January 24, 2011

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

Re: Release No. lA-3lll; File Number S7-37-l0, 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 Union Square Ventures, LLC ("USV"), I am pleased to have the opportunity to comment on the Proposed Rules referenced above.

USV manages three venture capital funds with capital commitments ranging from $125 to $165 million. Like many venture capital firms, our funds have a core group of large, sophisticated institutional investors, as well as a number of individual investors who have relationships with our firm's principals. We are a small firm with four partners, two analysts, and one administrative assistant. We are not currently registered as an investment adviser. We invest in companies that provide Internet services, a dynamic, rapidly changing sector that we believe will ultimately transform the global economy.

Like our companies, we operate with a minimum of bureaucracy. This is an extremely important feature of our firm and gives us a cultural affinity with our companies. Nonetheless, we are very transparent with our investors and deliver detailed quarterly reports on the status of each fund and its investments. We outsource our back office accounting and custody to a firm that specializes in providing these services. This enables us to focus on what we do best: i) identifying promising companies and entrepreneurs that need capital to bring their ideas to fruition and ii) providing guidance and financial support to those companies throughout their growth cycle. We don't believe that any of our investors want us to divert our time and attention to complying with the requirements of being a registered investment adviser.

We generally make our first investment at an early stage of a company's development and we continue to invest in subsequent rounds of financing to support a company's growth. We often start our relationship with a company by making relatively small investments and then building our equity position over time. In the last six years we have made more than 80 separate investments in approximately 30 private companies at various stages of development. Typically, we own between 10 and 20% of the equity in each company and we generally have a seat on the board of directors. While in a few instances we have owned more than 20% of a company's equity securities, we have never purchased a majority, controlling equity interest in a company. Philosophically, we provide support and guidance to our entrepreneurs and portfolio companies, we do not control them. In almost every instance we have contractual rights that allow us to maintain our pro-rata equity interest if the portfolio company raises additional funds. Like many venture capital firms, we take an active, engaged role with our companies and try to meet with each of them every month.

We endorse many of the comments made to date, in particular the comments of the National Venture Capital Association (to which we do not belong). We also believe that the six criteria that the SEC has proposed to define a "venture capital fund" are generally accurate even though the proposed criteria omit the crucial concept that venture capital funds generally begin their investment cycle in portfolio companies by investing in the early stage of a company's development. While we understand the definitional issues in defining "early stage", we believe this is the key distinction between venture capital funds and more classic private equity funds.

However, we respectfully submit this letter to focus only on the part of the regulation that would cause a venture capital firm like ourselves to lose its qualified status if one of the funds it manages invests a percentage of its assets by purchasing securities i) in a direct secondary transaction from a selling shareholder or ii) the proceeds of which are used by the company to purchase stock from founders, employees or other shareholders.

In our view, part of the role of an engaged venture capital firm in this era is to provide liquidity, directly or indirectly, at appropriate times, to founders, employees and other stockholders that seek to sell shares. Participating in these transactions, either as a lead investor or because we wish to exercise our pro-rata rights to maintain our equity percentage, should not be an event that triggers a requirement to register as an investment adviser.

We have observed, and been involved with, many legitimate, ordinary situations where buying stock from a selling shareholder is an organic–and important--part of a company's development. First, there is the obvious situation where an early founder or employee leaves and wishes to sell his or her stock in the company. Second, there is the case where founders or employees, who often work for years with minimal current compensation, wish to sell interests in successful companies so that they can "take some money off the table" to buy a house, pay for education or give themselves a degree of financial security. Third, there is the case where an early stage investor wishes to sell shares to lock in gains or otherwise exit from the investment. These situations generally arise with our most successful portfolio companies and the amounts involved can be much larger than the initial investments. It seems very inequitable that we cannot participate in these transactions when we have an engaged, long-term relationship with a portfolio company that began when the company was in its early stages. When confronted with these situations, companies and selling shareholders can either seek purchasers that have an existing, engaged, long-term role with the company or unaffiliated third parties. Generally, companies and selling shareholders have a strong preference for the former class of purchasers because they require little incremental due diligence, and can act quickly with minimal disruption to the company's business and relationships. Participating in these transactions is a natural and important part of a venture firm's relationship with its portfolio companies since we effectively act as the banker to these companies. We believe in the long-term prospects of our companies and have seen numerous situations where it was preferable to have entrepreneurs sell a portion of their equity interests and continue to manage the company, rather than sell the company in its entirety to a large corporation or manage the company in a conservative, "playing not to lose" way.

In current market conditions, we also often need to purchase secondary shares to reach our target of owning a 15-20% interest in our portfolio companies. This is because many of the businesses that we invest in are highly valued, very capital efficient and do not require much capital to start or operate. So there have been a number of cases where we have invested a small amount to provide the initial financing for a proposed business and then later purchased secondary shares to increase our percentage interest to our 15-20% target. As noted above, these are often in our most successful companies that achieve profitability quickly.

In our view, the Proposed Rules put too much reliance on the concept of secondary purchases to distinguish venture capital funds from private equity funds. We believe the SEC should re-think that approach and provide more flexibility to accommodate the realities of today's marketplace. If a firm or fund has an engaged relationship with a portfolio company, then participating in these transactions should not be counted as a "bad" investment that, above a certain threshold, would trigger registration as an investment adviser. We believe that an engaged relationship occurs when a fund (or affiliated fund) owns more than 10% of a company's equity securities or holds a seat on the company's board of directors. Any fund or firm that meets either of these criteria will have a strong level of engagement with the portfolio company. There are better ways to distinguish venture capital funds from private equity funds. Venture capital funds frequently invest in companies that have little or no revenues or profits. Venture capital funds also never purchase majority control of a business (although there might be unusual situations where they become majority owners due to factors beyond their control). We also believe that any percentage calculations should be calculated on a firm-wide basis and not on a fund basis. This would be more consistent with the reality of how firms operate. In our case we raised funds in 2004, 2008 and 2010 and we expect to raise another fund in 2012. We have substantially the same group of investors in each fund. Our 2004 fund is fully invested and future investments in 2004 portfolio companies would thus likely be made through another fund that had available capital.

As a final point, if the final rules cannot measure ownership percentages and board representation across a firm and its affiliated funds, then as an alternative we believe the SEC should modify the Proposed Rules so that up to 20% of a fund's capital commitments can be invested in secondary purchases. This formulation, in lieu of a 20% limit for each individual portfolio company, would give venture capital funds the requisite flexibility to meet the different liquidity needs of their companies and founders.

We urge the Commission to consider our comments carefully, and we would be pleased to discuss these definitional issues further. You can reach me at 212-994-7880 if you have any questions.

Sincerely,

John Buttrick