

Dear Chairman Atkins and Members of the Commission:

I respectfully submit this proposal for consideration as the Securities and Exchange Commission evaluates potential amendments to the definition of “accredited investor” under Rule 501(a) of Regulation D.

I propose that the Commission establish an additional assessment-based pathway to accredited investor status under which an individual who does not satisfy the existing income or net-worth thresholds may demonstrate financial sophistication through an assessment conducted by an appropriately regulated financial professional.

This pathway would supplement—not eliminate—the existing financial and professional qualification standards.

Rationale

The current accredited-investor framework permits an individual to qualify through more than \$1 million in net worth, excluding a primary residence; qualifying income; or certain designated professional credentials, including the Series 7, Series 65 and Series 82. The SEC’s 2020 amendments already recognized that financial sophistication may be demonstrated through measures other than wealth. ♦

SEC +1

Chairman Paul Atkins has similarly observed that financial sophistication cannot adequately be determined by income or net worth alone and has specifically discussed a knowledge-based examination as a potential alternative. ♦

SEC

I encourage the Commission to consider an additional approach: allowing an appropriately regulated professional to make an individualized determination that an investor possesses sufficient knowledge and understanding to evaluate the risks of private securities.

A comparable concept exists in the United Kingdom. Under the FCA’s framework for certified sophisticated investors, a regulated firm may provide written certification after assessing an individual as sufficiently knowledgeable to understand the risks associated with certain higher-risk investments. The relevant FCA certification can remain effective for up to 36 months, accompanied by an investor statement. ♦

FCA Handbook +1

Proposed U.S. Framework

I suggest that the Commission establish the following framework:

1. Qualified professional assessment

An individual could qualify after an assessment performed by a Commission-designated regulated professional or firm, potentially including an SEC- or state-registered investment adviser, appropriately qualified investment adviser representative, registered broker-dealer, or another category specifically approved by the Commission.

The Commission could determine which professionals possess the necessary qualifications to perform these assessments.

2. Assessment of actual investment knowledge

Rather than assessing an investor’s wealth, the professional would evaluate whether the individual understands the principal characteristics and risks of exempt securities offerings.

The assessment should address subjects including:

the possibility of losing the entire investment;
limited liquidity and the potential inability to resell private securities;
differences between registered and exempt offerings;
dilution;
valuation uncertainty;
transfer restrictions;
concentration risk;
capitalization tables and ownership interests;
conflicts of interest;
differences in disclosure requirements;
the absence of a public trading market;
the risks associated with early-stage businesses; and
the application of federal securities antifraud protections.

The goal should be to determine whether an investor is capable of understanding and evaluating risk, rather than testing whether the investor has accumulated a particular amount of wealth.

3. Standardized SEC assessment criteria

To provide consistency and investor protection, the Commission or FINRA could establish a standardized assessment framework that professionals must follow.

The professional could conduct an interview, written assessment, electronic assessment, or combination thereof.

Rather than requiring every investor to obtain a securities-industry license, this approach would allow investors to demonstrate practical understanding of private-market investing.

4. Written certification

After successfully completing the assessment, the investor would receive a written or electronically verifiable certification stating that the professional has determined that the individual possesses sufficient financial knowledge and experience to understand the material risks associated with the relevant class of private investments.

The Commission could consider a certification period of three years, similar to the 36-month period used in the UK certified-sophisticated-investor framework. 💡

FCA Handbook

5. Investor acknowledgment

The investor should separately acknowledge that private investments may involve substantially greater risk, reduced disclosure, limited liquidity and the possibility of complete loss.

An annual acknowledgment could ensure that investors remain aware of those differences even when the professional certification lasts for several years.

6. Independence and conflict-of-interest protections

To protect the integrity of the assessment, the professional conducting it should not receive compensation based upon whether the applicant passes the assessment or subsequently purchases a particular investment.

The Commission could also consider prohibiting an issuer from paying the assessor for certifying prospective investors in that issuer's offering.

Assessors could instead charge a fixed assessment fee or provide the assessment as part of an existing advisory relationship.

7. Investment-specific or category-specific certification

The Commission could permit certification to apply either generally or to particular categories of exempt investments.

For example, an investor might be certified as sufficiently knowledgeable regarding:

private-company equity;
venture-capital investments;
private funds;
private credit; or
other Commission-designated categories.

This would allow the sophistication determination to reflect the actual risks involved rather than treating every private investment as identical.

8. Verifiable accreditation

The Commission or FINRA could establish a privacy-preserving electronic verification mechanism through which an issuer could confirm that an investor possesses a valid assessment-based accreditation without obtaining the investor's personal financial records. Such a system could make compliance easier for issuers while protecting investor privacy.

9. Renewal

Investors should be required to renew their certification periodically. A three-year period would provide reasonable continuity while ensuring that investors periodically demonstrate that their knowledge remains current.

Material regulatory changes could also be addressed through a shorter refresher assessment rather than requiring the investor to repeat the entire process.

10. Preservation of existing pathways

This new category should supplement existing accredited-investor pathways rather than replace them.

Individuals satisfying the existing net-worth, income, professional-license, knowledgeable-employee or other qualifying categories would remain accredited under existing rules. The professional-assessment pathway would simply provide an additional option for individuals who can demonstrate sufficient sophistication but do not satisfy the wealth-based tests.

Investor Protection and Capital Formation

An assessment-based framework could advance both elements of the Commission's mission. Investor protection would remain central because access would depend upon an affirmative determination of financial understanding rather than simple self-certification.

At the same time, the framework could expand participation in private capital markets to financially knowledgeable individuals who currently fall outside the definition solely because they do not satisfy an income or net-worth threshold.

This approach would also build upon the principle reflected in the Commission's 2020 amendments: that knowledge and expertise can provide meaningful evidence of an individual's ability to evaluate private investments. ♦

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Conclusion

I respectfully request that the Commission consider adding an assessment-based qualification to Rule 501(a).

A regulated-professional assessment, supported by standardized Commission criteria, written certification, periodic renewal, conflict-of-interest protections and clear risk disclosures could provide a measured alternative to determining financial sophistication solely through wealth. Such a framework could coexist with both the existing financial thresholds and any knowledge-based examination that the Commission may consider.

Respectfully submitted,

Rachel Hanson