



**Robert D. Kraus**  
Senior Vice President  
and General Counsel

January 24, 2011

Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090  
[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: *Release No. IA-3110; File Number S7-36-10, Rules Implementing Amendments to the Investment Advisers Act of 1940 (the "Proposed Rules")*

Dear Ms. Murphy:

On behalf of Village Ventures, Inc. ("Village Ventures"), I am pleased to have the opportunity to comment on the Proposed Rules referenced above. We endorse the objective of the Securities and Exchange Commission (the "Commission") in implementing Section 407 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Act"). However, we caution against overstepping the bounds of the Act's mandate, creating *de facto* registration of entities that fall within the exemptions provided by the Act and the Commission's own proposed regulations. We believe no further information than that which the Proposed Rules suggest be collected is required to fulfill that mandate, and would suggest that even less information need be gathered to provide the data needed by the Commission to carry forward its mission.

Village Ventures manages venture capital funds with aggregate capital commitments of over \$175 million. In addition, we provide operational support to sponsors of venture capital funds with aggregate capital commitments of approximately \$600 million. The average size of the venture capital funds in the Village Ventures network is under \$33 million. Although the business and geographic sector focus of each fund varies, all are investors in early stage growth companies in need of capital to bring new products and services to market and to grow their businesses. As early stage investors, we are committed to the principles supporting highly engaged venture capitalists providing funding and expertise to start up enterprises, thus fueling employment, innovation and economic growth. This includes managers of relatively small venture capital funds such as those in the Village Ventures network.

The Act embodies Congress' judgment that venture capital funds do not pose a systemic risk to the nation's economy. The Commission has acknowledged this in its proposals defining "Venture Capital Fund." (See Release No. IA-3111; File No. S7-37-10) (the "Definition Proposal"). The Act authorizes the Commission to require advisers to venture capital funds to file "such annual or other reports as the Commission determines necessary or appropriate in the public interest or for the protection of investors." We think the only information meeting that criterion would be the Identifying Information (Item 1 of Form ADV) together with SEC Reporting by Exempt Reporting Advisers (Item 2.C. of Form ADV), Form of Organization (Item 3 of Form ADV) and Disclosure Information (Item 11 of Form ADV). Information on other business activities, affiliations and control persons (Items 6, 7 and 10 of Form ADV), given the exempt nature of advisers to venture capital funds, would not add to the Commission's ability to protect the public interest or investors, would prove unnecessarily burdensome to comply with, and would result in unwarranted imposition of registration-like requirements on unregistered investment advisers.

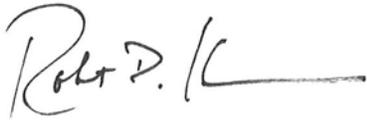
Advisers to small venture capital funds run lean operations, usually with two to five investment professionals and one or two administrative personnel. Occasionally, such advisers will have one analyst or similar level person supporting the investment professionals. The typical 2% management fee (which usually declines substantially after the commitment period expires) is stretched thin as it is, and any incremental expenses would be burdensome to support. Given the average size of the funds associated with Village Ventures, the strain on the operating budget of the fund advisers is evident. Even the relatively modest cost estimates proffered in the Proposed Rules (pages 105-106), which we believe understate the true costs that will be required to assure compliance, would constitute an unbudgeted increase to expenses for entities whose revenue structure is locked in for the life of the fund.

Venture capital funds have historically been organized as private funds due to the nature of the investors we attract. Village Ventures counts among its investors some of the most sophisticated endowments, financial services institutions, state pension funds, and high net worth individuals, all of whom are "accredited investors" under the Commission's Rule 501 and most of whom are "qualified purchasers" under Section 2(a)(51) of the Investment Company Act of 1940 (15 U.S.C.A. §80a-2(A)(51)). Such investors are presumed by the securities laws not to require the level of investor protection afforded to retail consumers of investment products, and as to whom many of the more detailed information requirements of Form ADV are directed. Moreover, we do not solicit or take steps to attract investment from members of the general public (and, we note, such actions would be inconsistent with the prohibition on general solicitation contained in the Commission's Rule 502(c) and with the Definition Proposal).

While the antifraud provisions of the securities laws apply to the activities of advisers to venture capital funds, their existence does not warrant a "back-door" regulation of such advisers, given the Act's direction that they not be subject to registration. More detailed submission of information not only would impose burdensome regulatory levels on unregistered advisers, but oversteps the bounds of the data accumulation supported by the Act as being necessary for the public interest or to protect investors. Our investors are protected by our keenly felt incentive to earn their continued trust and confidence in managing a portion of their alternative asset portfolios.

We appreciate the Commission's thoughtful exploration of this topic, evidenced by the thorough discussion in the Proposed Rules. We encourage the Commission to continue the process of engaging in a robust dialogue with the venture capital industry (ably represented by the National Venture Capital Association, of which we are a member and whose comments to the Proposed Rules we support). Please do not hesitate to contact me if you have any questions, at [rkraus@villageventures.com](mailto:rkraus@villageventures.com) or 413-458-1113.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert K. Kraus". The signature is written in a cursive style with a long horizontal stroke at the end.

Robert K. Kraus