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## UPDATE - Legislation Passed by House of Representatives Retains Exemption for VC Fund Managers From New Registration Requirements

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**Sweeping financial overhaul passed by the U.S. House of Representatives spares venture capital fund managers from new registration requirements that may hit the hedge fund community.**

On December 11, 2009, the U.S. House of Representatives passed sweeping legislation to regulate the financial sector. Of particular interest to the venture capital community was the fate of a provision known as the Private Fund Investment Advisers Registration Act of 2009 (the "PFIARA"). As proposed in the House Financial Services Committee (the "Committee"), the PFIARA would have imposed new registration requirements under the Investment Advisers Act of 1940 (the "Advisers Act") on investment advisers of private funds such as hedge funds and, potentially, venture capital funds.

As discussed in a prior Manatt newsletter (October 26, 2009, available [here](#)), Rep. Paul Kanjorski (D-PA) introduced to the Committee an exemption (the "Venture Capital Fund Exemption") from these new registration requirements for advisers of "venture capital funds," which is a term to be defined by the Securities and Exchange Commission (the "SEC"). To the great relief of venture capital fund managers everywhere, the final bill passed by the House retains the Venture Capital Fund Exemption. As noted in our prior newsletter, it is too early to tell how the SEC will define the term "venture capital fund."

The House bill also contains a second exemption that may be of even greater benefit to managers of small venture capital funds than the Venture Capital Fund Exemption. The House bill directs the SEC to provide an exemption from the registration requirements under the Advisers Act to any investment adviser of private funds "if each of such private funds has assets under management in the United States of less than \$150,000,000" (the "Small Fund Exemption"). The Small Fund Exemption, if enacted, would provide a

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second and independent exemption from the registration requirements of the Advisers Act to managers of smaller venture capital funds. Moreover, as drafted, the Small Fund Exemption would relieve managers of multiple smaller venture capital funds from the registration requirements of the Advisers Act, even if the aggregate assets under management in the United States of all such funds was greater than \$150,000,000.

The Venture Capital Fund Exemption and the Small Fund Exemption are both positive signs that Congress may regulate managers of venture capital funds differently than managers of hedge funds and private equity funds. However, until the Senate passes its version of these financial regulations and a final bill is reconciled and enacted, and the SEC defines the term “venture capital firm,” we cannot know for certain whether and to what extent managers of venture capital firms will avoid the coming wave of financial regulation.

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