December 8, 2020

President-elect Joseph R. Biden Jr.
Office of the Presidential Transition
1200 Pennsylvania Avenue, NW
Suite 399
Washington, DC 20044

Dear Mr. President-Elect,

Congratulations on your recent election. On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, I write to outline several ways we can work together to support your Build Back Better agenda, which in a number of areas will need the active participation of the startup community to be successful. Entrepreneurship is the answer to many of the challenges our country faces, and we stand ready to work on policy that can fully unleash this tremendous economic engine on solutions that support many of our shared priorities.

The entrepreneurial ecosystem is excited to partner with your administration to create more twenty-first century jobs, expand economic opportunity to more regions of the country, develop solutions to the COVID-19 public health crisis and climate change, and counter strategic rivals through greater domestic innovation and production. We appreciate that these are critical objectives for your administration and look forward to working together to build a better future for America.

Background on Venture Capital

As background, venture capitalists are investors in the nation's startups. VCs create partnerships with institutional investors to combine the capital held by pension funds, endowments, family offices and others with their talent and expertise to make risky, long-term equity investments into innovative startups. These are generally partnerships that last ten to fifteen years, building investments far longer than any other asset class.

VCs generally provide minority equity investment across multiple financing rounds, supporting startups through their maturation process. This capital is used to conduct research, expand workforces, build out new facilities, and generally focus on growth activities that create long-term value. Companies backed by venture capital predominantly focus on technological innovation, including IT hardware and software, biotechnology and medical devices, clean energy, and sustainability.

VC-backed startups begin as small businesses and oftentimes are nothing more than an idea (as was the case with Moderna), but their objective is significant growth and scale opportunity.

These startups often compete against large corporate incumbents, their timeline to achieve profitability is quite long, and failure rates are high. These are new companies taking incredible risks against long odds to become the next generation of successful American businesses. VCs hope that startups succeed against huge risks and grow into successful companies, but in a majority of cases, companies will fail.

Last year, venture capital funds provided more than $130 billion in capital to 10,000 startups to start and grow new businesses. This averages out to about 28 companies raising a total of $365 million in venture funding in the country every single day. These companies spanned all 50 states and the District of Columbia, 242 Metropolitan Statistical Areas (MSAs), and 397 Congressional Districts.[1]

<u>Economic Impact of Startup Activity</u>

New company formation is what has set the United States apart as the most dynamic economy in the world. From the Ford Model T, to Apple, to most recently Zoom and Moderna, the modern American economy has relied on entrepreneurship to fuel growth, solve challenges, and expand opportunity. A research paper produced by Stanford University found that of the 1,339 companies that went public between 1974 and 2015, 42 percent trace their roots to venture capital.[2] Those venture-backed companies account for an astounding 85 percent of all research and development spending by companies that have gone public since 1974. Specific to the impact on the American workforce, a study from the Kauffman Foundation found that new companies were responsible for almost all net new job creation, and companies less than one year old have created an average of 1.5 million jobs per year over the past three decades.[3]

Technology-focused entrepreneurial activity is particularly important to creating economic opportunity for American workers. A recent report from the University of North Carolina's Kenan Institute of Private Enterprise found that total high-technology employment in the U.S. grew by around 20 percent from 2007-2016, and that these jobs both *paid higher median wages* and *were created faster* coming out of the financial crisis than non-high-technology jobs in states across the U.S.[4] This illustrates a fundamental trend in the modern economy: the path to greater economic opportunity for American workers runs through technological progress and long-term investment.

<u>Startup Activity as Bipartisan Solution</u>

Venture capital bridges the divide between government basic research and commercial markets, and therefore stands at a critical nexus where bipartisan solutions can be forged. For example, venture capital is the most significant source of capital for new companies pursuing solutions to

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[1] NVCA 2020 Yearbook, Data Provided by Pitchbook, *available at* https://nvca.org/research/nvca-yearbook

[2] *How Much Does Venture Capital Drive the U.S. Economy?,* Stanford Graduate School of Business (October 2015), *available at* https://www.gsb.stanford.edu/insights/how-much-does-venture-capital-drive-us-economy.

2 Id.

[3] *The Importance of Young Firms for Economic Growth,* Kauffman Foundation, *available at* https://www.kauffman.org/resources/entrepreneurship-policy-digest/the-importance-of-young-firms-for-economic-growth/

[4] *Frontiers of Entrepreneurship* (2020 Trends Report, University of North Carolina – Chapel Hill, *available at* https://frontiers.unc.edu/wp-content/uploads/2020/01/2020-TrendsInEntrepreneurshipReport.pdf

the climate crisis. These companies are developing private sector solutions to a major challenge facing our society.

Importantly, there are a number of bipartisan bills already introduced that would advance the Build Back Better agenda, including the *Endless Frontier Act*, *IGNITE American Innovation Act*, *Startup Act*, *American Innovation and Jobs Act*, *the DEAL Act*, and *the Energy Sector Innovation Credit Act.*[5] These proposals address core challenges our nation faces and will create jobs, grow technology ecosystems, increase access to these ecosystems for communities across the country, improve our national competitiveness, and accelerate technology solutions to climate change and the COVID-19 crisis.

Issues

American startups have historically benefitted from a policy landscape that enabled bold bets on new ideas. Given the uncertainty brought on by the COVID-19 pandemic, the government has a unique opportunity to support entrepreneurship and risk taking in innovation, in order to build our country for long-term success in a globally competitive economy. Below are several issue areas where we can work together to implement a policy agenda that will harness the power of America's startup community to achieve the goals of your agenda:

FIRST ONE HUNDRED DAYS

There are several proposals ready for the administration to act on in the first one hundred days that could begin achieving the goals of the Build Back Better agenda by encouraging greater entrepreneurial activity. These include:

- Entrepreneurs from around the world want to launch new startups and create jobs in the U.S. Your administration can facilitate this job creation by reversing the previous administration's misguided attack on the *International Entrepreneur Rule.*[6] This Obama Administration rule would operate similarly to a startup visa by allowing immigrant entrepreneurs to launch new high-growth companies in the U.S, rather than overseas.

- Endorse bipartisan efforts to pass *the IGNITE American Innovation Act*. This bill, introduced by Reps. Dean Phillips (D-MN) and Jackie Walorski (R-IN), will support startups through the economic crisis by allowing companies to monetize tax assets generated through a focus on researching and producing products and technologies that create long-term value. Its passage will accelerate efforts to fight the immediate public health crisis, create quality jobs during the economic downturn, and support other critical public policy objectives, such as accelerating new medical cures and advanced energy technologies.

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[5] *Endless Frontier Act* is sponsored by Sens. Schumer (D-NY) and Young (R-IN) and Reps. Khanna (D-CA) and Gallagher (R-WI), the *IGNITE American Innovation Act* is sponsored by Reps. Phillips (D-MN) and Walorski (R-IN), the *Startup Act* is sponsored by Sens. Moran (R-KS) and Warner (D-VA), the *American Innovation and Jobs Act* is sponsored by Sens. Hassan (D-NH) and Young (R-IN), the *DEAL Act* is sponsored by Reps. Hollingsworth (R-IN) and McAdams (D-UT) and Sen. Rounds (R-SD), and the *Energy Sector Innovation Credit Act* is sponsored by Reps. Reed (R-NY) and Panetta (D-CA).

[6] *International Entrepreneur Rule*, U.S. Citizenship and Immigration Services, *available here* https://www.uscis.gov/humanitarian/humanitarian-parole/international-entrepreneur-parole.

IMMIGRATION

Foreign-born entrepreneurs have made incredible contributions to the U.S., having founded iconic American companies like Moderna, Tesla, and Intel. They have done so despite immigration policy that pushes away talented immigrant entrepreneurs to other countries. Unlike more than a dozen other countries, the United States lacks a startup visa that facilitates new company formation by immigrants. Instead, immigrants who wish to create new American companies must struggle to fit into other visa categories that are not designed with the entrepreneurial model in mind. Startup visa legislation has strong bipartisan support,[7] was included in the Senate-passed comprehensive immigration reform bill, and is widely recognized as a job creation tool.

In addition, your administration should strongly consider other immigration proposals that will allow more immigrants to help build American startups, such as STEM visas that allow the world's brightest minds to remain in the U.S. and help to build the next generation of American companies. This proposal was also included in the bipartisan 2013 Senate immigration reform bill.

TAX POLICY

Startups going through the lifecycle of the entrepreneurial ecosystem normally generate years of losses while taking multiple rounds of investment capital to build the business. These companies invest heavily in growth activities such as research and payroll in a bid to develop long-term value. Because of the high-risk, long-term, and illiquid nature of the startup ecosystem, this activity is highly sensitive to tax policy, particularly long-term capital gains policy. Tax policy that encourages long-term investment is critical to the Build Back Better agenda, as so many of the priorities in this agenda will require patient equity capital investment to ultimately succeed.

Tax policy can also be a powerful mechanism to encourage growth in startup activity in a bipartisan manner if the policies are designed to fit the business model of startups. Because these companies eschew profits in the near-term to focus on creating long-term value, many traditional tax policies such as depreciation rules or tax deductions cannot be accessed by startups. Proposals that allow startups to access the value of R&D credits and other tax assets are well targeted to the startup model and could have an immediate impact advancing the goals of your agenda. As referenced above, bipartisan solutions to support startups through the tax code include the *IGNITE American Innovation Act*, the *American Innovation and Jobs Act*, and the *Energy Sector Innovation Credit Act*.

AMERICAN INNOVATION POLICY

In an increasingly competitive world, American innovation policy must solidify U.S. leadership in the uncertain race for supremacy of the next generation of technological advancement. I encourage your administration to prioritize worthwhile initiatives towards reaching this goal, including a renewed commitment to federal basic research investment and promoting the successful transition of more technological concepts from the federal lab into innovative

[7] *Startup Act* (S. 328), from Senators Moran, Warner, Blunt, and Klobuchar

products that can succeed in the marketplace. Proposals in Congress today, such as the *Endless Frontier Act,*[8] will support the facilitation of greater capabilities in capital-intensive emerging technologies, including quantum computing, advanced energy, biotechnology, and more.

VCs play a critical role in the fragile transition from lab-to-market through invaluable mentorship, strategic advice, and serving as a conduit to further growth capital opportunities and resources needed to scale, a key factor for expanding innovation opportunity to new regions and local ecosystems. As your administration develops research and innovation initiatives, we recommend active participation of venture capital communities across the country to increase economic opportunity and maximize American innovation capacity.

CLIMATE CHANGE AND SUSTAINABILITY

Climate change and the transition to a more sustainable economy presents both enormous challenges and opportunities. Venture capital has a critical role to play in this transition through the identification, funding, and support of entrepreneurs and technologies focused on unlocking new energy sources, creating tools for more efficient energy usage, and improving energy storage capabilities. Understanding the enormity of the issue, VCs are also investing in complementary efforts to build a more sustainable economy, including cleaner mass transit and other transportation options, and technologies designed to improve the environmental impact of agriculture and other industries. When successful, these VC-backed companies create competitive jobs building the tools needed to transition to a clean energy economy, a win for workers and the environment.

Unfortunately, policy uncertainty in Washington impairs predictability, a critical element entrepreneurs and venture capitalists need to assess before making the long-term risk investments that are typical in energy entrepreneurship. We run the risk of losing the race for creating the leading energy-focused technologies of the future, along with the job creation and economic growth benefits that will come with leading fundamental change of one of the world’s largest industries.

We are encouraged by numerous proposals in your *Clean Energy Revolution* plan, including using the Federal Government procurement system to drive towards 100 percent clean energy and zero-emissions vehicles, bolstering federal investment in clean energy R&D, and enhancing the electric vehicle tax credit. These proposals will support American entrepreneurs and give the country a greater chance at leadership in the next generation of energy and sustainability technologies.

We stand ready to work with you to create jobs building a more sustainable and prosperous country. In fact, several of the bipartisan bills referenced above would accelerate development of clean energy and sustainability-focused technologies, including the *Endless Frontier Act*, *IGNITE American Innovation Act*, and the *Energy Sector Innovation Credit Act*. Climate change is an existential crisis facing the country; our industry looks forward to partnering with you to identify and deploy the needed solutions.

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[8] *Endless Frontier Act* (S. 3832; H.R. 6978), from Senators Schumer and Young, and Representatives Ro Khanna and Mike Gallagher.

ACCESS TO OPPORTUNITY FOR PEOPLE FROM ALL BACKGROUNDS AND GEOGRAPHIES

Over the last 50 years, the venture capital industry has produced tremendous innovation and economic success, but most of the activity has been concentrated in a few demographics. Three states—California, Massachusetts, and New York—accounted for almost 75 percent of total capital invested last year.[9] Similarly, female-founded companies accounted for only 15 percent of capital invested in 2019, while capital raised by Black and Hispanic founded companies since 2015 represents 2.4 percent of total funding.[10] Much work remains for the industry to take full advantage of all the talent available by gender, race, ethnicity, geography, and other demographics, and we stand ready to partner with your administration on this shared goal.

As an industry association, we are taking steps to break down barriers in the industry to increase inclusion in the entrepreneurial ecosystem. We also look forward to working with you on policy that supports access to capital, greater education and skills training, and more opportunities for potential entrepreneurs from disadvantaged communities to participate in startup activity.

One way that the industry is working to address this challenge is through the creation of Venture Forward, a new nonprofit focused on shaping the future of venture capital by offering programming, research, and resources primarily dedicated to diversity, equity, and inclusion (DE&I); education; and industry data and trends.[11] We are also committed to tracking and measuring progress on DE&I in the industry through our biennial VC Human Capital Survey. Expanding education and opportunities for people of all backgrounds to access, participate, and succeed in the venture ecosystem are critical for the industry to thrive and produce maximum impact for the country.

CAPITAL MARKETS AND REGULATORY POLICY

Startups backed by venture capital generally account for almost half of all companies that go through initial public offerings (IPOs) in the United States per year, making access to the public markets a critical issue. But the overall rate of IPOs and the total number of public companies has dropped significantly over the last twenty years.[12] The public markets must be seen as a more viable path forward for small capitalization companies to arrest these trends and encourage greater corporate competition. Major challenges facing innovative small capitalization companies today considering an IPO include potential regulatory costs and increased complexity, reduced research coverage and liquidity, and a shift towards more short-term investor behavior.

Your administration should build on the success of the JOBS Act, which made going public a more accessible process, and work on solutions that can encourage more small capitalization

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[9] Source: NVCA 2020 Yearbook, Data Provided by Pitchbook.
[10] Sources: PitchBook-NVCA Venture Monitor, *available at* *https://nvca.org/research/pitchbook-nvca-venture-monitor*, and Crunchbase Diversity Spotlight 2020: Funding to Black & Latinx Founders, *available at* *http://about.crunchbase.com/wp-content/uploads/2020/10/2020_crunchbase_diversity_report.pdf*
[11] Venture Forward, *available at* https://ventureforward.org.
[12] *Initial Public Offerings: Updated Statistics*, Professor Jay Ritter, *available at* https://site.warrington.ufl.edu/ritter/files/IPOs2019Statistics.pdf

companies to become and remain public companies. Ideas including building on the success of the Emerging Growth Company classification, requiring the disclosure of material short positions, allowing small companies to consolidate trading on the venues of their choosing, and reviewing regulatory barriers for producing research coverage.

In addition, small regulatory changes can support the Build Back Better agenda by removing unintentional barriers or simplifying participation in the startup ecosystem. For instance, the *Developing and Empowering our Aspiring Leaders* Act is a bipartisan proposal which would encourage early-stage liquidity by allowing VC funds to acquire more shares from angel and seed stage investors. The bill has already passed the House Financial Services Committee unanimously. The recent modification to the Volcker Rule, which allows banks to invest in venture capital funds once again, will facilitate the formation and growth of smaller VC firms headed by VCs from underrepresented communities and in emerging ecosystems across the country. This is because banks can once again become "anchor" investors in local VC funds which generally do not have the size to attract attention from major pools of institutional capital.

<u>Conclusion</u>

America has been the unquestioned leader in innovation; the country where the modern venture capital model was created and home to the most innovative companies built in the post-war era. But this leadership should not be taken for granted in the global race for innovation. In fact, the share of global venture capital investment into U.S. companies has dropped from 90 percent from as recently as the 1990s to just 52 percent last year.[13] In addition, over the last five years, at least half of the ten largest venture capital investments in the world occurred outside the United States. In an increasingly competitive world fighting for leadership in the next generation of technology breakthroughs, the United States must prioritize greater scientific discovery and patient capital investment in order to maintain our leadership edge.

Bolstering our technological competitiveness will provide your administration with solutions to the many challenges your administration will face when you take office and provide you with opportunities to find bipartisan agreement. We stand ready to work with you as you implement your Build Back Better agenda.

Sincerely,

Bobby Franklin

Bobby Franklin
President and CEO

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[13] Source: NVCA 2020 Yearbook, Data Provided by Pitchbook.