



March 2, 2020

The Honorable Bernie Sanders  
United States Senator  
323 Dirksen Senate Office Building  
Washington, D.C. 20510

The Honorable Chris Van Hollen  
United States Senator  
110 Hart Senate Office Building  
Washington, D.C. 20510

Dear Senators Sanders and Van Hollen,

On behalf of our nation's venture capital investors and the entrepreneurs and growth companies they support, I write to express our strong opposition to the *CEO and Worker Pension Fairness Act*. This legislation will have a severe impact on economic opportunity and participation in the building of growth companies in the United States by creating a significant financial barrier to receiving incentive-based equity compensation. I urge you to reconsider this effort, and instead work with us towards the shared goal of greater participation in the financial gains of company growth.

Stock options are a longstanding and critical tool for attracting talented individuals to work at growth companies. While these firms can rarely compete for talent with established corporations based on salary or job security, the ability to offer a promise that if the company succeeds the gains will be widely shared with the firm's workforce has been a central element of the American entrepreneurial model. Stock options also align economic incentives to long-term value creation, a bipartisan policy goal. Finally, stock options are a democratic compensation instrument that allows employees at *all levels* to share in the company's value creation.

The *CEO and Worker Pension Fairness Act* will impose taxes on the phantom value of nonqualified stock options and restricted stock units before any actual value is received. This proposal threatens to severely disrupt the ecosystem that builds startups into successful enterprises. Among other issues, the bill requires that nonqualified stock options and restricted stock units be taxable upon vesting, rather than when the shares underlying the awards are purchased or issued to the employee, as has been the case for decades. This is a radical departure from the traditional notion of realization-based taxation that will make equity grants less attractive, particularly to those with less outside wealth, and will unwittingly provide a powerful labor market advantage to established firms.

Workers at growth companies across the startup ecosystem will face massive tax bills on unrealized income, sometimes in excess of their entire cash compensation. Growth company stock valuations can be quite volatile, so in many circumstances these taxes will be paid on income that will never be realized. ***The effect of this will be to damage the incentives to engage in growth company activities, harming the ability of young companies to attract and retain talent in an effort to compete against large incumbents and achieve the scale necessary to survive in today's public markets.***

It's important to note that, in general, a dislocation between constructive receipt of income and incident of taxation creates a powerful bias against workers with less wealth. A proposal such as this bill will also devastate efforts to increase diversity in technology.

We believe that the *CEO and Worker Pension Fairness Act* will harm the ability of growth companies to attract and retain talented employees, jeopardizing America's global leadership in entrepreneurship and innovation, creating a barrier to inclusion in the startup ecosystem, and reducing economic dynamism. At a time when the global share of venture capital investment into U.S. companies has dropped from 90 percent as recently as the 1990s to just 52 percent last year, this bill would create significant headwinds for U.S. leadership in an increasingly competitive global economy. We ask that you ensure this bill not harm equity-based compensation at growth companies, which power American economic competitiveness. We look forward to working with you towards this end, as well as to find new opportunities to work with you to promote the creation and growth of more American companies.

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