



U.S. Securities and Exchange Commission

Small Business Capital Formation Advisory Committee

March 28, 2025

The Honorable Mark Uyeda
Acting Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1070

Dear Acting Chairman Uyeda:

On behalf of the SEC Small Business Capital Formation Advisory Committee, we are pleased to submit the below recommendation approved at the Advisory Committee's February 25, 2025 meeting, where the Committee discussed emerging fund managers and Section 3(c)(1) of the Investment Company Act.

Recognizing the importance of smaller investment funds to the overall U.S. economy, the Committee considered the role of the qualifying venture capital fund ("QVCF") exemption and potential changes to the definition that could improve the exemption and facilitate small business capital formation. Specifically, the Committee considered the current limits placed both on the maximum number of permitted beneficial owners and the aggregate amount of capital contributions and uncalled capital such a fund can have in order to qualify as exempt. The Committee's discussion included consideration of (i) ways to support and facilitate capital formation for private funds and emerging fund managers, and (ii) capital raising frictions experienced by smaller funds and emerging fund managers who rely on the QVCF exemption.

The Committee discussed the impact that the current QVCF cap on beneficial owners has on (i) average check size accepted by the fund, (ii) the types of LPs that participate in the venture investment asset class, (iii) the total amount of capital that can be raised, and (iv) where and how that capital is ultimately deployed. Members also considered how raising the cap on the number of beneficial owners could positively impact the on-ramp for newer early-stage investors by allowing for more flexibility at the entry point, thereby encouraging a wider scope of investors to participate in these funds at lower minimum investment amounts and cultivating a more sustainable and varied investor community.

The Committee also discussed how raising the limit on total amount of capital that can be raised by a QVCF could promote a more sustainable investor community, contribute to more financially viable venture fund models, and ultimately increase the capital that is generated to invest in small businesses seeking to grow. The Committee also considered minimum viable fund sizes

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for an early-stage venture capital fund vis-à-vis operational costs and the burden of subjecting such a fund to additional regulatory compliance costs, as well as the benefits of expanding the QVCF exemption to help level the playing field for smaller funds.


In consideration of the aforementioned factors, and after extensive Committee discussion regarding various limits and ranges:

The Committee recommends that, with respect to the “qualifying venture capital fund” exemption in Section 3(c)(1) of the Investment Company Act of 1940, the Commission increase (i) the current maximum number of permitted beneficial owners from 250 to 1,000 and (ii) the current maximum limit on the aggregate amount of capital contributions and uncalled capital from \$12 million to \$100 million.

Respectfully submitted on behalf of the Advisory Committee,



Erica Duignan
Committee Chair



Marcia Dawood
Committee Vice Chair



Jasmin Sethi
Committee Secretary



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Committee Assistant Secretary

CC: Commissioner Hester M. Peirce
Commissioner Caroline A. Crenshaw