VILLAGE VENTURES

Robert D. Kraus
Senior Vice President
and General Counsel

January 21, 2011

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

Re: *Release No. IA-3111; File Number S7-37-10, Exemptions for Advisers to Venture Capital Funds, Private Fund Advisers With Less Than $150 Million in Assets under Management, and Foreign Private Advisers (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. Village Ventures is a member of the National Venture Capital Association ("NVCA"), and enthusiastically supports the comments to the Proposed Rules submitted by the NVCA on January 13, 2011. In addition, we'd like to emphasize one additional point, as set forth below.

Village Ventures manages venture capital funds with aggregate capital commitments of over $175 million. In addition, we are affiliated with sponsors of a network 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.

Given our position in the venture capital ecosystem, we are supportive of the Commission's approach to the mandates enacted by the Dodd-Frank Wall Street Reform and

430 Main Street · Suite 1 • Williamstown, MA 01267 • Tel 413 458-1100 • Fax 413 458-0338
www.villageventures.com

Consumer Protection Act of 2010 (the "Dodd-Frank Act"). We do think, however, that the NVCA's comments appropriately strike a balance between the objectives of the Dodd-Frank Act and the need to maintain a vibrant venture capital industry. We especially support the four "Primary Comments" set forth in the NVCA's comment letter, and urge the Commission to consider them favorably, together with the other comments and clarifications sought by the NVCA.

In addition to the NVCA's comment on the Proposed Rule's requirement for managerial assistance to be offered to qualified portfolio companies (each, a "QPC") in order for a fund to be considered a venture capital fund ("VCF"), we would like to suggest that the Commission confirm that various examples of managerial assistance would be deemed compliance with Section 275.203(l) -1(3)(i), in addition to the "management rights letter" received by many VCFs for purposes of the "venture capital operating company" rules under the Employee Retirement Income Security Act of 1974. These examples would include rights to name a member of a QPC's board of directors, holding a seat on such board, and rights to observe the proceedings of a QPC's board of directors.

Many VCF investments include a right to a QPC board seat. While sometimes the board seat is designated by vote of holders of a class or series of stock, very often the lead investor retains the right, embodied in a contractual agreement with other shareholders, to designate the individual who will hold the seat on behalf of such class or series. In that instance, it would appear consistent with the Proposed Rule's mandate that the VCF have "an arrangement whereby the fund or the investment adviser offers to provide, and if accepted, does so provide, significant guidance and counsel..." to the QPC. After all, what could be a more effective means to provide guidance and counsel to a QPC than serving on its board of directors?

The ability to provide guidance and counsel to the QPC exists not only when a VCF has the contractual right to designate a member of a QPC's board, but also if the VCF is the holder of a class or series of stock that has the right to designate a board seat. While it may be the case that the holder of an immaterial number of applicable voting shares is not in a sufficient position of influence, a majority holding is not needed, at least when no other single holder maintains a controlling position. Such is the case when a syndicate of investors is formed to provide financial support to a QPC. A minority holding (we'd suggest 10% as being a useful threshold) of the applicable class or series of shares can result in significant influence when no other holder is in a controlling position. We note, too, that the "controlling position" is often not a simple majority; voting agreements frequently require supermajorities to take action, including designating a member of a QPC's board.

Due primarily to the needs of many QPCs to limit the size of their boards of directors, it is also often the case that a VCF will negotiate "observer rights" in situations where it does not designate a person to hold an actual board seat. Such rights typically entail much more than mere "observation", but commonly include rights to attend all meetings of the board and its committees and to receive all materials provided to the board at the same time as members of the board, subject only to exceptions to maintain attorney-client privilege and confidentiality, and avoid conflicts of interest. In practical terms, a board observer will often participate fully in helping guide QPC management, at board meetings and otherwise, and will establish close mentoring relationships with management analogous to actual board members. Only actual voting rights, and concomitant fiduciary responsibilities, differ between board members and holders of observation rights. We therefore believe that "observer rights" should qualify as an "arrangement" that meets the requirements of the above-referenced section of the Proposed Rules.

As noted above, for smaller VCFs such as Village Ventures and those associated with us, it is often imperative that an investment in a QPC include a syndicate of two or more VCFs. This is beneficial to the QPC in providing a more diversified source of funding and management support, particularly in anticipation of the additional rounds of financing that are usually anticipated at the time of the initial institutional investment (which is when early stage investors such as us make their first investment). The presence of a syndicate makes it likely that fewer than all VCF investors will have the right to designate a member of the board of directors of the investee QPC. Those not holding such designation right will often negotiate for observer rights. As noted above, the observer will, in fact, team with its syndicate partner holding the board seat to provide guidance to management (again, without holding a voting position on the board). Such reality reinforces the argument for recognizing observer rights as being a qualifying arrangement meeting the requirements of the Proposed Rules.

We appreciate the Commission's efforts to formulate final rules that will allow venture capital investors to continue to play a vital role in support of entrepreneurs, while meeting the regulatory and systemic concerns embodied in the Dodd-Frank Act. We reiterate our support of the NVCA's comments to the Proposed Rules, and thank you for your consideration of the additional comments raised in this letter. Please do not hesitate to contact me if you have any questions, at rkraus@villageventures.com or 413-458-1113.

Sincerely,

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