



POTENTIAL CHANGES COMING FOR ACCREDITED INVESTORS



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The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) has had far reaching implications across the financial services industry. It has been four years since the Dodd Frank Act was passed and many of the requirements are now being implemented. One of the requirements was for the SEC to perform a study regarding the definition of an accredited investor.

Angel investors have played a pivotal role in the financing and direction of many start-ups and small businesses in the U.S. The current requirements angel investors need to meet to qualify as an accredited investor have not substantially changed in over 30 years and the SEC’s study may result in a revision of the criteria. Currently, angel investors must meet one of two of the following requirements under Rule 501 of Regulation D of the Securities Act of 1933 in order to qualify as an accredited investor to purchase securities not registered with the SEC:

1. A person’s net worth, excluding the primary residence, must be over \$1 million
2. A person’s annual income must exceed \$200,000, (\$300,000, if married) for the two most recent years and a reasonable expectation of the same level of income in the current year

Additionally, investors must be reaccredited every three months.

There are arguments on both sides of the isle. Those who believe the rules should be less burdensome believe it would increase access to capital for small companies. Angel investors provide not only capital, but also expertise and guidance to new entrepreneurs. Some studies also suggest that the increased oversight of angel investors decreases the opportunities and the likelihood for fraud.

Others believe the thresholds noted above need to be increased to keep pace with costs of living and inflation. Further, having the capability to provide financing does not necessarily mean that an individual has the prudent investor knowledge to fully understand the risks of the investments or that the investor has the expertise to provide guidance to start-ups. Therefore, some argue that additional criteria should be met in order to qualify as an angel investor.

The study is anticipated to be issued in July 2014. Regardless of what the study entails, it is likely further discussion from both sides will be heard before any changes to the criteria of an accredited investor are made.

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Sources:

1. Checkpoint Accounting & Compliance Alert, Friday June 6, 2014, Volume 8, No. 109. SEC News – Angel Investors Gear Up to Oppose Effort to Redefine ‘Accredited Investor’
2. SEC.gov

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