



# Startup Law Blog

Insights for founders of and investors in emerging and startup companies

## [SEC Issues Final Rules Re VC Fund Exemption From Investment Advisers Act](#)

June 22, 2011

You can find the final rules here:

[Final Rule](#)

Also see:

[SEC Press Release](#)

From the Final Rule:

In summary, the rule defines a venture capital fund as a private fund that: (i) holds no more than 20 percent of the fund's capital commitments in non-qualifying investments (other than short-term holdings) (qualifying investments generally consist of equity securities of qualifying portfolio companies that are directly acquired by the fund, which we discuss below); (ii) does not borrow or otherwise incur leverage, other than limited short-term borrowing (excluding certain guarantees of qualifying portfolio company obligations by the fund); (iii) does not offer its investors redemption or other similar liquidity rights except in extraordinary circumstances; (iv) represents itself as pursuing a venture capital strategy to its investors and prospective investors; and (v) is not registered under the Investment Company Act and has not elected to be treated as a business development company (BDC).

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