

MEMORANDUM

FILE: 4-692

FROM: Johnny Gharib
Attorney Advisor
Office of Small Business Policy
U.S. Securities and Exchange Commission

RE: Meeting with Representatives of the Investment Program Association (IPA)

DATE: April 20, 2016

On April 20, 2016, Commission staff met with Christopher McCannell of Eris Group, Darryl Steinhouse of DLA Piper LLP (US) and Ryan Kretschmer of Walton International Group. Among the topics discussed was the accredited investor definition.

The following Commission staff members participated: Sebastian Gomez Abero and Johnny Gharib from the Office of Small Business Policy, Division of Corporation Finance, and Joe Furey, Joanne Rutkowski and Tim White from the Division of Trading and Markets.

The information provided by the representatives of IPA is attached.

Attachment

ISSUE BRIEF

April 20, 2016

National Leadership for the
Direct Investments Industry



ACCREDITED INVESTOR DEFINITION

CURRENT ISSUE

The Dodd-Frank Act requires the Securities and Exchange Commission to review the definition for Accredited Investor once every 4 years, with the first such review required not earlier than 2014. The SEC completed its first review and issued a comprehensive staff report on the definition of Accredited Investor in December 2015.

PROBLEM

The current definition of Accredited Investor excludes many sophisticated investors and results in limitations on the flow of capital that restricts new business and job creation.

BACKGROUND

The definition of Accredited Investor is a person with an annual income in excess of \$200,000 (\$300,000 for a couple), or a net worth in excess of \$1 million. The Dodd-Frank Act of 2010 amended the definition by excluding the value of a person's primary residence from the net worth calculation and by requiring the SEC to periodically review the definition every four years beginning no sooner than July 2014.

The definition of Accredited Investor plays a critical role in determining who is eligible to invest in private securities. The private securities market is nearly equal in size to the public securities market. These private securities are mostly issued pursuant to the SEC's Rule 506 of Regulation D. This rule allows for the unlimited sales of private securities to Accredited Investors and in some cases a limited number of sophisticated Non-Accredited Investors.

As the SEC considers additional changes to the definition, it should exercise great care to ensure that any changes do not further reduce the number of Accredited Investors. In addition, the SEC should consider additional indicators of sophistication such as specialized work experience, investment experience, licensing, examination results, professional credentials and use of professional advice.

Congress has made it clear that it prefers to move beyond just numerical thresholds in deciding who should be considered sophisticated, when the House passed H.R. 2187 by an overwhelming bi-partisan vote of 347-8. This legislation codifies the numerical Accredited Investor thresholds while also adding the ability to become an Accredited Investor through either professional certifications or by proving capability.

ASK



We urge Congress and the SEC to continue looking at ways to expand the pool of Accredited Investors to include individuals who may not meet the financial thresholds, but have the expertise or experience to invest in private offerings.

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