

March 6, 2024

The Honorable Mike Johnson
Speaker
U.S. House of Representatives
H-232, The Capitol
Washington, DC 20515

The Honorable Hakeem Jeffries
Democratic Leader
U.S. House of Representatives
H-204, The Capitol
Washington, DC 20515

Re: H.R. 2799, the Expanding Access to Capital Act

Dear Speaker Johnson and Democratic Leader Jeffries:

Carta provides the infrastructure for innovators and supports the private market ecosystem at every stage—from idea to IPO. Carta is an equity administration platform that supports over 40,000 companies and 2.7 million stakeholders. Carta also provides fund administration and fund formation services to over 7,500 funds. By making it easier to issue equity to employees, Carta is helping to create more equity owners and is taking steps to close the equity ownership gap.

Carta applauds Congress's efforts to promote capital formation to drive innovation, economic growth, job creation, and opportunity. We appreciate the continued focus to further improve access to capital and investment opportunities, particularly for women and minority entrepreneurs and investors outside of traditional funding hubs. These efforts are even more important today. H.R. 2799, the Expanding Access to Capital Act, contains a number of provisions that would help expand access to capital for entrepreneurs in emerging ecosystems and increase investment and ownership opportunities.

Promoting access to capital

Capital has become more mobile, but proximity matters, particularly for the earliest stages. Emerging managers play a key role supporting startups across the country. These smaller funds are more likely to participate in earlier rounds and invest in a more diverse pool of entrepreneurs located in their geographic area. Policies that help drive capital to emerging ecosystems, broaden local networks, and promote increased opportunities for underrepresented founders and capital allocators will help create more economic opportunity and a more inclusive ecosystem. There are a number of provisions in H.R. 2799 that would help further these goals.

Developing and Empowering our Aspiring Leaders (DEAL) Act

The [DEAL Act](#) will help drive more capital into emerging markets and further diversify the venture ecosystem. Today, venture capital funds are largely limited to making direct investments in private companies. Expanding the category of qualifying investments to include fund-of-fund investments could help incentivize established funds to invest in regional funds, unlocking a significant source of capital for growing entrepreneurial ecosystems. Further, permitting investments in secondary transactions to be qualifying investments may help provide more

liquidity for founders, employees, and early-stage investors to turn equity into financial gain and invest in themselves or other businesses. This will also provide an avenue for new investors to gain exposure to startups that have shown maturation and scale.

Improving Capital Allocation for Newcomers (ICAN) Act

Congress added the definition of a “[qualifying venture capital fund](#)” to Section 3(c)(1) of the Investment Company Act to make capital formation easier for smaller venture capital funds. The higher limit of beneficial owners was intended to help emerging managers assemble competitive funds by collecting smaller contributions from a greater number of accredited investors. In practice, however, the current parameters limit the utility of this provision. The [ICAN Act](#) expands the size and investor limits for qualifying venture capital funds to help smaller funds reach more investors, which will help foster the development of more localized networks and provide greater access to capital for entrepreneurs in these regions.

Promoting access to investment and ownership opportunities

Today, most individuals are generally prohibited from participating in the private markets because of the wealth-based [accredited investor](#) standard. As a result, private market opportunities are largely reserved for institutional or wealthy investors. For most investors, the public markets are often the only available option. As the number of public companies has declined, so has the number of investment opportunities. These investors are also missing out on upside potential as companies are staying private longer. Expanding private market investment opportunities while preserving important investor protections will not only drive innovation, but will also help broaden economic opportunity.

Modernizing the accredited investor definition

Carta supports efforts in Congress to provide more on-ramps for individuals to qualify as accredited investors. Although financial means can create financial resiliency—which is important—such metrics do not necessarily equate to financial sophistication, and investment opportunities should not be limited to the economically privileged. It is important for individuals to understand the risks of investing and their ability to withstand loss with respect to any investment—public, private, real estate, crypto. But an individual should not be denied access to an opportunity on the basis of financial circumstance or socioeconomic background.

The SEC expanded the accredited investor definition to include sophistication on-ramps for certain credentialed investment professionals. While this step untethered the designation from wealth-based means for the first time, more can be done, including expanding additional pathways for individuals to qualify as accredited through nonfinancial means. To that end, the House has passed a number of bipartisan measures—the [Fair Investment Opportunities for Professional Experts Act \(H.R. 835\)](#), the [Accredited Investor Definition Review Act \(H.R. 1579\)](#), and the [Equal Opportunity for All Investors Act \(H.R. 2797\)](#)—to accomplish this goal by allowing more individuals to qualify based on education and experience or by

passing an examination designed to measure financial sophistication. H.R. 2799 complements these efforts.

Increasing structured access to private market investments

Carta also supports efforts to expand investment opportunities through professionally managed vehicles. A fund structure provides a number of important protections for retail investors, including diversification and professional management through a regulated fiduciary.

For example, closed-end funds are publicly available registered investment companies that are regulated by the SEC. The closed-end fund structure makes it suited to hold less liquid securities, including private market securities. But because of SEC staff-imposed guidance, these funds are not able to invest more than 15% of net assets in private assets. The bipartisan [Increasing Investor Opportunities Act](#) would remove these restrictions and allow investors to access private market investments under the strong securities law protections of publicly traded, registered funds.

Promoting employee ownership

As wages have remained largely stagnant for all but the highest earners, equity ownership offers a powerful corrective. By giving employees a share in the profits they help create, ownership supplements the wage with the upside of long-term, high-growth assets. In addition, equity compensation helps companies attract and empower a more engaged workforce with aligned incentives. The [Gig Worker Equity Compensation Act](#) would enable companies to compensate non-traditional or “gig” workers with equity compensation in addition to their wage, allowing them to participate in and benefit from the upside of the value they are helping to create.

Thank you for your leadership. We look forward to continuing to work with you to advance policies to ensure America’s entrepreneurs and innovators can access the capital they need at each stage in their life cycle regardless of geographic location and provide more opportunities for investors.

Sincerely,



Anthony Cimino
Head of Policy

cc: The Honorable Patrick McHenry
The Honorable Maxine Waters