

Congress of the United States
Washington, DC 20515

July 6, 2023

The Honorable Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Ms. Jessica Wachter
Chief Economist and Director of the
Division of Economic and Risk Analysis
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Dear Chair Gensler and Director Wachter:

On February 9, 2022, the Securities and Exchange Commission (Commission) proposed sweeping new rules for private fund advisers.¹ We are concerned that the Commission conducted an insufficient economic analysis and failed to consider the impact on underserved businesses and communities, including emerging minority and women-owned asset managers. Our concern is compounded by the fact that the Commission does not appear to have acted upon the congressional directive to re-conduct the economic analysis that was included in the *Consolidated Appropriations Act, 2023*.²

Considering the speed at which the Commission is reportedly rushing through the proposed rule, we are submitting time sensitive requests to re-conduct the economic analysis and brief the Committee on Financial Services and the Subcommittee on Financial Services and General Government of the House Appropriations Committee on the underlying economic analysis and how the agency plans to comply with the congressional directive from last year's appropriations law.

We agree with the bipartisan report language that the Commission must conduct an economic analysis that adequately considers the entire economic impact of the proposed rule, including aggregate impact and any specific disparate impact it will have on emerging minority and women-owned asset management firms, minority and women-owned businesses, and historically under-invested communities. It is our understanding that new entrants to the market will face significant barriers to entry and obstacles to growth if the proposed rule is adopted in its current form.

Small and emerging minority managers are some of the fastest growing segments in new fund creation and management. Since 2014, the number of women and diverse-owned private equity and venture capital fund managers has grown 6 times, including new missioned-oriented funds.³

¹ Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews, 87 Fed. Reg. 16,886 (Feb. 9, 2022).

² H.R. Rep No. 117-393, at 102 (2023) *available at*: www.govinfo.gov/content/pkg/CRPT-117hrpt393/pdf/CRPT-117hrpt393.pdf

³ <https://www.fairviewcapital.com/insights/fairview-capitals-2021-market-review-of-woman-and>

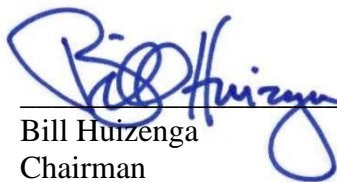
These managers have raised significant capital to invest in their communities— including some funds with assets under management over \$1 billion.⁴ Private funds have become a key source of equity and credit investment for small businesses and communities as burdensome regulations and difficult economic conditions over the last decade shuttered many of our community banks and minority banks. However, persistently high inflation and increasingly poor economic conditions are now contributing to significant challenges with raising capital needed to invest in these small businesses and to support these communities. This is reflected in the growing number of black fund managers that are struggling to meet their target fund size. Consequently, “they have to focus on investments with smaller check sizes, which can limit the community’s reach and influence, and ultimately, reduce the number of opportunities to invest in high-returning assets.”⁵

This issue is compounded with future effects of the proposed rule, in combination with other related proposals, which will affect many small firms. Many of these stakeholders have expressed grave concerns to you directly about not being able to manage these new regulations which come with steeper compliance costs and demands that will hurt smaller funds, including minority and women-run funds, and drive them out of the market.⁶ As Robert Greene, the President and CEO of the National Association of Investment Companies, was recently quoted, “The current regulations are potentially pushing logs down a hill just as people of color and women are starting to climb the hill.”⁷

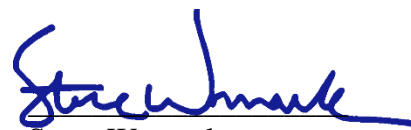
A thorough and thoughtful analysis will be imperative to the long-term health of the private fund market, particularly for women-owned and minority asset managers. Such analysis should be made public and solicit public comment. To that end, we respectfully request a briefing from you to demonstrate that the Commission is conducting sufficient economic analysis of the proposed rule. This briefing should be conducted no later than July 14, 2023.

We appreciate your attention to this matter.

Sincerely,



Bill Huizenga
Chairman
Subcommittee on Oversight
and Investigations
House Financial Services Committee



Steve Womack
Chairman
Subcommittee on Financial
Services and General Government
House Appropriations Committee

⁴ Laure Kreutzer, *Hispanic-Focused Palladium Equity Raises \$1.56 Billion Private-Equity Fund*, THE WALL STREET JOURNAL, (Jul. 11, 2019) available at <https://www.wsj.com/articles/hispanic-focused-palladium-capital-raises-1-56-billion-private-equity-fund-11562880983>.

⁵ <https://www.blckvc.org/sbvr2023>.

⁶ <https://www.sec.gov/comments/s7-03-22/s70322-20126661-287366.pdf>.

⁷ Gregg Gethard, *Proposed SEC rules could hurt diverse-owned firms*, BUYOUTS, (May 18, 2022) available at <https://www.buyoutsinsider.com/proposed-sec-rules-could-hurt-diverse-owned-firms/>.