BESSEMER
VENTURE PARTNERS

1865 Palmer Avenue, Suite 104
Larchmont, NY 10538
Tel 914.833.9100
Fax 914.833.9200

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

January 24, 2011

Subject: Exemptions for Advisers to Venture Capital Funds

Dear Ms. Murphy:

President Obama recently signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the Investment Advisers Act of 1940 to eliminate the exemption from registration for investment advisers with fewer than 15 clients and provided for a new exemption from registration for investment advisers to venture capital funds (the VCF Exemption). The Dodd-Frank Act further authorized the Securities and Exchange Commission (the Commission) to adopt proposed rules including a rule defining a "venture capital fund" (VCF).

Bessemer Venture Partners is pleased to comment on the impact of the proposed rules on venture capital firms. For background, Bessemer is one of the oldest venture capital firms in the U.S. with offices in Silicon Valley, Boston, New York, Mumbai and Tel Aviv. Bessemer was one of the first firms to set up an office in Silicon Valley in the mid-1970s and has been at the forefront of innovation in the venture industry since its inception. Bessemer has partnered as an active, hands-on investor in Ciena, LinkedIn, Postini, Shriram EPC, Skype, Staples, VeriSign and Yelp. More than 100 Bessemer-funded companies have gone public on exchanges in the U.S., the U.K., India and Canada. See www.bvp.com.

While we think the Commission's initial draft of the definition of a VCF was very constructive, we think that several changes are needed to make the proposed rules work in the context of operating a venture capital firm that can be competitive on a global basis.

General Basket
Given the innovative nature of the venture industry, we think that the VCF Exemption should provide for a general 15% basket of permissible non-qualifying activity. Without such a basket, it will not be practical for venture firms to not register given innovative financings that characterize venture deals. Such flexibility will allow venture capital firms to continue to evolve how deals are financed, how firms operate and where firms do business. Such innovation has been crucial to the success of Bessemer over of course of its investment history.

Portfolio Company borrowing limits.
SEC: Should we provide guidance on other types of financing transactions as being "in connection with" a fund's investment in a qualifying portfolio company?

BESSEMER
VENTURE PARTNERS

1865 Palmer Avenue, Suite 104
Larchmont, NY 10538
Tel 914.833.9100
Fax 914.833.9200

Venture firms don't in general leverage their portfolio companies. But the current language may cause uncertainty given that venture firms don't control portfolio companies. The Commission should make clear that activity that results in leverage should be restricted only if in the control of the VC firm. Otherwise, the Commission should clarify a QPC borrowing is treated as "in connection with" a VCF investment only if (i) the loan were extended to the QPC by the VCF or (ii) the QPC borrowing were a condition of a contractual obligation of the VCF.

Secondary transactions
SEC: Is our assumption that venture capital funds do not generally acquire portfolio company securities directly from existing shareholders correct? Is 80 percent the appropriate threshold?

In fact, increasingly venture capital firms do VCFs typically do acquire portfolio company securities from existing shareholders in about 20% of their deals. VC firms take between 6 and 10 years to grow companies to the point where they can go public. As a result, VC firms often need to allow founders to get liquidity and replace management team members who go on to start other companies. In addition, angel investors look for liquidity to be able to support new opportunities. As a result, we think that 20% secondary acquisition limitation should apply to the VCF as a whole (rather than on a company-by-company basis).

Public company investments
SEC: We … request comment on our approach to "follow-on" investments. Would our proposed approach to follow-on investments accommodate the way venture capital funds typically invest? Are there circumstances in which a venture capital fund would provide follow-on investments in a company that has become public?

In some cases, IPOs are additional financing events. This often occurs in the context of life sciences investing.

Bridge loans
SEC: Should our definition of venture capital fund include funds that invest in debt, or certain types of debt, issued by qualifying portfolio companies, or make certain types of loans to qualifying portfolio companies? Should our definition include any fund that extends bridge financing that does not meet the definition of "equity security" on a short-term limited basis to a qualifying portfolio company? Should we modify the proposed rule so that such investments and loans could be made subject to a limit?

We think that both convertible and non convertible bridge loans of less than 180 days should be permitted. Such financings are often the only alternatives for portfolio companies that are looking for financing but may not be meeting growth targets. An additional 180-day rollover period should also be permitted.

Short-term investments
SEC: We define "cash and cash equivalents" by reference to rule 2a51-1(b)(7)(i) under the Investment Company Act which includes foreign currencies and bank deposits, certificates of deposit, bankers acceptances and similar bank instruments, and – since that rule does not explicitly include short-term U.S. Treasuries – our rule would include short-term U.S. Treasuries with a remaining maturity of 60 days or less. Should we specify a shorter or longer period of remaining maturity for U.S. Treasuries? We request comment on whether the proposed rule's provision for cash

BESSEMER VENTURE PARTNERS

1865 Palmer Avenue, Suite 104
Larchmont, NY 10538
Tel 914.833.9100
Fax 914.833.9200

holdings is too broad or too narrow. Should the rule only specify that cash be held in anticipation of investments, or in connection with the payment of expenses or liquidations from underlying portfolio companies? Are there other types of cash instruments in which venture capital funds typically invest and/or that should be reflected in the proposed rule?

We think that a broad range of permissible short-term investments should be permitted.

Equity Securities
SEC: Should we consider a more limited definition of "equity security"? Do venture capital funds typically invest in other types of equity securities that are not covered by the proposed definition?

We don't think that the Commission should restrict in any way the definition of "equity security." In addition, VCFs should be permitted to invest in non equity securities in non-US jurisdictions. In certain cases, like in India, it is necessary to structure investments as debt securities to get rights that are equivalent to rights provide by preferred stock in the U.S.

Non-U.S. Investments
SEC: Should our proposed definition … define a venture capital fund as a fund formed under the laws of the United States and/or that invests exclusively or primarily in U.S. portfolio companies or a sub-set of such companies (e.g., U.S. companies operating in non-financial sectors)?

VCFs should be permitted to form as, and invest in, non-U.S. entities. VCFs themselves typically are organized as Delaware limited partnerships. They may, however, organize themselves as non-U.S. partnerships primarily because some overseas limited partners do not want to invest in a US partnership that solely by virtue of that investment creates a US tax filing obligation.

Also, given the global nature of competition in the venture capital industry and among portfolio companies, we think that VCFs should be able to invest in companies on a global basis. Only by investing in other countries are we able to build a truly competitive venture capital practice. In addition, often portfolio companies have operations in many different countries given the global nature of competition.

Limits on Public Company Holdings.
SEC: We request comment on whether our definition should exclude any venture capital fund that holds any publicly traded securities or a specified percentage of publicly traded securities. Should the rule specify that publicly traded securities may only be held for a limited period of time … or that a venture capital fund's entire portfolio may not consist only of publicly traded securities except for a limited period of time…?

We believe that VCFs should be able to invest initially in and hold public securities of non-US companies. In India, for example, many small companies are nominally public, and in any other market would be considered private companies. To foster cross-border innovation, we should be permitted to invest in overseas companies, whether private or public.

BESSEMER
VENTURE PARTNERS

1865 Palmer Avenue, Suite 104
Larchmont, NY 10538
Tel 914.833.9100
Fax 914.833.9200

In the US, we don't think that investment in companies that go public should be restricted from being in our portfolio. Companies are "bought" and not sold and must wait for good exit opportunities. Many exit opportunities come after such companies are public.

<u>Conclusion</u>

We urge the Commission to consider our comments carefully and those submitted by the NVCA. We would be happy to discuss our views in more detail if desired.

Sincerely,

J. Edmund Colloton
COO and Managing Partner
Bessemer Venture Partners