



Accredited Investor in Context

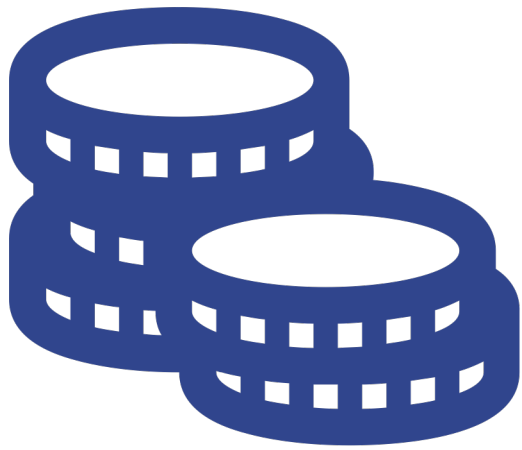
Presentation to the SEC's Small Business Capital Formation Advisory Committee

February 10, 2022

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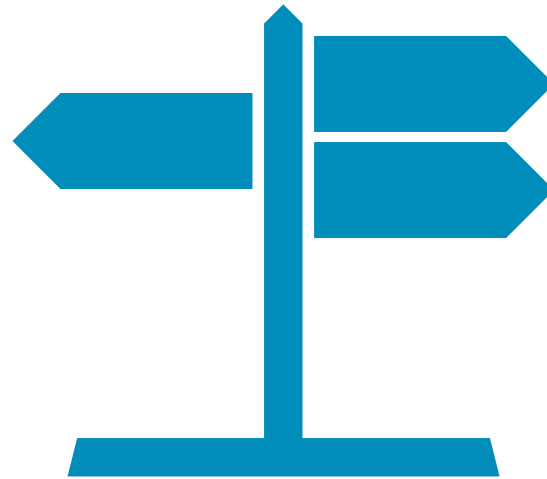


Accredited Investor *in context*



WHO:
Accredited
Investor Status

+

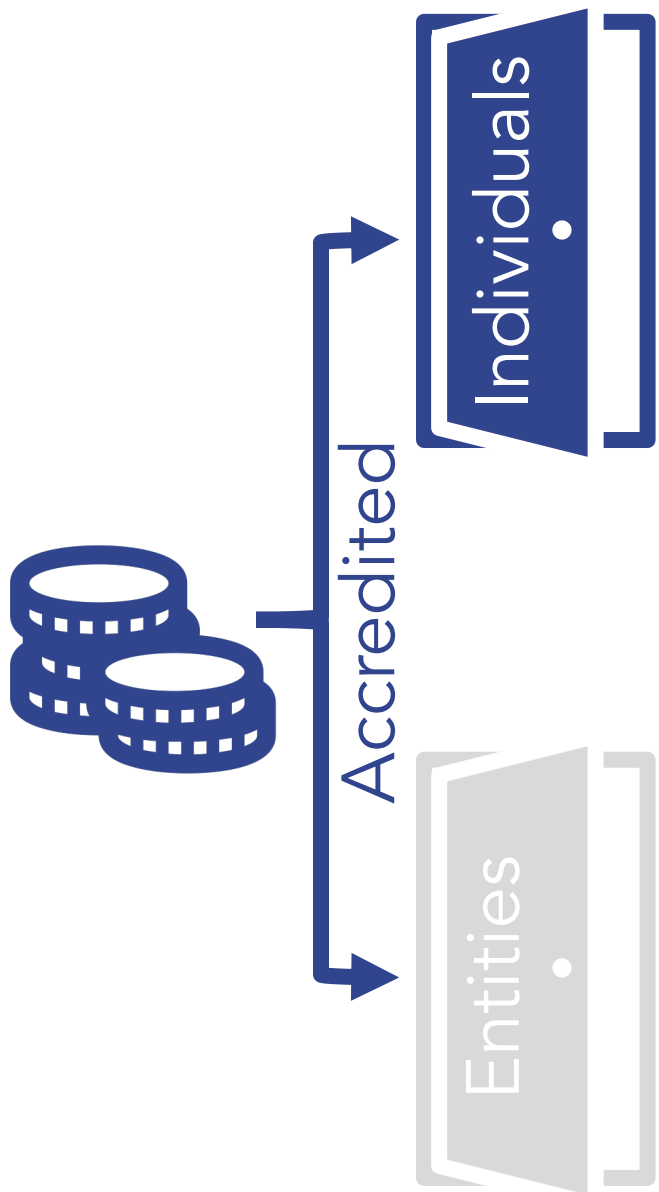


HOW:
Offering
Pathways

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WHAT:
Investment
Opportunities

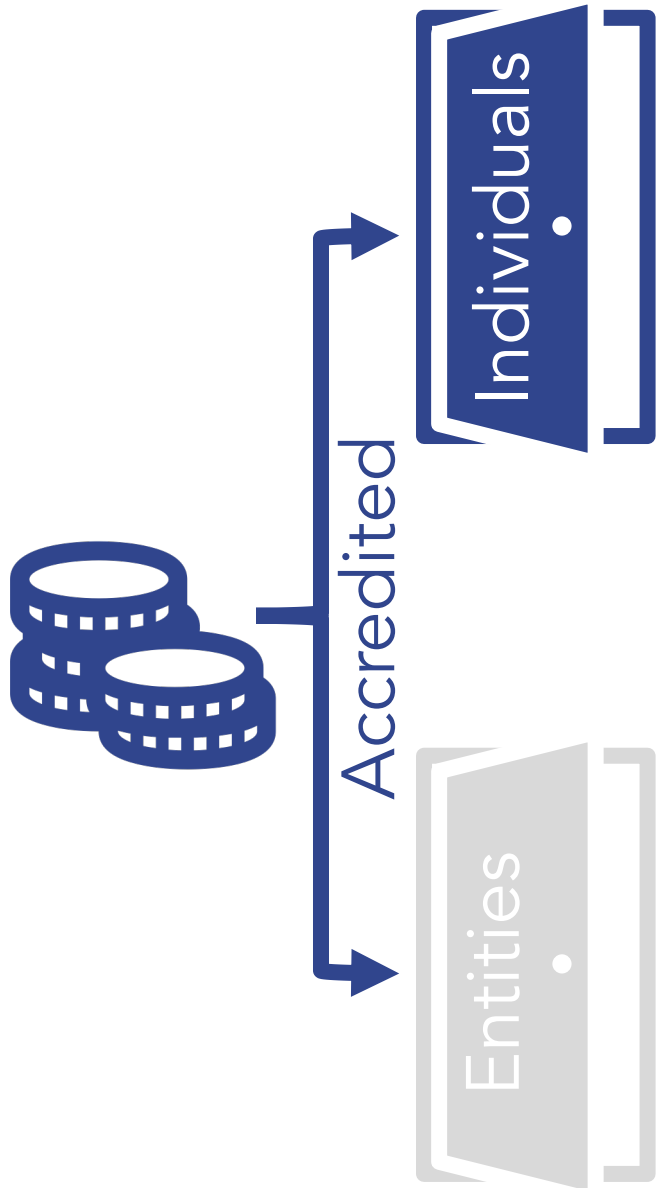


Financial Criteria:

- **Net worth** over \$1 million, excluding primary residence (individually or with spouse or partner)
- **Income** over \$200,000 (individually) or \$300,000 (with spouse or partner) in each of the prior two years, and reasonably expects the same for the current year

Professional Criteria:

- **Investment professionals** in good standing holding the general securities representative license (Series 7), the investment adviser representative license (Series 65), or the private securities offerings representative license (Series 82)
- **Directors, executive officers, or general partners (GP)** of the company selling the securities (or of a GP of that company)
- Any "**family client**" of a "family office" that qualifies as an accredited investor
- For investments in a private fund, "**knowledgeable employees**" of the fund



Financial Criteria:

- **Net worth** over \$1 million, excluding primary residence (individually or with spouse or partner)
- **Income** over \$200,000 (individually) or \$300,000 (with spouse or partner) for the two years prior to the investment, and reasonably expects the same for the next two years

The 2020 rules also clarified qualification for spousal equivalents

In 2020, the SEC adopted final rules that maintained the current financial thresholds without adjustment for inflation

Professional

- **Investment professionals** in good standing with a securities representative license (Series 6), a securities representative license (Series 65), or the investment adviser representative license (Series 82)

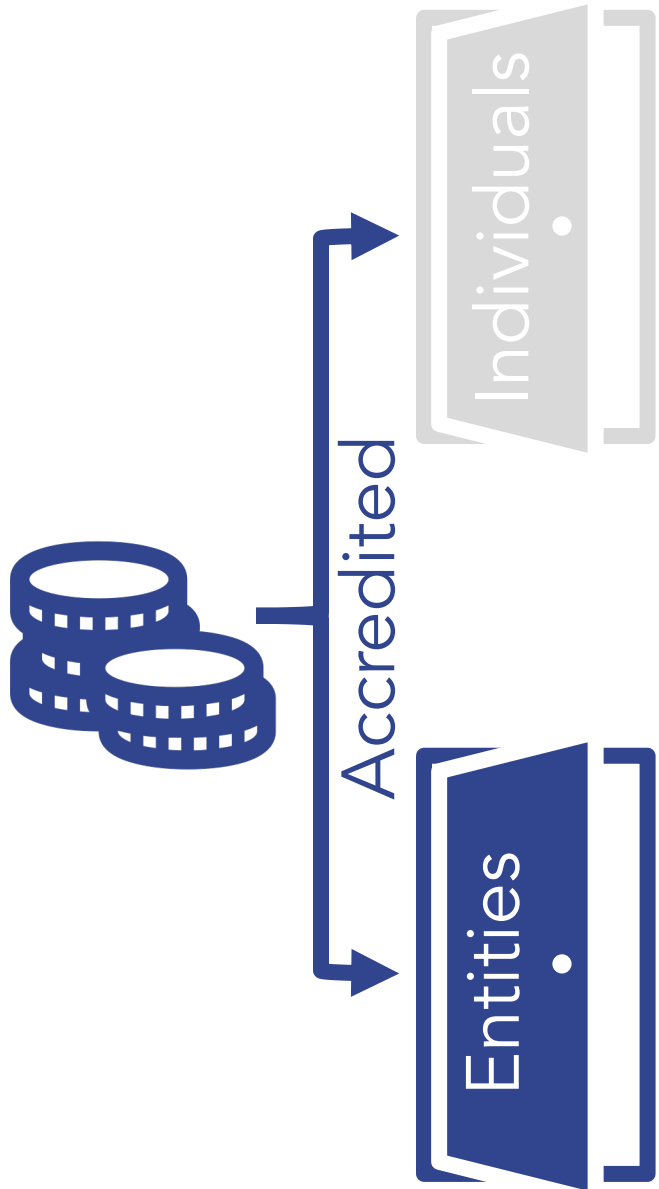
In 2020, the SEC added these new pathways for investment professionals to qualify

- **Directors, executive officers, or general partners** (GP) of the company selling the securities
- Any **"family client"** of the company selling the securities
- For investments in the fund

partners (GP) of the company selling the securities qualifies as an

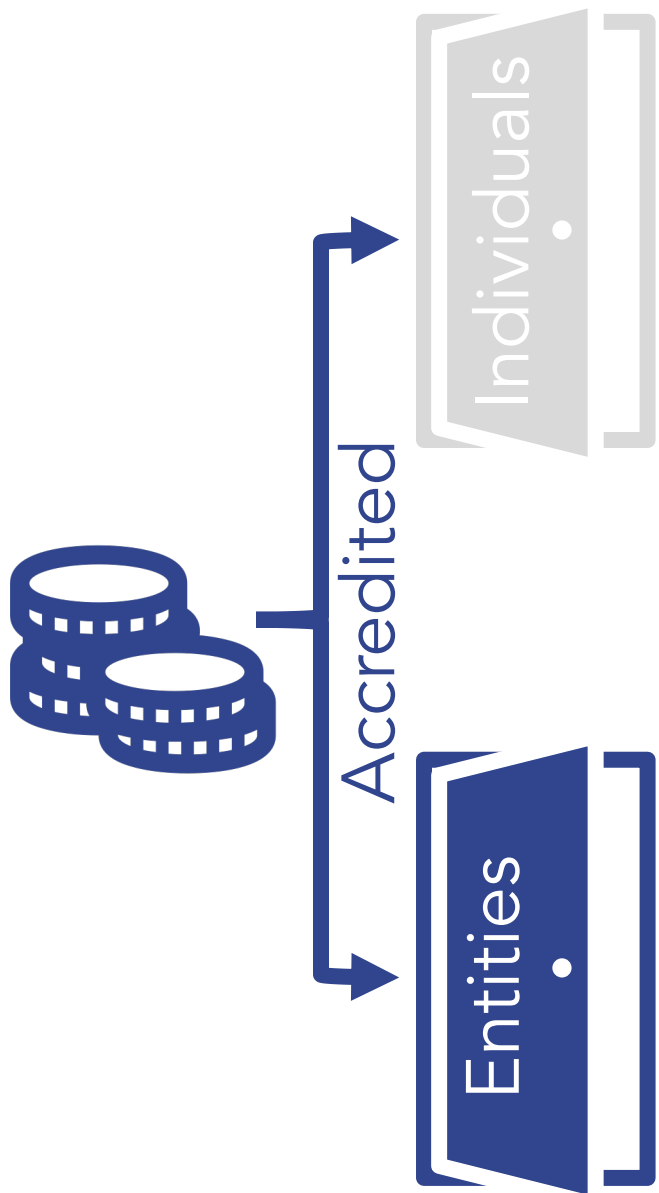
able employees" of

In 2020, the SEC added this criteria



Entity Criteria:

- Entities owning **investments** in excess of \$5 million
- The following entities with **assets** in excess of \$5 million: corporations, partnerships, LLCs, trusts, 501(c)(3) organizations, employee benefit plans, "family office" and any "family client" of that office
- Entities where all **equity owners** are accredited investors
- **Investment advisers** (SEC- or state-registered or exempt reporting advisers) and SEC-registered broker-dealers
- Certain **financial entities**, including banks, savings and loan associations, insurance companies, registered investment companies, business development companies, or small business investment companies or rural business investment companies



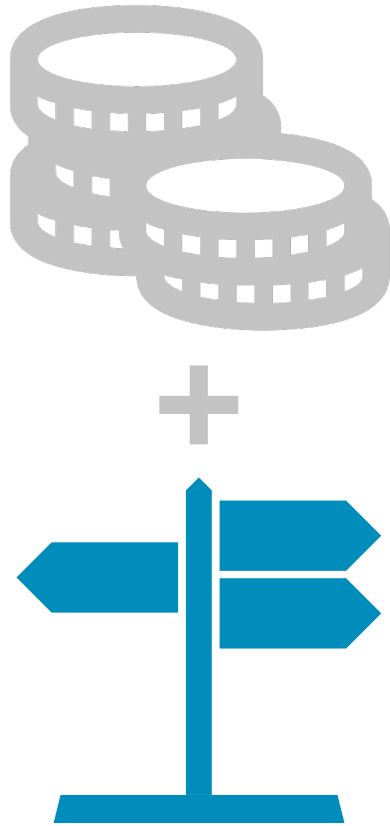
In 2020, the SEC added eligibility for many entities based on investment thresholds and clarified eligibility based on asset thresholds

Entity Criteria:

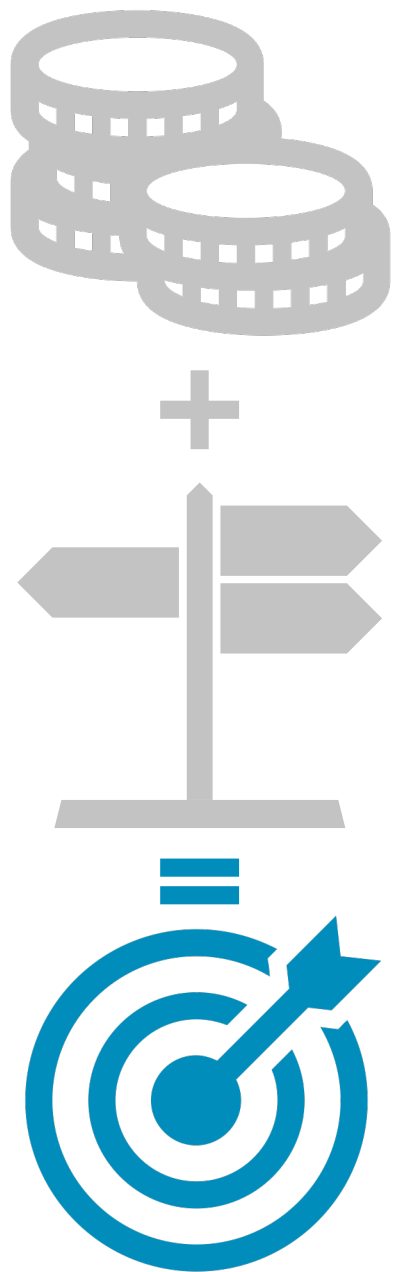
- Entities owning **investments** in excess of \$5 million
- The following entities with **assets** in excess of \$5 million:
 - Corporations, LLCs, trusts, 501(c)(3) organizations, family office" and any "family client" of
- **Entity owners** are accredited investors
- **Investment advisers** (SEC- or state-registered or exempt reporting advisers) and SEC-registered broker-dealers
- Certain **financial entities**, including banks, savings and loan associations, insurance companies, registered investment companies, business development companies, or small business investment companies or rural business investment companies

In 2020, the SEC clarified eligibility for certain financial firms and entities

Impact on Offering Pathways



- **Rule 506(b) Private Placements** allow companies to raise unlimited capital from investors with whom the company has a relationship without using general solicitation
 - 🚩 No limits on accredited investors
 - ⚠️ Limited to 35 nonaccredited investors with enhanced disclosures
- **Rule 506(c) General Solicitation Offerings** allow companies to raise unlimited capital by broadly soliciting investors
 - 🚩 No limits on accredited investors
 - ⚠️ Nonaccredited investors may not participate
- **Regulation Crowdfunding Offerings** allow eligible companies to raise up to \$5M in a 12-month period from investors online via a registered funding portal
 - 🚩 No limits on accredited investors
 - ⚠️ Nonaccredited investors subject to investment limits
- **Regulation A Offerings** allow eligible companies to raise up to \$20M in a 12-month period in a Tier 1 offering and up to \$75M in a 12-month period in a Tier 2 offering through a process similar to, but less extensive than, a registered offering
 - 🚩 No limits on accredited investors in Tier 2; limits apply in Tier 1
 - ⚠️ Nonaccredited investors subject to investment limits



Investment Opportunities

- **Startups and early-stage companies** typically raise capital using offering exemptions before they are of a size and scale to conduct an IPO
 - The vast majority raise capital exclusively from accredited investors
- **Private funds**, including hedge funds and venture capital funds, typically raise capital using Rules 506(b) or 506(c) offering exemptions
 - Most funds limit investor pool to accredited investors or qualified purchasers, who must meet even higher investment asset thresholds

For more data on the utilization of offering pathways, see the SEC Small Business Advocate's [2021 Annual Report](#).



Want more information?

Check out our new

Building Blocks,

where we break down the
fundamentals of capital raising.

www.sec.gov/capitalraising

Appendices of data

Advisory Committee's Prior Accredited Investor Recommendation

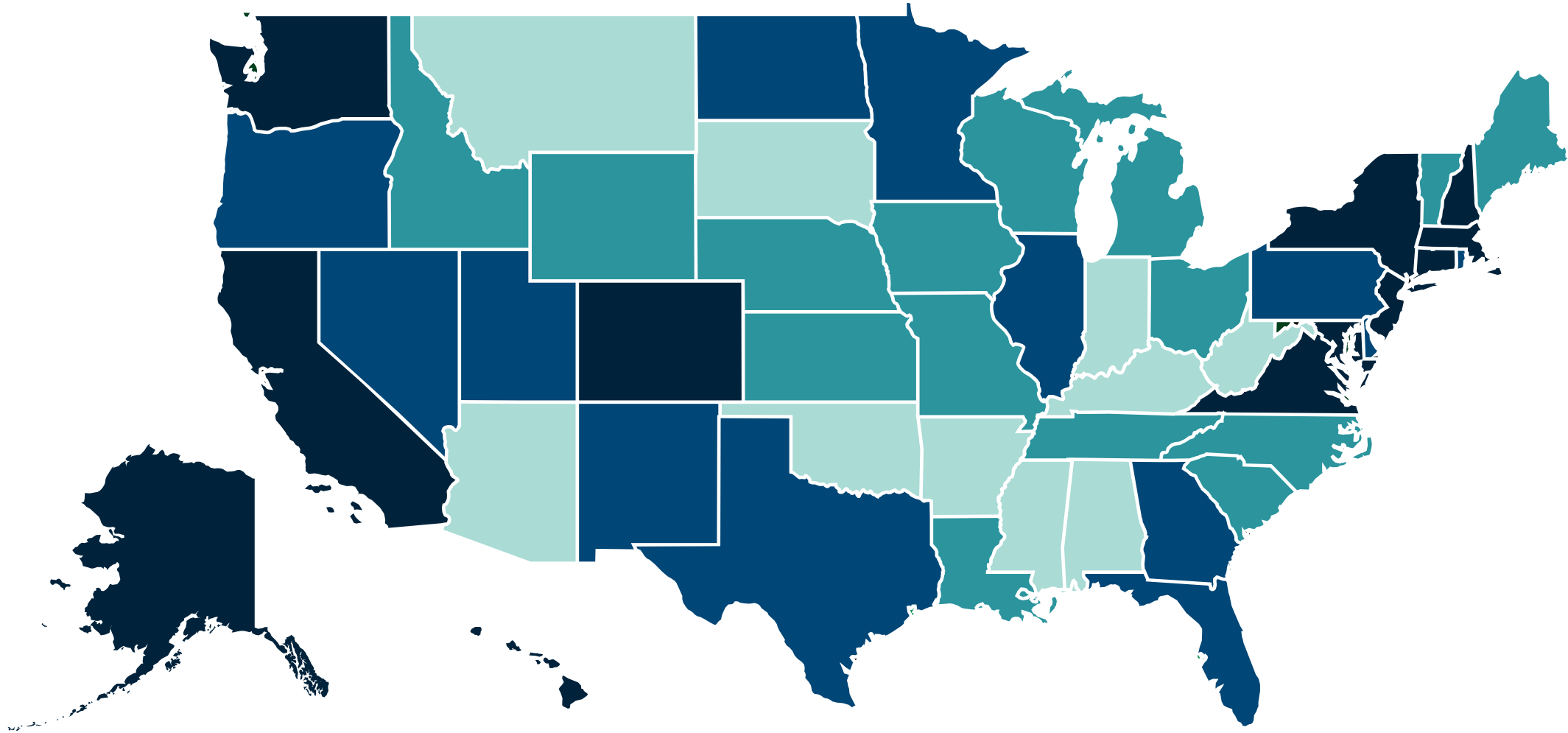
Adopted at the November 12, 2019 meeting

With respect to the definition of “accredited investor” as set forth in Securities Act Rule 501(a) of Regulation D, the Committee recommends that the Commission:

- a. Leave the current financial thresholds in place, subject to possibly adjusting such thresholds downwards for certain regions of the country.
- b. Going forward, index the financial thresholds for inflation on periodic basis.
- c. Revise the definition to allow individuals to qualify as accredited investors based on measures of sophistication. In doing so, the Commission should create bright line rules for qualifying as an accredited investor by sophistication, which could include professional credentials, work experience, education, and/or a sophistication test.

Recommendation is available [online](#).

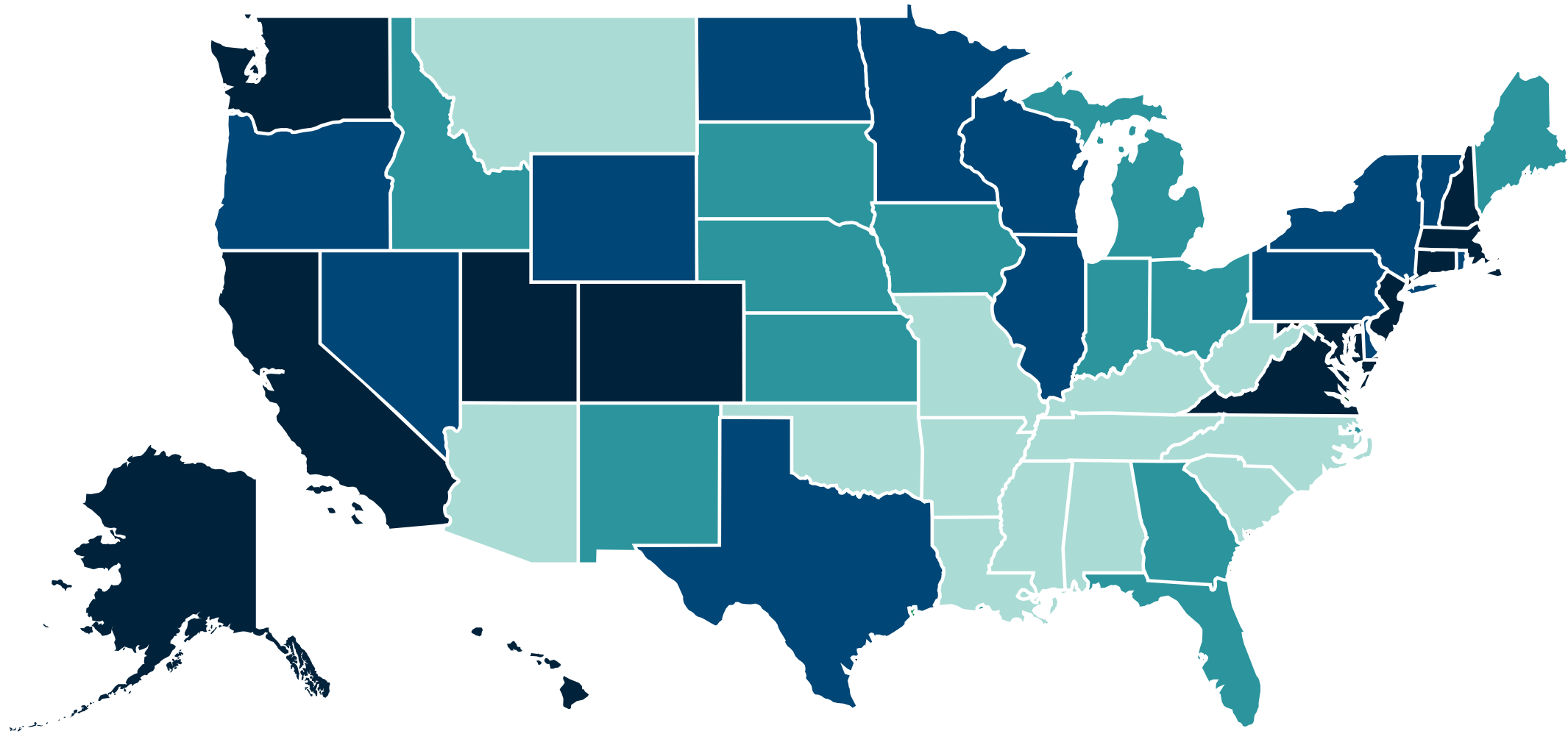
Median household income in as of 2019



■ \$45,792 - <\$57,506 ■ \$57,506 - <\$63,276 ■ \$63,276 - <\$75,028 ■ \$75,028 - <\$92,266

Census Bureau [data](#).

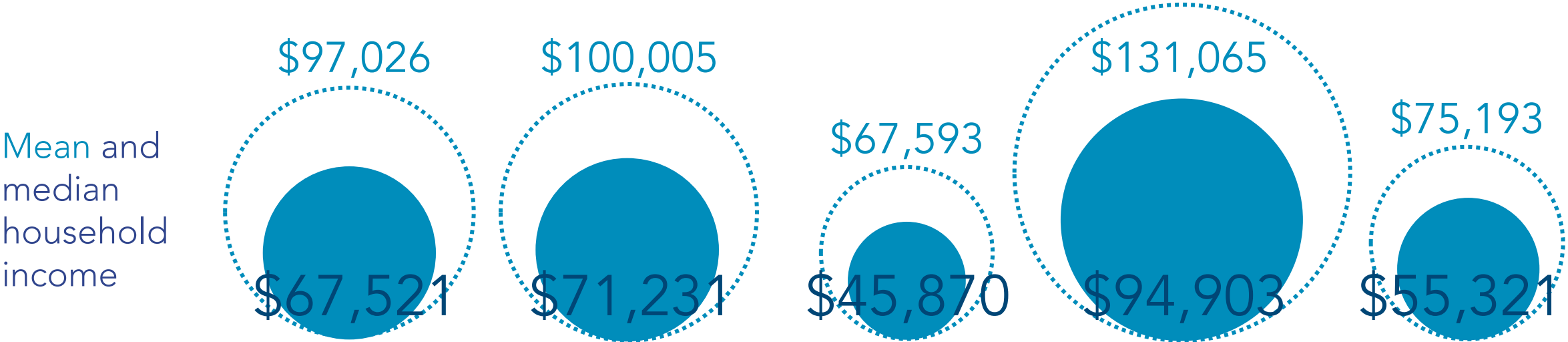
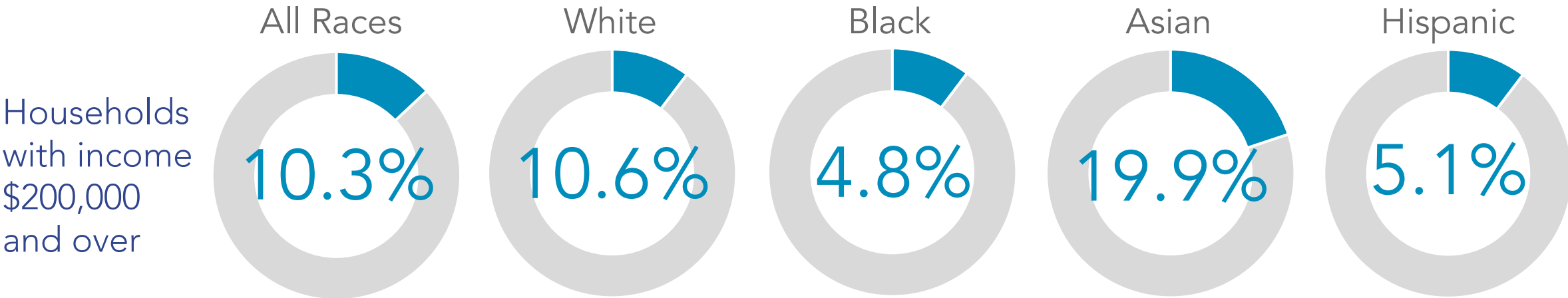
Households with income >\$200,000 in 2019



■ 3.2% - <5.0% ■ 5.0% - <6.4% ■ 6.4% - <9.2% ■ 9.2%+

Census Bureau [data](#).

Based upon the Census Bureau's 2020 income data...

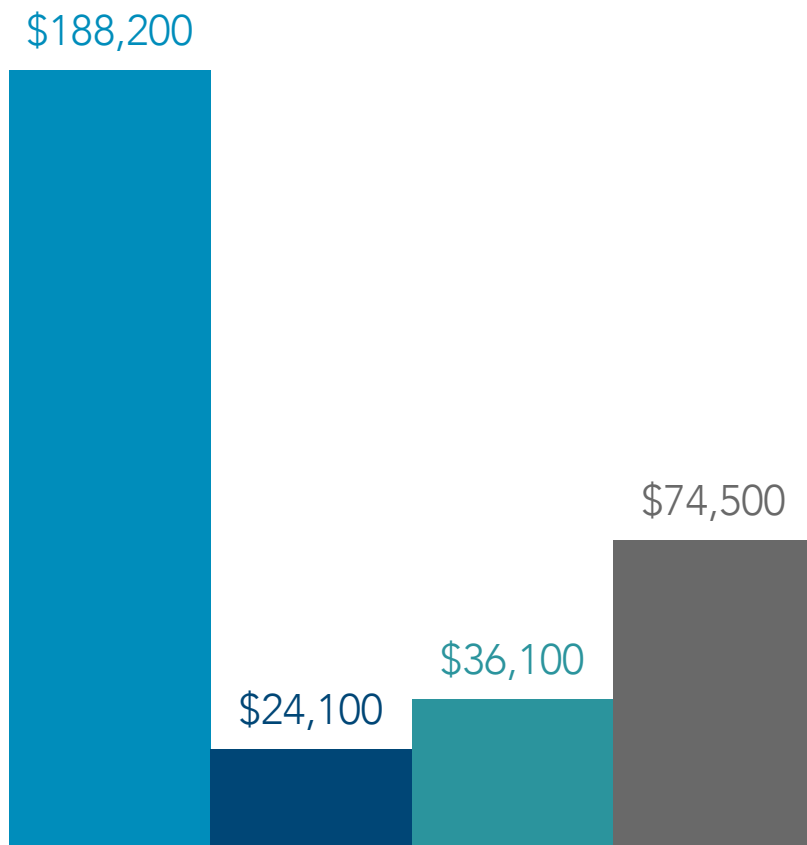


Census Bureau [data](#).

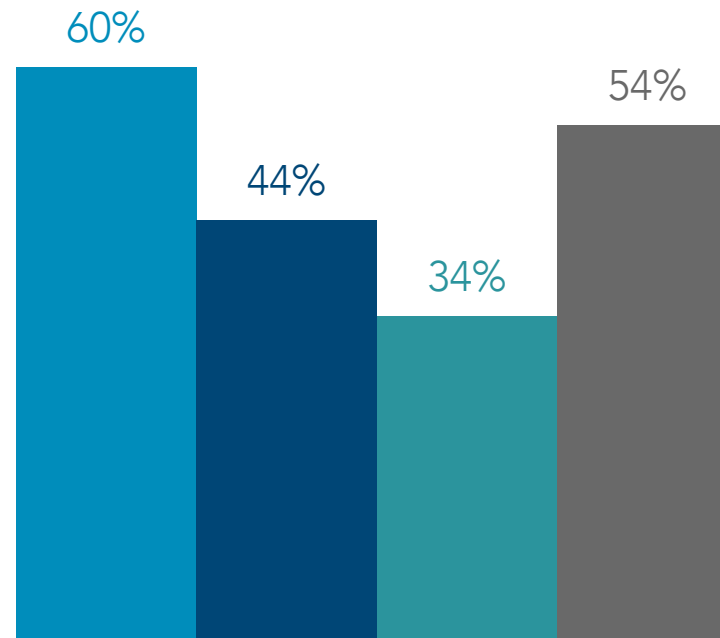
Based upon the Federal Reserve's 2019 Survey of Consumer Finances...

- White
- Black
- Hispanic
- Other

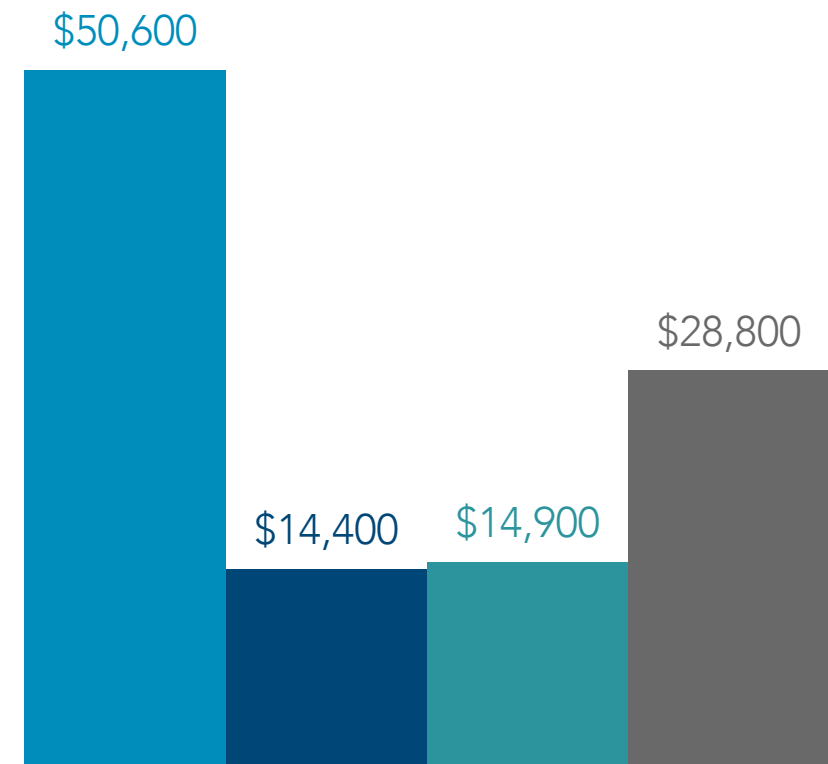
Median Net Worth



Participation in Employer-Sponsored Retirement Plans



Median Equities Held



Federal Reserve [data](#).