

VCs seek Sarbanes shift to ease flow of new IPOs

San Francisco Business Times - by [Lindsay Riddell](#)

There's no doubt that the IPO market for venture-backed companies has tanked in recent years. But venture capitalist **Dixon Doll** has a few ideas that would return the industry to the good old days.

And some of those ideas involve reengaging accounting firms and investment banks who lost focus on venture-backed companies after the advent of Sarbanes Oxley accounting rules.

Sarbanes Oxley, passed in 2002, overhauled the financial reporting requirements for public companies, making the process lengthier and more complicated with the goal of creating more accountability. The rules also made the act of going public much more expensive, which many investors and company executives say effectively barred small to mid-cap companies, the bread and butter of venture capitalist exits, from filing for public offerings.

What's more, when they were first implemented, the Sarbanes Oxley rules overwhelmed accounting firms, meaning the Big Four didn't have time to deal with smaller companies. But VCs were wary of relying on smaller accounting firms.

"If I had a company that wasn't good enough to go public with **Goldman Sachs** or **Morgan Stanley**, it was an ugly baby," said Doll, founder and chairman of the **National Venture Capital Association**. "That mindset is very pervasive in the venture capital industry, and part of what we're trying to do is break out of that culture."

The National Venture Capital Association proposed this year several ways venture-backed companies could find liquidity for their investors again. The association is trying to educate accounting firms, VCs and venture-backed companies about working together to build relationships that help a venture-backed company go public — and ultimately help accounting firms make money once a company does go public. The association is encouraging the industry to add **PricewaterhouseCoopers** and **BDO Seidman** to the accounting firms that regularly audit their companies.

Doll said accounting firms have started offering discounts reminiscent of pre-Sarbanes-Oxley days. Discounts on a small or mid-cap company's first audited financial statement — a typical marketing tactic before Sarbanes Oxley — disappeared when accounting firms were neck-deep in Sarbanes Oxley compliance for large firms. The recession only deepened the problem as accounting firms didn't want to put resources toward newly public companies that might not make the firm money for several years, if ever. Also, brand-name investment banks that survived last year's economic meltdown weren't interested in helping venture-backed companies go public.

"There was either a level of disinterest or impracticality in those days that was driving behavior," Doll said. "But now that we've had the same number of IPOs (six) this year that we had all of last year, investment banks saw this as an opportunity to get out and try some of their sales skills."

Change in the air

There are other signs the winds might be changing to once again favor venture-backed companies.

Mark Jensen, head of early stage venture capital group at Deloitte, said the company has been pounding the pavement to bring in venture-backed companies, including bringing back discounts on a first audited financial statement. Deloitte plans to bring in 100 new venture-backed companies this year, Jensen said.

In the first half of the year, competition for the business of venture-backed companies has intensified, he said.

"There's no proposal I'm aware of in the last six months where there wasn't at least one other Big Four firm competing, and usually it has been all of the Big Four firms," he said.

Doll and the National Venture Capital Association also wants the SEC to grant exceptions to costly accounting rules for smaller venture-backed companies, calling the cost of going public prohibitively expensive.

The NVCA is calling for a "systematic review" of pre-IPO financial reporting requirements and a separation of analyst and investment banking functions and private placement requirements.

That would enable more companies to go public, Doll and the association said.

Jensen said the SEC has made some moves to ease the burden on smaller companies, for example by deferring some of the most stringent requirements on smaller companies to the second annual report after an IPO instead of the first. But many argue that small companies that want to go public need to play by the same rules as every other company.