

carta

March 5, 2026

The Honorable Paul Atkins
Chairman
U.S. Securities and Exchange Commission
100 F St. NE
Washington, DC 20549

Re: Policy recommendations for 45th Annual Small Business Forum

Dear Chairman Atkins:

Carta provides the technology infrastructure for the innovation economy, supporting private companies at every stage from idea to IPO and the investors that back them. Today, Carta provides equity management and valuation services for more than 50,000 private companies with 2.5 million stakeholders and over \$4 trillion in equity. We also provide fund administration services, portfolio management, and investor communications for nearly 9,000 funds and fund vehicles, representing over \$200 billion in assets under administration. Our end-to-end platform connects the private capital ecosystem and brings transparency, accuracy, and timeliness to private markets, helping to unlock even greater potential.

Importance of private capital

Private capital—angel investors, venture capital, private equity, and private credit—serves as the lifeblood of startups and growth-stage companies at every stage of development, providing patient, risk-forward funding to solve ambitious problems. This structure democratizes ingenuity, drives innovation and value creation, and promotes economic growth and job creation—all of which are critical to maintaining our nation’s competitive advantage. Put simply, the private capital ecosystem is America’s economic and innovation engine.

Carta applauds the work of the Commission to promote capital formation to drive innovation, economic growth, job creation, and opportunity. While private capital markets have driven remarkable innovation, their benefits are limited to a small segment of founders and investors. We believe expanding access to these markets is the catalyst for economic growth and is critical to ensuring American innovation remains at the forefront. Unless we modernize our policy infrastructure, the benefits of this economic and innovation engine will remain concentrated. As private markets continue to grow, this gap will only widen. We need to bolster

private capital, but importantly, we need to broaden its reach to more investors, more entrepreneurs, more companies, and more communities.

Summary of recommendations

In response to the request for policy recommendations in conjunction with the Small Business Forum, Carta supports the following efforts to drive capital formation and opportunity.

- Expand access and participation in private market opportunities for employees and investors
- Broaden access to capital by bolstering emerging managers and developing regional ecosystems
- Bolster the private market ecosystem to create better public companies
- Modernize the tax code to drive growth and ownership
- Ensure the regulatory framework keeps pace with technology and data infrastructure

Investor access and participation

Private capital is a wealth and opportunity creator, offering diversification to its investors and delivering returns that historically outperform public markets. Today, however, private market opportunities are largely reserved for institutional or well-connected, wealthy investors. Most individuals are generally prohibited from participating in the private markets because of the wealth-based [accredited investor](#) standard. 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. Companies that do go public are doing so later in their lifecycle, which means everyday investors miss out on growth and upside potential.

Expanding private market investment opportunities while preserving important investor protections will not only create more economic opportunity for investors, but it will also increase the supply of capital to help drive innovation.

Modernize the accredited investor standard

To broaden retail access in private markets, Congress and the SEC should 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. 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 individuals should not be denied the ability to invest on the basis of financial circumstance or socioeconomic background.

In 2020, the SEC expanded the accredited investor definition to enable sophistication on-ramps for certain credentialed investment professionals. While untethering the accredited designation from wealth-based means is an important step, the impact of these changes have been limited. More should be done, and the bipartisan INVEST Act provides a great foundation for the Commission to consider.

Recommendation: Modernize the wealth-based accredited investor standard by expanding additional pathways for individuals to qualify through nonfinancial means.

- *Preserve existing financial thresholds.* There has been recent debate on indexing the financial thresholds to reflect inflation or some other adjustment.¹ Doing so on a retroactive basis would not only prevent a large population from maintaining their accredited investor status, but it would reduce capital availability in emerging ecosystems. We support Congress codifying the existing financial thresholds to ensure any future adjustments should be made on a go-forward basis.
- *Geographic adjustments.* Financial thresholds are uniform across the country despite disparities in costs of living. Congress and the SEC could consider whether to adjust financial thresholds by [geographic area](#), but only on a downward basis to account for cost-of-living adjustments outside of higher-cost MSAs.
- *Expand financial sophistication on-ramps.* While the 2020 SEC amendments were an important first step, Congress and the Commission should broaden the ability for individuals to qualify as accredited through nonfinancial means. One way to accomplish this is through an examination process designed to measure an investor's understanding of investment concepts and assess risks related to private market investments associated with limited liquidity and information asymmetry. The SEC could also utilize a process to approve

¹There is a common misconception that accredited wealth thresholds have not been updated since they were established in the 1980s, but Congress removed the ability for investors to include the value of their primary residence—a primary source of individual wealth—to qualify based on net worth as part of the Dodd-Frank Act.

other professional designations or certifications that demonstrate financial sophistication outside of the traditional rulemaking process.

Increasing the pathways for individuals to qualify as accredited beyond financial metrics is an important first step. But merely creating more accredited investors does not solve the access problem. Without a direct connection to a portfolio company or a private fund, most everyday investors—even if accredited—will not be able to access most private market investment opportunities. Or if they do get access, there is a good chance it will be investments that professional investors have passed on. If we increase the pool of accredited investors, we need to also ensure they have access to investment opportunities that match their objectives and risk tolerance.

Increase structured access to private market investments

Even beyond the accredited investor criteria, more individuals should have access to private capital markets and their diversification and return potential. Modernizing the policy framework to broaden structured access to private market investment opportunities for retail investors can unlock more growth and economic opportunity.

Pooled investment vehicles—both private funds and registered funds—can play a key role in expanding retail investment opportunities while preserving important investor protection. A fund structure provides a number of important protections for retail investors, including diversification and professional management through a regulated fiduciary, as well as the benefit of institutional due diligence. A fund offers a diverse portfolio of investments, and gaining exposure through a fund is easier than constructing a portfolio of startups. Investors also benefit from the experience of private fund managers acting as fiduciaries. Fund managers will have more access to investments and more information to evaluate them.

Increasing retail investments through a fund structure helps mitigate the risk of adverse selection. This is particularly important in venture capital. Venture capital operates under the “power law,” which means a portion of the portfolio companies fail, while a limited number of companies are responsible for the bulk of returns. Ensuring access to a broad array of companies not only increases the probability of picking a winner, but also helps balance the inevitable failures.

Recommendation: Expand investment opportunities through professionally managed registered and private fund vehicles.

- Private fund access through registered funds. Regulated funds that pursue a private markets strategy can offer exposure to retail investors while maintaining important protections. Closed-end funds are publicly available registered investment companies that are regulated by the SEC, and their structure makes them well suited to hold illiquid assets like private funds. The SEC took a meaningful step in removing the staff-imposed guidance that prevented these funds from investing more than 15% of their assets in private funds to enable more investors to access private market investments under the strong securities law protections that registered funds offer, including:
 - Diversification. Retail investors would not only benefit from the diversification of investments from the private fund, but a regulated fund of private funds will only broaden exposure.
 - Liquidity. Closed-end funds can list shares on U.S. stock markets. Unlisted funds can offer periodic liquidity through an interval fund or tender offer fund structure.
 - Professional management. Regulated funds are advised by registered investment managers, which are subject to SEC oversight and have fiduciary obligations. The private funds are also managed by regulated fiduciaries.
 - Disclosure and oversight. Registered funds are subject to the oversight of an independent board of directors. Registered funds publish quarterly reporting with schedules of every investment held by the fund and value attributed to each investment.

- Permitting chaperoned access through investment professionals. Permitting investors to access private market opportunities through an investment professional (who is, by SEC definition, accredited) could be another avenue to increase exposure while maintaining important safeguards. Investment advisers have fiduciary obligations to make investment decisions in their clients' best interest. This requires an assessment of the client's sophistication, understanding of the client's investment objectives and risk tolerance, and diligence on the investment, which ultimately results in a recommendation that is in the best interest of the client—the retail investor.

- Direct retail access to private funds. Enabling structured access to private market investments through private fund vehicles can also help democratize access for retail investors while preserving important investor protections. It could also open up a new source of capital for emerging fund managers, which may be too small or otherwise overlooked by regulated funds.

Policymakers could also consider the creation of a “feeder” fund model to pool retail investor interests to invest directly in a private fund. Both options would require statutory and regulatory changes, including amendments to Section 3(c) of the Investment Company Act and adjustments to accredited investor regulations, as well as staff guidance.

- *Expanding retail access through retirement accounts.* Policymakers should also examine opportunities to increase participation in private market investments through retirement accounts, which pairs longer duration capital with longer-term investment, in addition to the benefits of professional management and diversification. Defined benefit plans (pension plans) and their beneficiaries—teachers, firefighters, and other everyday investors—have benefited tremendously from diversification and the returns driven by private fund investments. Defined contribution plans (401(k)s), however, are not able to take advantage of the same private market investment opportunities. As retirement has shifted from pension plans to 401(k)s, more retail investors are missing out on the exposure to this important asset class. Guidance from the Department of Labor to clarify the ability for 401(k)s to include private market investment options—paired with appropriate guardrails around valuations, liquidity, and conflicts—could open up meaningful retail exposure in a way that aligns longer-term investments with longer-duration capital.

Expanding private market investment opportunities should be done in a responsible manner that reflects unique but manageable risks posed by private capital. Expanding accredited investor onramps to reflect financial sophistication and enabling structured access to private market investments through professionally managed funds, where retail investors participate alongside and on the same terms as institutional investors, can democratize access while preserving important investor protections.

Encourage employee ownership

Employee ownership benefits the labor force, the company, and the broader economy. Wages have remained largely stagnant for all but the highest earners over the past four decades when accounting for inflation. Employee 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.

Recommendation: Enable companies to offer meaningful employee equity ownership to more employees and gig workers and examine policies that would better enable employee-owners to realize the full value of their equity through transparency, appropriate tax policy, retirement options, and access to secondary market liquidity.

Broadening access to capital

Navigating the capital-raising process can be a daunting task for many startups, funds, and businesses. Private markets have grown exponentially, but its growth has not been evenly distributed. California continues to dominate, with [nearly 50%](#) of venture capital raised on Carta going to companies in the state. If you add in New York and Boston, only 30% of VC capital is distributed to the rest of the country. The number of new funds continues to fall, while the average fund size gets bigger and capital becomes more concentrated. Lack of exits and lower VC valuations have caused investors to pull back from the asset class, and those who are investing are writing bigger checks to larger funds.

Bolster emerging managers to grow regional funding networks

Capital has become more mobile, but proximity matters, particularly for the earliest stages. To broaden the startup ecosystem, we must broaden the investor ecosystem beyond the traditional tech funding hubs. Emerging managers are the key. To drive regional growth and the diversification of private capital, we need to support the emerging managers that identify and fund entrepreneurs across the country. These smaller funds are more likely to invest early, invest locally, and support a more diverse pool of entrepreneurs. And data shows [emerging managers](#) often [outperform](#) their larger counterparts.

Recommendation: Lower barriers for emerging managers can help drive capital to this segment which will help broaden local networks, create more economic opportunity, and lead to a more robust ecosystem.

- *Expand beneficial owners under Section 3(c)(1).* Under Section 3(c)(1) of the Investment Company Act, private funds cannot raise capital from 100 or more accredited investors.² The fund size for most first-time fund managers ranges between \$10–\$25M, which means the average investor check size for

² Private funds can raise capital from up to 2,000 investors under Section 3(c)(7), but the investors must be qualified purchasers—a much higher bar than meeting accredited investor criteria. Section 3(c)(7) technically does not have a stated investor limit, but funds would be limited to no more than 2,000 investors under Section 12(g) of the Securities Exchange Act of 1934 to prevent registration.

100 investors in a \$25M fund would have to be \$250,000—a high bar for newer fund managers. To enable emerging managers to accept smaller checks from more investors, the beneficial owner limit under Section 3(c)(1) should be increased to permit emerging fund managers to raise capital from a broader pool of accredited investors. Policymakers could also consider updating 3(c)(1) to mirror the investor limit under Section 3(c)(7), which would allow private funds to raise capital from up to 2,000 accredited investors. Helping emerging managers raise capital from more investors will help foster the development of more localized networks and provide greater access to capital for entrepreneurs in these regions.

- Expanding size and investor limits for qualifying venture capital funds. To address the aforementioned size limitations under Section 3(c)(1), Congress created the category of “[qualifying venture capital funds](#)” to help smaller venture capital funds raise capital from more investors. 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. Currently, a venture capital fund can raise up to \$12M from 250 beneficial owners (an average check size of \$48,000). In practice, however, the current parameters limit the utility of this provision. In absence of expanding the investor limit under Section 3(c)(1), policymakers should expand the size and investor limits for qualifying venture capital funds to help smaller funds reach more investors.
- Expanding qualifying venture capital investments. Due to regulatory constraints, venture capital funds are largely limited to making direct investments in private companies without facing additional costs and compliance burdens that accompany SEC registration. After Dodd-Frank, private fund advisers were required to register with the SEC unless they qualified as an exempt reporting adviser (ERA). ERAs are still subject to SEC oversight and compliance obligations, though not to the extent of RIAs. Venture capital fund advisers can qualify as ERAs if they meet a number of requirements, but 80% of the fund assets must be invested directly in private companies or cash (qualifying assets). Expanding the category of qualifying investments to include fund-of-fund investments could help drive more capital into emerging markets while ensuring these funds continue to pursue a venture-focused strategy.
 - Fund-of-fund investments. Policymakers should increase the ability for venture capital funds to invest in other venture capital funds, which could help incentivize established funds to invest in emerging fund managers without incurring additional regulatory burdens that come

with SEC registration. Attracting an established fund to serve as an anchor LP could help first-time fund managers attract other investors, and investors will benefit from the diligence of the more established fund. A fund-of-funds strategy not only benefits the emerging manager, but could also [provide diversification opportunities and drive returns](#) for the investing fund and its LPs, even if there is a higher fee structure.

- Secondary investments. Policymakers should enable secondary investments in qualifying portfolio companies to count as qualifying investments. This will facilitate greater value realization for investors and recycle more capital into the system, which could unlock a significant source of capital for growing entrepreneurial ecosystems. A secondary strategy is even more important today as there are fewer exit opportunities for venture investments.

Improve exempt offering framework

The primary avenue to raise capital in the private markets, Rule 506(b) of Regulation D, requires entrepreneurs to have a “pre-existing relationship” with an investor. This rewards those who are in the club and excludes those who are not. It creates a slanted system where “It isn’t what you know but who you know.” When coupled with the accredited investor requirements, access to private capital is limited to not just who you know, but only wealthy people you know. If we want to democratize access to capital, these limitations in the framework should be reconsidered.

Bolstering regional ecosystems through investment and network

Building an investor community is critical to building entrepreneurial ecosystems. But policymakers should also focus on ways to foster the development of founder support networks. Silicon Valley is the center of innovation not just because of the concentration of venture capital, but because of its supply of talent and the infrastructure that supports it. The venture ecosystem is collaborative and network is key. Building a strong entrepreneurial ecosystem requires a multifaceted approach, integrating investment, talent development, infrastructure, branding, education, and policy incentives. While capital is a critical component, fostering a network of founders, investors, workforce, and support organizations is equally important for sustainable growth.

- Building investor networks that can sustain growth. Encouraging the formation of local angel investor groups and venture capital firms can help bridge the funding gap between rounds that many startups face.

Additionally, fostering relationships between investors and entrepreneurs through mentorship programs and networking forums can bolster the local investment landscape.

- *Investing in talent and employee retention.* Attracting talent is a necessary first step, but retaining highly skilled workers is equally critical. Broadening employee ownership coupled with a meaningful wage, helps companies attract and retain top talent, aligns incentives, and creates upward mobility.
- *Investing in infrastructure.* Silicon Valley's success is not solely due to the presence of venture capital but also its deep and collaborative talent pool, bolstered by an interconnected support system. To replicate this model in other regions, policymakers and business leaders should focus on building an entrepreneurial support network through incubators and accelerators to provide structured guidance, resources, and market access and promote networking opportunities that encourage knowledge sharing.
- *Specialized innovation hubs.* Regions have unique strengths that can be leveraged to build a distinct innovation identity around specialized technologies or sectors. For example, in [Colorado](#), a significant portion of VC funding is going to energy. Building an innovation hub around a sector can build community, network, and workforce to create a flywheel of growth.

Bolster private markets to create better public companies

The key to creating more public companies is to foster the development of private companies. The venture funding structure is key to innovation: the private markets provide patient capital with a tolerance for risk that allows entrepreneurs to transform concepts into companies. Innovation requires time to build, experiment, and scale. Uncertainty and volatility is inherent in building something new.

The public market framework, however, does not work well for growth-stage companies. In addition to increased regulatory burdens and costs and market structure challenges for thinly traded securities, the expectations for scale, quarterly predictability, resiliency of the business model, and financial means in the public markets have grown over the past two decades. Companies that have achieved this level of maturity can thrive in public markets. But for companies that have not, the public markets are unforgiving. The key to creating more public companies is not to make private markets more hostile, but to make private markets work better. Doing so makes it easier to start companies, nurture their growth, and create the pipeline of tomorrow's public companies.

Recommendation: Explore policies to improve secondary market liquidity in the private markets and address barriers in the public market framework to encourage more companies to go public.

- *Private market liquidity.* To support the next phase of growth and innovation, private companies and their investors need access to private-market liquidity—the ability to sell shares to other investors, converting that equity into cash. Today the binary construct between public and private means innovative companies often lack access to liquidity. A capital markets framework that creates a spectrum can better support companies across their lifecycle, including increasing liquidity. This more liquid marketplace will help companies fund growth, lower the cost of capital, make employee equity compensation more meaningful, and create a more robust onramp to the public markets.

Modernize the tax code to drive growth and ownership

The tax code does not optimally support growth-stage companies. Nor does it effectively reflect the unique nature of equity compensation: it poses undue burdens on employee recipients of equity in the companies they are helping to build. Policymakers at both the federal and local levels can utilize tax incentives to encourage investments in startups.

Recommendation: Bolster and expand tax incentives that promote equity ownership and drive investment to the startup and small business ecosystem.

- *Expand qualified small business stock treatment.* Qualified small business stock (Section 1202) incentivizes capital investment in the riskiest segment of the ecosystem—the startups and small businesses, which are the majority net new job creators. One-third of startups and small businesses close by the second year, and half shutter after five. QSBS drives capital and talent to startups and small businesses by enabling long-term shareholders in small businesses to be exempt from capital gains taxes. This helps early-stage companies attract investor capital, but also incentivizes employee owners by allowing them to optimize the equity they receive for the risk they took and the work they put in. QSBS treatment should be expanded beyond C corporations and also include convertible debt financing and SAFEs, a key financial instrument many startups use to bridge early funding gaps. We were pleased to see QSBS expanded in the recent tax reform legislation, and we

urge the SEC to consider how capital formation incentives like QSBS interact with the securities framework to support the startup ecosystem.

- Maximize value of ownership: Improvements can be made to the tax code to better support equity holders by aligning the tax liability to the year equity shares are sold. Under the current construct, taxes are assessed when illiquid shares vest (rather than when they are sold) and/or are included in the calculation of the Alternative Minimum Tax (AMT). This means employee owners are forced to pay taxes on shares they have not sold, and in many cases, are unable to sell in order to pay taxes. Further, despite paying taxes on that share value, there is no guarantee the value will not fall in the future or that the employee will ever realize such gain. We should shift the tax burden to the year of sale—doing so will help employee owners realize the full value of their ownership.

Ensure the regulatory framework keeps pace with technology and data infrastructure

As private markets continue to scale, the role of technology infrastructure and data in supporting capital formation, investor protection, and regulatory oversight becomes increasingly critical. Carta serves as the source of truth for private market equity, providing real-time cap table management, 409A valuations, fund administration, and investor reporting that help drive transparency and accuracy to a market that has historically operated with limited visibility.

Policymakers should consider how advances in technology and data infrastructure, including artificial intelligence, can be harnessed to improve regulatory efficiency, reduce compliance burdens for small businesses and funds, and increase transparency and access to private capital. At the same time, the regulatory framework should avoid creating unnecessary barriers to the adoption of technology tools that help companies and funds meet their compliance obligations and operate more efficiently. As the Commission considers the role of AI in financial services, we encourage an approach that promotes innovation and avoids unnecessary barriers that could hinder adoption and disproportionately impact small businesses, while maintaining appropriate safeguards.

Carta is proud to provide the infrastructure to support the innovation economy and the founders, investors, and employees who power it forward. Our goal is to ensure

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the private market infrastructure and policy framework helps expand access to capital, enables more investors to participate in private markets, and helps companies build along their lifecycle to prepare them to go public when they are ready.

Thank you for the opportunity to submit these recommendations and for your consideration. We look forward to continuing to work with you to modernize the policy infrastructure to provide more opportunities for investors and ensure America's entrepreneurs and innovators across the country can access the capital they need at each stage in their lifecycle.

Sincerely,

A handwritten signature in black ink that reads "Holli Heiles Pandol". The signature is written in a cursive, flowing style.

Holli Heiles Pandol
Head of Policy