *Restoring Internet Freedom*.<sup>5</sup> In the NPRM, the Commission proposes “to reinstate the information service classification of broadband Internet access service and return to the light-touch regulatory framework first established on a bipartisan basis during the Clinton Administration.”<sup>6</sup> The NPRM noted the *Title II Order*<sup>7</sup> sets forth “bright line rules banning three specific practices by providers of both fixed and mobile broadband Internet access service: blocking, throttling, and paid prioritization.”<sup>8</sup> The Commission seeks “comment on whether *ex ante* regulatory intervention is necessary in the broadband context.”<sup>9</sup>

Venture investors assume incredible risk as they invest in an early-stage company and work with an entrepreneur to build a company into a prospering enterprise. Strong net neutrality protections provide assurance to venture capitalists that the startup will be treated fairly in the marketplace as the company brings new products and services to the world. Net neutrality protections help protect against some of the uncertainty a startup would experience if it were subjected to discrimination by an Internet Service Provider. It is important to understand that venture-backed startups are generally capital constrained as they scale, and are unlikely to have the financial resources to pay for priority access to the Internet.

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<sup>2</sup> “The Economic Impact of Venture Capital: Evidence from Public Companies,” Stanford University Graduate School of Business Research Paper No. 15-55, available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2681841](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2681841).

<sup>3</sup> *Id.*

<sup>4</sup> Pitchbook – NVCA data.

<sup>5</sup> *Protecting Internet Freedom*, WC Docket No. 17-108, Notice of Proposed Rulemaking (2017) (“*Protecting Internet Freedom*”).

<sup>6</sup> *Id.* at 8.

<sup>7</sup> *In the Matter of Protecting and Promoting the Open Internet*, WC Docket No. 14-28, Report and Order on Remand, Declaratory Ruling, and Order, 30 FCC Rcd 5601 (2015) (“*Title II Order*”).

<sup>8</sup> *Protecting Internet Freedom* at 27.

<sup>9</sup> *Id.*

In the last decade, net neutrality protections have seen fits and starts, and the back-and-forth nature of the debate is unhelpful in providing needed confidence to early-stage technology investors. Additional uncertainty will not be helpful to our shared goals of job creation and technological advancement. Therefore, as the Commission takes action on net neutrality, it is imperative that it set in place enforceable net neutrality protections that stand the test of time. Specifically, we believe the Commission should retain bright line rules that prohibit blocking, throttling, and paid prioritization, regardless of the legal authority underpinning the rules.

Net neutrality has been subject to considerable litigation in the last decade and we appreciate the challenges that come with applying the strictures of the *Communications Act* to the modern era. Therefore, we support Congress legislating on this topic and passing strong net neutrality protections into law so that the rules may receive appropriate judicial deference going forward. That dependability will help the venture industry as it brings to life the next great technology or Internet startup. Finally, as the Commission and Congress work together on this important topic, we encourage all actors to work collaboratively to ensure there are no gaps in time in terms of net neutrality protections.

The entrepreneurial ecosystem thanks you for considering our views on this important matter.

Sincerely,

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

Bobby Franklin