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January 24, 2011

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

Re: Exemptions for Advisers to Venture Capital Funds, File No. S7-37-10

Dear Ms. Murphy:

Thank you for the opportunity to submit comments on behalf of Norwest Venture Partners to the proposed rules implementing the venture capital fund (VCF) exemption from the registration requirements of the Investment Advisers Act of 1940 that were enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). Norwest Venture Partners is based in Palo Alto, California and over its 50 year history has actively partnered with entrepreneurs to build and grow successful businesses. The firm has funded over 500 companies since inception.

The Commission's definition of a VCF does a thorough job capturing many of the aspects that differentiate VCF's from other types of private investment funds, including hedge funds and private equity funds. However, in some areas we believe the proposed definition would restrict legitimate venture capital activities that do not pose any systemic risk to our financial system. Many of our concerns are effectively summarized in the comment letter submitted by the National Venture Capital Association (NVCA), of which we are a member, and we urge the Commission to pay careful consideration to the recommendations outlined by the NVCA. Nevertheless, we'd like to take this opportunity to separately express our specific concerns and recommendations about certain aspects of the Commission's proposal.

First, the Commission should recognize the diverse circumstances and conditions in which VCF's operate and provide for an allowance of at least 20-25% of a VCF's aggregate capital commitments to be invested in securities of companies that don't qualify as qualified portfolio companies (QPCs). We believe such an allowance strikes a necessary balance between the need to provide VCF's with flexibility in structuring investments for the benefit of its portfolio companies and investors while maintaining a sufficient requirement of qualifying activities such that hedge funds and private equity funds that Congress intended to be subject to the obligations of the Act will not be able to avoid registration. Without such an allowance we believe there may be circumstances where a VCF would be forced to make the difficult and unnecessary choice of not undertaking transactions with new or existing portfolio companies that would spur innovation and growth in order to avoid the cost and burden of registration. We also believe such an allowance is consistent with other analogous rules adopted by the Commission intended to regulate investment activity.[1]

[1] For example, rule 35d-1 under the Investment Company Act of 1940 requires a mutual fund to invest at least 80% of its assets in the type of investment suggested by its name.

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Second, the Commission should reconsider its assumption with respect to whether VCF's regularly undertake secondary transactions and establish a limit on the acquisition of existing shareholder stock that is based on aggregate commitments of the fund rather than on a transaction by transaction basis. Contrary to the assumptions set forth in the Commission's proposal, secondary transactions are and have become increasingly common in the venture capital industry. The ownership obtained through secondary transactions often serves as a critical bridge between the needs of a VCF to obtain sufficient ownership in a portfolio company to derive sufficient return for its investors and the concerns of entrepreneurs and "angel" investors over the dilution that would result from the direct investment required to obtain such ownership. Without this tool many VCF's and prospective portfolio companies may be unable to bridge this gap, making it more difficult to deploy capital critical to the growth of these businesses. While we recognize a limit on the amount of a VCF's capital commitments used for secondary purchases may be a necessary parameter by which to distinguish VCF's from hedge funds and private equity funds, we believe a limit of 20-25% of a VCF's aggregate committed capital would maintain this distinction while acknowledging the utility of such transactions in the venture capital industry.

Third, we believe the Commission should structure the exemption to permit very typical and legitimate uses of debt by portfolio companies, including debt that may be undertaken in connection with investments by VCF's. In this regard, we believe the proposed exemption would potentially create undue and unnecessary restrictions on the ability of VCF's to invest in portfolio companies seeking to grow through acquisition. It is quite typical in the venture industry for portfolio companies to merge and acquire other businesses in order to more effectively develop products, services or markets. As such companies are quite often not generating sufficient cash to fund these acquisitions though their operations, they quite often seek equity sponsorship from new and existing investors in combination with debt from financial institutions to pay for such transactions. We believe such financing transactions fall well within the parameters of activity that Congress intended to promote through the VCF exemption and should not be unduly restricted. We also believe this activity is distinct from the typical uses of leverage by private equity funds to redeem existing stock in a portfolio company or return capital to a fund. A rule which restricted the use of leverage by portfolio companies for such purposes would be consistent with the intent of the Act.

Fourth, while we appreciate and agree with the Commission's approach to grandfathering in general, we believe the grandfathering rules should acknowledge and permit the evolving nomenclature being used in the venture capital industry over the past several years and clarify that those funds that use descriptions of their investment philosophy that utilize these terms are not excluded from the benefits of such grandfathering provisions. In particular, use of the terms, "growth equity" and "growth capital" in marketing and fund materials should not in and of itself result in disqualification under the grandfathering provisions to the extent that the totality of a fund's communications clearly point to a strategy of primarily venture capital investing as such term has typically been understood in industry prior to adoption of the Commission's rules.

We appreciate your consideration of these important issues.

Sincerely,

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General Counsel

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