CRAVATH

AUGUST 2025

Cravath Venture Capital & Growth Equity Insights

H1 2025 AND FY 2025 OUTLOOK

Contents

Market Update

KEY TAKEAWAYS

- Venture capital investment rebounded in the first half of 2025 as compared to 2024, driven by outsized AI, crypto and fintech deals, despite a continued decline in deal count.
- Fundraising remained challenging throughout the first half of 2025, with low LP liquidity and longer cycles, except for strong interest in AI-focused funds.
- Exit activity rose in the first half of 2025 as compared to the first half of 2024 through more IPOs and M&A, but IPO valuations were generally lower, and many companies stayed private longer.
- Secondary transactions grew in the first half of 2025 as compared to 2024 as an important liquidity option, especially for top-tier companies.

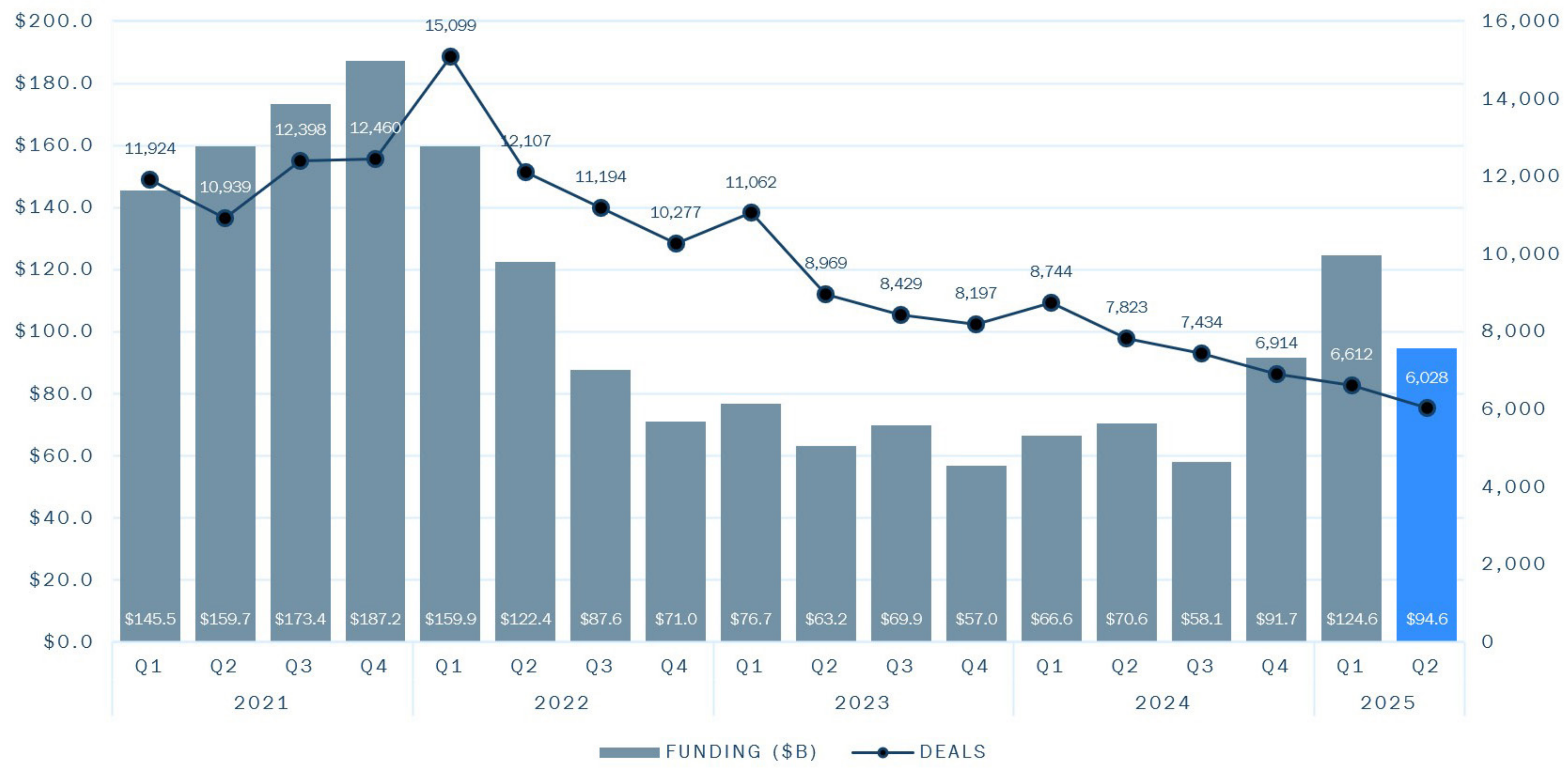
VENTURE CAPITAL ACTIVITY

The first half of 2025 marked a measurable acceleration in venture capital ("VC") activity as compared to 2024 amid macroeconomic and geopolitical uncertainty. Deal value increased from 2024 and is on track to reach a decade high, especially as sectors aligned with the Trump administration's priorities—particularly AI, crypto and fintech—continued to draw strong investor interest. In addition, venture exit activity increased from 2024, with a number of high-profile IPOs and M&A transactions despite tracking behind the optimistic expectations from the beginning of the year. Despite the rebound in activity, VC industry participants remain cautiously optimistic with respect to the second half of 2025, with a continued increase in VC activity being potentially restrained by macroeconomic uncertainty, including persistent inflation, tighter credit conditions, tariff-related instabilities, volatility in the public equity markets, geopolitical risk, regulatory uncertainties and delayed liquidity events.

Global VC investment totaled $219 billion in the first half of 2025, marking a rebound in activity compared to $137 billion in the first half of 2024 and $150 billion in the second half of 2024.[1] In the United States, venture-growth deal activity (*i.e.*, amount of capital raised in later rounds such as Series C and beyond) was especially strong, with $84 billion being deployed during this period. However, these elevated levels were driven primarily by a small number of outsized deals, primarily in the AI sector, which accounted for 64% of total deal value and 35% of deal count in the first half of 2025.[2] This included OpenAI's record-breaking $40 billion round, which brought its post-money valuation to $300 billion, nearly double compared to just five months prior, and Scale AI's $14 billion round.

Global deal count, on the other hand, continued its declining trend from the prior two years, sliding 24% compared to the same period in 2024. The second quarter of 2025 marked the lowest quarterly total since 2016, with a deal count of 6,028, a continued decrease from 6,612 deals in the first quarter of 2025. The divergence between the elevated investment levels and the depressed deal count further highlights the impact of outsized rounds in select sectors.

Quarterly Venture Investments



Data Source: CB Insights

Quarterly Venture Investments

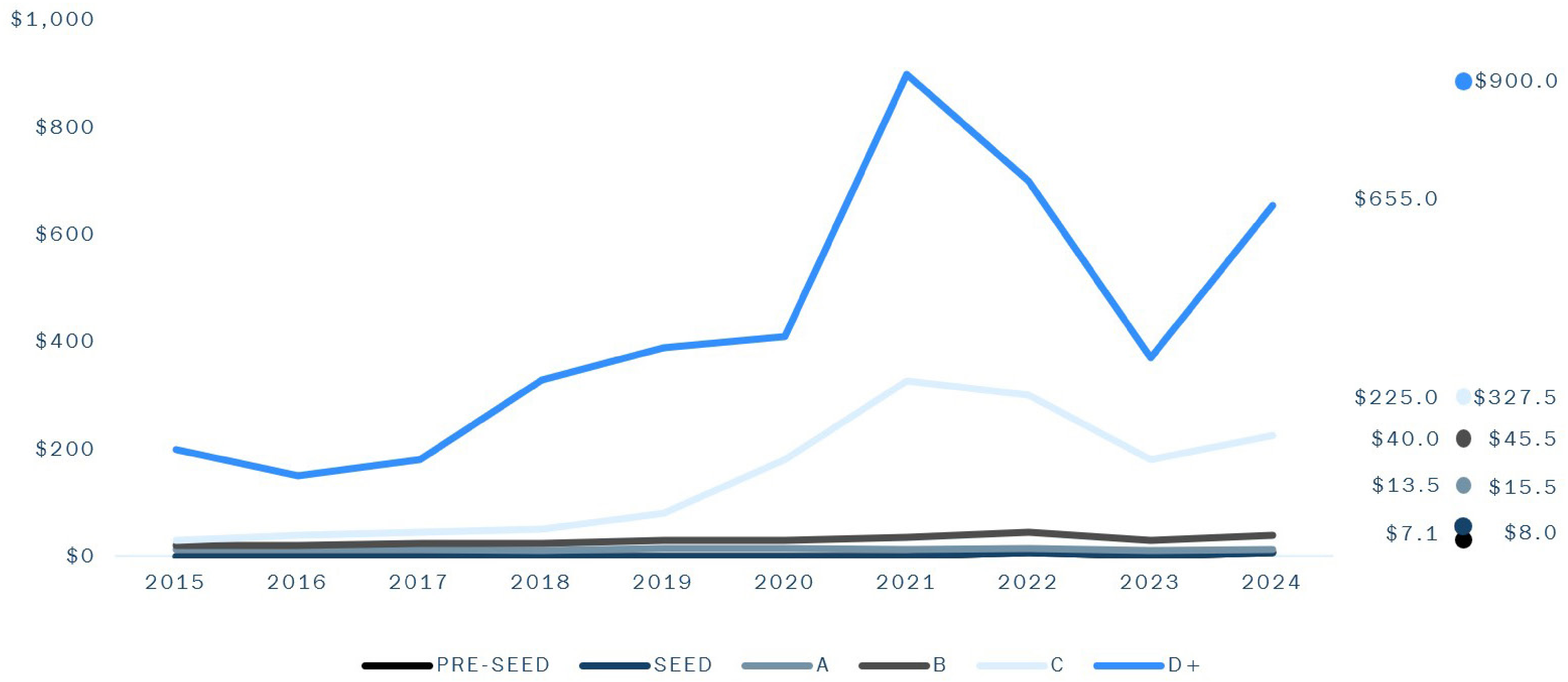
Median deal sizes climbed across all Series in the first half of 2025. This pattern was most evident in AI, crypto, fintech and defense technology, where alignment with the Trump administration's key policies supported outsized rounds.

Along with deal sizes, valuations also grew steadily across Series. Every Series of the venture lifecycle, except Series D+, reached decade-high valuations, reflecting a strong trend towards capital consolidation into fewer, larger rounds for companies with proven growth potential.[3] Across all stages, AI valuations have outpaced those of non-AI companies, in some cases, more than doubling their growth rate. At the Series A level, AI companies saw nearly 50% annualized valuation growth, approaching the levels last seen during the 2021 boom.[4] However, elevated valuations may not necessarily suggest strong performance across sectors. Specifically, similar to the increases in investment levels and median deal sizes, the rise in valuations is mainly attributable to a limited number of outsized deals, mostly in the AI sector, and to companies raising follow-on rounds at relatively small increases from previously high valuations.

FUNDRAISING REMAINS CONSTRAINED

Despite an overall rebound in VC activity, fundraising continued to lag, other than in select sectors, constrained by historically low distribution rates that have resulted in limited LP liquidity and pressure on VC funds to return capital. During the first half of 2025, venture firms raised $27 billion across 238 funds, reflecting the lowest annualized pace in a decade. This represents a nearly 34% year-over-year decline in capital raised, extending the downward trend from 2024.[5] In light of the liquidity constraints, fund managers have faced closures of smaller funds and longer fundraising cycles, with the median time to close a U.S. VC fund extending to over 15 months, the longest fundraising cycle in over a decade.[6]

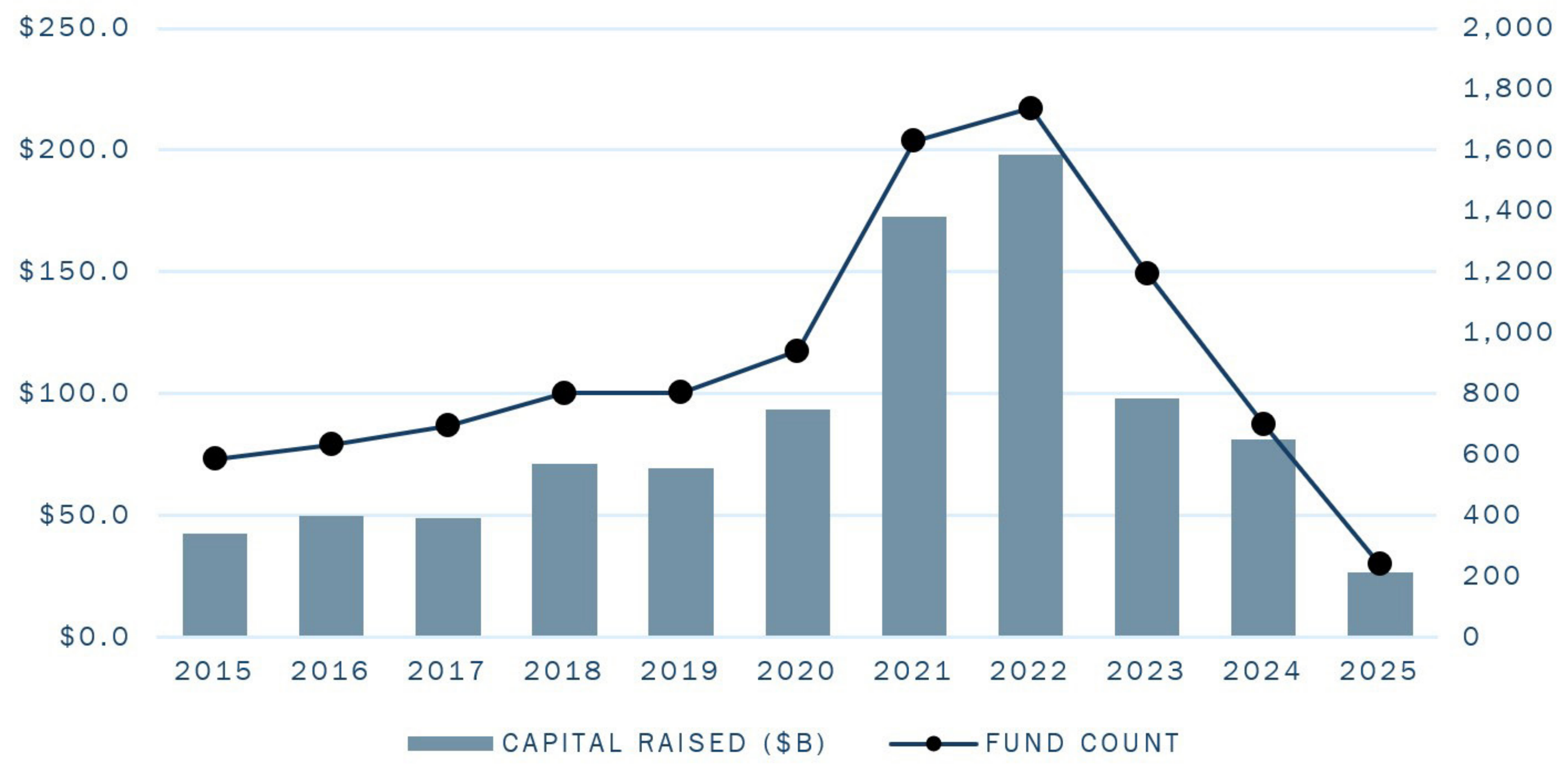
Median VC pre-money valuation ($M) by series



Data Source: Pitchbook and NVCA – Q2 2025 Pitchbook-NVCA Venture

Annualized fundraising deal value is on track to land near decade low

VC fundraising activity



Data Source: Pitchbook and NVCA – Q2 2025 Pitchbook-NVCA Venture

Further, many GPs are holding back on deploying funds, awaiting more attractive entry points or more visibility around exit conditions.[7] This caution has created a funding bottleneck at the Series B and later stages, where startups often seek larger checks without yet demonstrating the growth or profitability demanded in a tighter capital environment. As a result, Series B and later stage deals are taking longer to close, with investors exercising greater discipline on pricing, dilution and business model viability.[8] The median company that raised a Series C in the first quarter of 2025, for example, had waited 30 months since their Series B compared to less than 18 months in 2022.[9] Fund managers are also finding it increasingly difficult to raise new vehicles outside of select sectors.

Against this backdrop, however, a significant portion of fundraising continues to be channeled into a narrow slice of the market, with AI-focused funds attracting outsized interest from investors.

AI continued to be a major outlier in the first half of 2025, attracting significant venture capital amid broader market hesitancy. GPs who were otherwise holding back on deployment showed more willingness to contribute funds for AI startups, particularly those developing AI infrastructure and industry-specific applications in areas such as healthcare, defense and enterprise productivity. For instance, Elon Musk's xAI is reportedly seeking to raise up to an additional $12 billion just weeks after securing $10 billion through a combination of equity and debt financing on June 30, 2025.[10] These transactions also follow the completion of a Series B round of $6 billion in May 2024 and an additional $6 billion in a Series C round in December 2024.

EXIT ACTIVITY

Exit activity continued its increase in the first half of 2025, generating $120 billion across 649 exits, while the first half of 2024 generated $79 billion across 595 exits and the second half of 2024 generated $72 billion across 633 exits.[11]

The IPO Market Rebounds and M&A Activity Increases

The U.S. IPO market in the first half of 2025 showed a notable rebound in deal volume, though aggregate proceeds remained subdued, reflecting a cautious and gradual recovery. The year began with modest momentum in January following the election of President Trump, but market volatility returned mid-first quarter of 2025 due to escalating geopolitical tensions, rising interest rates and the "*Liberation Day*" tariff announcements by the Trump administration on April 2, 2025, which prompted several VC-backed companies to delay or withdraw offerings. The CBOE Volatility Index (VIX) spiked to above 40 for the first time since 2020, shortly after the tariff announcements in early April. However, conditions improved later in the second quarter of 2025, helped by a temporary pause in tariff announcements and stabilizing equity markets, prompting many companies to revive previously shelved listings. VIX also quickly settled to pre-announcement levels below 20 by May.[12]

Specifically, the first half of the year marked a notable resurgence of "unicorn" listings—particularly among companies in AI, crypto and fintech. Seven companies with pre-money valuations exceeding $1 billion completed IPOs during this period, including CoreWeave (raising $1.5 billion in the aggregate), Circle Internet Group (raising $1.1 billion in the aggregate, with strong post-IPO trading performance) and eToro (raising $850 million in the aggregate), which successfully went public after a protracted SEC review process. Meanwhile, Galaxy Digital completed a corporate reorganization and domestication process to become a Delaware-based company listed on the Nasdaq, which was quickly followed by its first U.S. underwritten offering to tap into the U.S. investor market amidst growing investor confidence and interest in the digital asset and AI sectors.

However, IPO pricing reflects a more grounded market. During the second quarter of 2025, several major public listings priced well below their peak private round valuations. Chime's June IPO, for instance, valued the company at a 54% discount to its 2021 private peak valuation, despite favorable reception.[13] Down round IPOs have become increasingly common as companies prioritize raising additional capital and providing liquidity to shareholders over immediately high valuations.

Meanwhile, VC-backed M&A activity has steadily increased. In the first half of 2025, M&A accounted for 35% of total U.S. exit deal count and 31% of overall deal value.[14] The most notable deals included Alphabet's $32 billion acquisition of Wiz, a fast-growing cybersecurity startup specializing in cloud security solutions, and OpenAI's $6.5 billion acquisition of Io Products, a robotics and sensor integration startup. Despite these sizeable transactions, most acquisitions are increasingly focused on startups in the earliest phases of the venture life cycle, with 52% of M&A transactions taking place at or following a seed round of financing.[15] This reflects a preference for earlier-stage targets that have lower valuations and face less regulatory scrutiny as compared to large deals for maturing venture companies.[16]

Rising Secondary Activity

Secondary transactions remained a vital component of the VC ecosystem during the first half of 2025, driven by persistent liquidity constraints and a maturing portfolio of venture companies. The U.S. VC secondary market is estimated at $60 billion, up from $50 billion in 2024, though deal volume continues to be dominated by top-tier companies that can generate strong price confidence, such as SpaceX and Stripe.[17] Although secondaries remain a relatively small portion of the broader venture market, they are increasingly becoming an important exit option. Since 2022, VC-specific secondary dry powder has more than doubled. These transactions give companies greater price certainty and often minimize cap table changes while allowing early employees and investors to access partial liquidity.[18]

Special Insights

KEY TAKEAWAYS

- During the first half of 2025, the AI sector experienced record-breaking funding rounds, intense competition for top talent and ongoing copyright litigation with the backdrop of evolving regulatory developments.
- The crypto industry saw increased institutional adoption and renewed investor confidence due to signs of greater regulatory clarity—especially with the passage of the GENIUS Act and other federal actions—despite continued state-level regulatory fragmentation.
- Pivotal speech delivered by SEC Chair Paul Atkins in July 2025 announcing "Project Crypto", an initiative to modernize the SEC for the digital finance age and establish clear regulations for digital assets in the U.S., cultivates optimism in the crypto industry participants going into the second half of 2025.
- New U.S. tariffs in 2025 disrupted global supply chains and increased costs, prompting startups and investors to focus on supply chain resilience, onshoring and technologies that mitigate trade policy risks.

INDUSTRY SPOTLIGHT: ARTIFICIAL INTELLIGENCE

AI deals continue to bolster VC investment, with increasingly larger funding rounds and a rush to scale critical infrastructure in the U.S. The first half of 2025 has seen several record-breaking "mega-rounds" and late-stage deals for AI labs. In March, OpenAI announced $40 billion in funding at a $300 billion valuation, the largest private tech deal to date.[19] In June, Thinking Machines Lab secured a $2 billion seed round with Andreessen Horowitz as lead investor, marking the U.S.'s largest seed round.[20] Coreweave's IPO in March was followed by significant post-IPO stock value surges, which may encourage additional IPO and deal activity in the AI infrastructure sector. Perplexity AI, an AI-powered search engine, raised $100 million in July, valuing the startup at $18 billion.[21]

While one of the biggest constraints in AI development in 2024 was the availability of sufficient compute resources, this year it appears to be talent. AI labs are competing aggressively for top AI talent and leadership through competitive compensation and acquihires (*i.e.,* the acquisition of a business primarily to gain access to its talent). Meta's new superintelligence lab poached top researchers from OpenAI, Google, Apple and Anthropic, in addition to making a $14 billion investment in Scale AI, with its founder, Alexandr Wang, becoming Meta's new chief AI officer.[22] Similarly, Google DeepMind poached key talent from AI coding startup Windsurf, halting Windsurf's reported $3 billion deal with OpenAI, and Windsurf was later acquired by an agentic coding competitor, Cognition AI (acquisition price undisclosed).[23] Meanwhile, we see AI-enabled software development becoming the norm, lowering the technical barrier to entry for new startup founders ideating software products.

Copyright infringement allegations in model training and generative AI outputs continue to pose major risks to the AI industry. In the courts, AI developers have secured key wins in copyright-related litigation, with federal district court decisions favoring defendants like Meta and Anthropic on fair use grounds. However, the rulings were narrow and there remain open questions around use of copyrighted training data and infringement by AI-generated outputs. Meanwhile, a federal judge also granted class certification to authors whose works were contained in pirate libraries alleged to be used in training, significantly raising the potential damages in one case against Anthropic.[24] In parallel, the U.S. Copyright Office has released further guidance on generative AI, shaping expectations for regulation of digital replicas, copyright eligibility of AI-generated materials and issues surrounding generative AI training.[25]

From a U.S. federal regulatory perspective, the Trump Administration has favored less AI regulation to encourage innovation and adoption, with a focus on national security considerations.[26] President Trump has issued numerous executive orders to advance these goals, including the Executive Order on Maintaining American Leadership in Artificial Intelligence ("EO 13859"), Advancing Artificial Intelligence Education for American Youth ("EO 14277"), Accelerating Federal Permitting of Data Center Infrastructure ("EO 14318") and Promoting The Export of the American AI Technology Stack ("EO 14320"). Later in July, President Trump released a highly anticipated action plan entitled Winning the AI Race: America's AI Action Plan (the "AI Action Plan"), which sets forth a strategy including over 90 federal policy actions to secure U.S. global leadership in AI through accelerated innovation, infrastructure development and international diplomacy.[27] Its directives include support for open-source and open-weight models, programs for AI adoption and training, investment in AI research (including in AI transparency), support for AI infrastructure, development of AI cybersecurity guidance and establishment of programs to export U.S. AI hardware, models, software application and standards.

In contrast, regulators continue to develop AI guardrails at the state level. For example, in June, Texas signed into law the Texas Responsible Artificial Intelligence Governance Act, which prohibits development and deployment of AI systems for certain harmful or unlawful purposes and will go into effect in 2026.[28] Nearly all states have introduced AI-related bills. While the proposed moratorium on state AI regulation was not ultimately included in the One Big Beautiful Bill Act, there remains a tension between federal and state regulation of AI, with the AI Action Plan directing that federal AI funding should not be directed to states with burdensome AI regulations. Among industry stakeholders, concerns around AI safety remain top of mind for both developers and users. Anthropic, for example, has created an Anthropic Transparency Hub, which aims to proactively understand and address potential harms.[29]

INDUSTRY SPOTLIGHT: CRYPTO

The crypto industry saw resilient performance in the first half of 2025, supported by renewed investor confidence and tangible progress toward regulatory clarity. Institutional engagement increased in the first half of 2025 due to a combination of reduced regulatory uncertainty (*e.g.*, GENIUS Act, repeal of SAB 121, generally crypto-friendly SEC) and the introduction of institutional-grade products (*e.g.*, additional crypto ETFs) and licensed service providers (*e.g.*, regulated crypto custody services under banking charters or with the Office of the Comptroller of the Currency), which are lowering the barriers to entry for institutional participants. Solana has emerged as the year's fastest growing blockchain as a result of the meme coin surge, low fees and rapid transaction speeds. We continue to see funding concentrated in DeFi, scaling platforms and stablecoins, along with some new areas such as DePINs and crypto-AI crossover application. There has generally been a decrease in crypto VC investments but increased IPOs and M&A activity as the first waves of crypto startups begin to reach their exit stage. Noteworthy M&A activity includes Coinbase's $3 billion acquisition of Deribit, a crypto options and futures exchange,[30] and Robinhood's $200 million acquisition of Bitstamp, a global cryptocurrency exchange.[31]

Generally, crypto-friendly legal and regulatory developments have fostered greater confidence in the crypto space. In the first half of the year, several of the high-profile SEC enforcement actions against crypto firms, including Coinbase, Kraken and Binance, were dismissed or stayed, signaling a broad shift in the SEC's approach from one of regulation by enforcement to a more collaborative and innovation-friendly framework. In January 2025, the SEC established the Crypto Task Force, which has engaged with crypto industry participants through requests for comment and roundtable meetings in order to gather input from various stakeholders in connection with its efforts to provide clarity on the application of federal securities laws to crypto assets and recommend practical policy measures. With input from these stakeholders, the SEC staff published several statements throughout the first half of the year on the treatment of different types of crypto assets (*e.g.,* stablecoins, meme coins) and crypto-related activities (*e.g.,* staking, mining) under the federal securities laws.

The week of July 14 was dubbed "Crypto Week", with the advancement of three notable bills. First, the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the "GENIUS Act") was passed by Congress and signed into law by President Trump, creating a framework for U.S. stablecoins, including requirements for reserve assets, disclosure obligations and compliance with the Bank Secrecy Act.[32] Second, the Digital Asset Market Clarity Act (the "CLARITY Act" or the "Market Structure Bill") was passed by the U.S. House of Representatives and advanced to the Senate, which is currently discussing a modified version in the Senate Banking Committee—if passed, the CLARITY Act would establish a comprehensive regulatory framework for digital assets (other than stablecoins) and would split oversight between the SEC and CFTC. Third, the U.S. House of Representatives also passed the Anti-CBDC Surveillance State Act, which, if passed by the Senate and signed into law, would prohibit the Federal Reserve Bank from issuing a central bank digital currency (a "CBDC").

This all culminated in two key events at the end of July 2025. On July 30, 2025, the President's Working Group on Digital Asset Markets published a report on Strengthening American Leadership in Digital Financial Technology (the "PWG Report"), outlining, among other things, a comprehensive federal roadmap to modernize capital markets, clarify token classifications, promote coordination between federal agencies and market structure modernization.[33] The PWG Report was shortly followed by a pivotal speech delivered by SEC Chairman Paul Atkins on July 31, 2025, unveiling "Project Crypto," a Commission-wide initiative to modernize the federal securities regulatory framework for digital assets. In his speech, Chairman Atkins emphasized the need to establish clear, category-based guidelines for determining whether crypto assets qualify as securities under federal securities laws, and stated directly that "[d]espite what the SEC has said in the past, most crypto assets are not securities."[34] Citing the PWG Report as a blueprint, Chairman Atkins also announced his directive to the SEC staff to draft rules and regulations regarding crypto asset distributions, custody and trading for public notice and comment. In parallel, the SEC staff would utilize interpretative, exemptive and other authorities to facilitate digital-asset innovation in the U.S., including to provide relief, where appropriate, for firms to "tokenize" their own or others' securities. Chairman Atkins stressed the need to accelerate domestic crypto activity and bring capital formation on-chain through tailored disclosures, safe harbors and exemptions for token offerings and crypto-related activities, while promoting the ability for "super-app" platforms to offer both securities and non-securities under a single license.[35]

Additionally, regulatory clarity for crypto is also advancing outside of the United States, with key jurisdictions like the European Union implementing the Markets in Crypto-Assets ("MiCA") framework, which came into effect in December 2024, to establish a comprehensive framework for crypto regulation across 27 member states, and the United Kingdom introducing draft legislation in April 2025, which identified the types of crypto activities that would become subject to regulation by the U.K. Financial Conduct Authority. Relatedly, anti-money laundering ("AML") laws for digital assets are tightening globally, and many jurisdictions are implementing the Financial Action Task Force ("FATF") Travel Rule, a regulatory framework that requires financial institutions, including virtual asset service providers, to collect, verify and exchange standardized information about transaction senders and beneficiaries.

Despite the shift in approach by federal regulators and lawmakers, certain U.S. state regulators continue to take a more cautious approach to crypto activities. For example, the Oregon state attorney general brought an enforcement action against Coinbase in April 2025, alleging that Coinbase encouraged and helped the sale of unregistered securities.[36] In the first half of 2025, at least 40 states have introduced or have pending legislation related to crypto and digital assets.[37] In California, the Department of Financial Protection and Innovation ("DFPI") proposed implementing regulations for the Digital Financial Assets Law ("DFAL"), which includes frameworks for licensure and enforcement authority.[38] The DFPI took its first enforcement action in June 2025 under the DFAL, issuing a $300,000 fine against Coinme, Inc. for crypto kiosk violations.[39] As a result, crypto regulation continues to be somewhat fragmented in the United States.

The stablecoin industry is experiencing a surge driven by increased adoption, regulatory clarity and substantial investment. In June, Circle, the creator of USDC stablecoin, completed its highly anticipated IPO, raising around $1.1 billion.[40] Circle's successful IPO and strong trading post-IPO marks a significant push into mainstream finance and may encourage other crypto firms to IPO.[41] As mentioned above, on July 18, the GENIUS Act was signed into law, establishing a comprehensive federal framework for dollar-backed stablecoins. This follows the SEC's Staff Statement on Stablecoins issued on April 4, in which the SEC staff stated that it views certain stablecoins—*i.e.*, U.S. dollar-pegged stablecoins that can be redeemed for U.S. dollars on a one-for-one basis and are backed by assets held in a reserve that are considered low-risk and readily liquid with a U.S. dollar-value that meets or exceeds the redemption value of the stablecoins in circulation and marketed solely for payments, money transmission or value storage—to not constitute "securities" under federal securities laws.

Cybersecurity remains an important issue in the crypto industry, with multiple high profile hacks in the first half of 2025 totaling over $2 billion stolen from crypto services.[42] In February, the ByBit hack was the largest single hack in crypto history, with over $1.5 billion stolen in one incident.[43] These hacks frequently target victims through social engineering (*i.e.*, using psychological manipulation tactics to gain unauthorized access) and compromising internal personnel. Industry participants are strengthening their hiring policies, training materials and cybersecurity practices to guard against these hacks. Frequent security audits continue to be important for centralized and decentralized projects alike.

IMPACT OF TARIFFS

The rollout of new U.S. tariffs in early 2025 disrupted global markets, adding inflationary pressure and supply-chain turbulence. Public equities plunged as investors reassessed earnings forecasts, and although a 90-day pause on tariffs in the second quarter of 2025 brought temporary relief, trade policy remains a key source of uncertainty and risk.

Hardware and supply chain-focused startups have been impacted most significantly. Impacted companies have faced rising input costs and procurement delays, prompting moves to alternative sourcing or localized production.[44] Investors are increasingly demanding detailed visibility into geographic exposure and logistics flexibility during diligence, and some late-stage financings have been paused or repriced to reflect tariff risk.

At a national level, the Trump administration is actively promoting reshoring supply chains and aligning them to its national security priorities. For example, MP Materials, America's only vertically integrated rare-earth company, is dramatically expanding its operations to reduce U.S. reliance on China, and the U.S. Defense Department (DoD) has taken a substantial stake in MP in July, including a price floor guarantee where the DoD will guarantee a minimum price on specific compounds sold by MP Materials.[45] Many businesses, especially in hardware and robotics, are evaluating near-shoring or regional diversification strategies to shield against volatility resulting from tariff policy.[46]

The recent tariffs have heightened short-term cost pressures and introduced greater strategic complexity for many businesses, prompting a shift in focus toward resilience. In response, both venture and private equity firms are actively evaluating portfolio exposure to trade shocks and reassessing investment strategies. This environment has increased interest in startups that enable supply chain modernization, particularly those offering supplier management platforms, onshore production solutions and logistics automation technologies which are aimed at strengthening a more sovereign and adaptable industrial base.[47]

Regulatory Developments

KEY TAKEAWAYS

- The Trump administration prioritized capital formation and regulatory rollback, particularly in emerging sectors like AI and crypto.
- The SEC issued a no-action letter in March 2025 easing the verification of accredited investors under Rule 506(c), reducing administrative burdens and potentially increasing the attractiveness of general solicitation offerings. It also began reconsidering the definition of "foreign private issuer", which could subject more foreign companies to full U.S. reporting requirements.
- Nationwide injunctions and new Treasury rules have exempted U.S.-formed entities from Corporate Transparency Act beneficial ownership reporting, reducing compliance burdens for U.S. startups and venture funds.
- The America First Investment Policy previews a fast-track CFIUS process for certain investors from allied countries, while expressing support for the expansion of CFIUS jurisdiction to greenfield investments and continuing scrutiny of investments with links to China.
- The One Big Beautiful Bill Act introduced several VC-relevant tax changes, including expanded QSBS exemptions, reinstated immediate domestic R&D expensing (retroactive for small businesses), permanent full expensing of tangible property and the Section 199A deduction, a higher interest deduction cap based on EBITDA and a temporary SALT cap increase—while leaving carried interest treatment and PTET deductibility unchanged.

KEY CHANGES IN THE REGULATORY ENVIRONMENT

Regulatory shift under the Trump Administration

The first half of 2025 experienced a considerable shift in the regulatory landscape for venture-backed companies, particularly due to the Trump administration's relatively supportive stance toward emerging technologies such as AI and crypto. Under new leadership at key U.S. regulatory agencies and the White House, there has been a shift in regulatory priorities at the federal level. For example, President Trump appointed Paul Atkins, a former SEC Commissioner under President Bush, as Chairman of the SEC. Chairman Atkins is known for his focus on providing regulatory clarity through the historical tradition of notice and comment, something that his predecessor, Chair Gensler, was accused of not following and instead relying on "regulation by enforcement".[48] President Trump also appointed David Sacks, an AI investor and entrepreneur, as the White House AI and crypto czar and Chair of the President's Council of Advisors on Science and Technology.

The first half of 2025 also marked a decisive shift in regulatory priorities across the U.S. federal government as the Trump administration prioritized capital formation, reduced compliance burdens and rolling-back expansive rulemaking. For example, the SEC under President Trump has taken several actions, including voting to end its defense of the Biden-era climate-related disclosure rules, delaying the implementation of enhanced private fund reporting under Form PF, withdrawing a number of outstanding rule proposals issued under the Biden-era SEC, which would have imposed, among others, heightened cybersecurity disclosures and enhanced ESG-related disclosures. Additionally, there has been a lot of work done in the crypto area which has been positively viewed by the crypto market (see Industry Spotlight: Crypto for details). In addition, President Trump rescinded President Biden's 2023 Executive Order on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence, which had directed federal agencies to evaluate AI-related risks in order to establish comprehensive guidelines for its use, with a view towards safety and privacy. In its place, President Trump introduced America's AI Action Plan, setting forth policy goals around innovation, infrastructure and international diplomacy and security.

KEY SEC DEVELOPMENTS

Regulation D: Simplified Accredited Investor Verification

In March 2025, the SEC issued a no-action letter clarifying "reasonable steps" issuers can take to verify a purchaser's accredited investor status under Rule 506(c) of Regulation D. Specifically the no-action letter provided an alternative path for compliance with Rule 506(c), allowing issuers to satisfy the verification requirements by relying on minimum investments amounts and written self-certifications from the purchasers.

Most issuers conducting exempt securities offerings under Regulation D have historically relied on Rule 506(b) which prohibits the use of any "general solicitation or general advertising" in connection with the offering. In contrast, Rule 506(c) permits issuers to engage in general solicitation, provided that the issuer and its agents take "reasonable steps to verify" the "accredited investor" status of purchasers in the offering. However, issuers have been reluctant to rely on this rule due to the administrative burden associated with the verification process and the perceived risk that verification methods that are not explicitly permitted under the rule could be challenged due to historically limited guidance related thereto from the SEC.

The March 2025 no-action letter clarifies that an issuer may satisfy the Rule 506(c) verification requirement if (i) the investment meets or exceeds a minimum investment threshold of $200,000 for natural persons or $1 million for legal entities and (ii) the investor provides the issuer with written investor representations confirming accredited status and the absence of third-party financing. In addition, the issuer must not have actual knowledge of any facts that indicate that the purchaser is not an accredited investor. This clarification simplifies the process for verifying accredited investor status, making Rule 506(c) offerings potentially more attractive to issuers.

SEC Considers Amending the Definition of FPI

In June 2025, the SEC issued a concept release soliciting public comment on whether the definition of "foreign private issuer" (FPI) should be amended in response to shifts in the FPI population over the past two decades.

Non-U.S. companies that qualify as FPIs benefit from relief from certain reporting, corporate governance and other obligations applicable to U.S. domestic issuers, in part to minimize potential conflicts with regulatory requirements in those FPIs' home country jurisdictions. However, following an analysis of the current FPI population, the SEC noted that a significant number of FPIs may not be subject to meaningful regulatory obligations, either in their home country jurisdiction or from a non-U.S. stock exchange listing. The SEC suggested that this could have an adverse impact on U.S. investor protection or put more heavily regulated U.S. companies at a competitive disadvantage. As a result, the SEC is considering whether to change the eligibility criteria for FPI status. The deadline for public comments is September 8, 2025.[49]

BENEFICIAL OWNERSHIP REPORTING

In March 2025, the U.S. Department of Treasury issued an interim final rule that significantly narrowed the scope of the beneficial ownership information (BOI) reporting rules mandated under the Corporate Transparency Act. The initial rules required certain companies to file reports with the Financial Crimes Enforcement Network disclosing company information and personally identifying information for the company's beneficial owners.

The revised rule exempts U.S.-formed companies and U.S. persons from BOI reporting requirements, reducing the compliance burden on U.S. startups. The rules will continue to apply to foreign entities that are registered to do business in a U.S. state, and do not qualify for an exemption, although these companies are no longer required to report U.S. persons as beneficial owners.[50]

AMERICA FIRST INVESTMENT POLICY

The America First Investment Policy previews the establishment of a "fast-track" pathway within the Committee on Foreign Investment in the United States (CFIUS) for certain vetted investors originating from allied and partner countries.[51] This expedited process is designed to facilitate and encourage foreign investment in U.S. businesses, particularly in advanced technology and other strategic sectors, by reducing bureaucratic hurdles and streamlining national security reviews. However, eligibility for this fast-track treatment—which will initially be implemented through a pilot program—is contingent upon investors' verifiable independence from U.S. foreign adversaries, especially China. The policy explicitly requires that allied investors avoid partnerships with adversarial entities in corresponding areas, signaling a clear intent to incentivize global investors to distance themselves from China and other designated adversaries. This approach aims to channel more capital from trusted sources into the U.S. innovation ecosystem while maintaining robust safeguards against national security risks.

In parallel, the policy expresses support for an expansion of CFIUS's jurisdiction, particularly over greenfield projects, or new business ventures established from the ground up by foreign investors. Traditionally, CFIUS's authority was limited to acquisitions of, or investments in, existing U.S. businesses as well as certain transactions involving real estate in sensitive locations in the United States. The proposed expansion to cover greenfield investments is targeted at restricting adversary investments, with a strong focus on China, in sectors such as artificial intelligence, biotechnology and critical infrastructure. Expanding CFIUS's jurisdiction to cover greenfield investments would likely require a statutory change, and it is not yet clear that Congress shares the Trump administration's view on this issue. As a result, we do not expect CFIUS to review greenfield investments for the foreseeable future.

SIGNIFICANT TAX CHANGES IN THE ONE BIG BEAUTIFUL BILL ACT

The One Big Beautiful Bill Act made several changes to the Tax Code that are particularly relevant to VC and growth equity:

Most importantly, the Act expanded the Qualified Small Business Stock ("QSBS") exemption in several ways. First, it increased the $10M exemption of gains from sale of QSBS applicable to individuals with low basis stock to $15M.[52] Second, the maximum amount of gross assets permitted while maintaining QSBS eligibility was increased from $50M to $75M.[53] Third, a partial phase-in of the exemption was introduced for holding periods between three and five years.[54] Finally, the $15M and $75M amounts are indexed to inflation.[55]

In addition, the Act resumed the immediate expensing of R&D but only for domestic R&D. Foreign R&D must continue to be capitalized and amortized over 15 years.[56] In addition, especially relevant to early-stage R&D intensive startups, businesses with annual gross receipts less than $30 million can generally apply domestic R&D expensing retroactively to expenses incurred beginning in 2022.[57]

Several other changes in the Act are also noteworthy. The Act made permanent full expensing of tangible property and also added an additional temporary deduction for "qualified production property", such as factories.[58] It also made permanent a higher interest deduction cap based on EBITDA, rather than EBIT.[59] For businesses held in pass-through form, the Act made permanent the 20% "Section 199A" deduction for income arising from qualified businesses.[60] Finally, the Act increased the SALT deductions limitation to $40,000 until 2029, although this phases down to $10,000 for taxpayers with income above $500,000.[61]

Finally, there were some noteworthy omissions in the Act. First, there was no change to the treatment of carried interest.[62] Second, pass-through entity taxes (often referred to as "PTET")—state and local taxes imposed on flow-through entities in lieu of taxes imposed on their owners—remain fully deductible notwithstanding the limitation on SALT deductions.[63]

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