

An investor examination that tests financial judgment

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Individual academic response without institutional representation

22 October 2026

I support a knowledge-based route to accredited investor status in principle. A well-designed examination could give individuals outside the securities industry a means of demonstrating relevant competence. The designation decision should explain how the completed examination satisfies Rule 501(a)(10), drawing on the design described in the notice. My comments address the general invitation in section III, particularly investor protection, content, access and validity. The examination remains to be developed and the proposed designation is not yet in effect. [1][2]

Knowledge and the capacity to bear losses

Financial sophistication and the resources available to absorb a loss are distinct. A person may understand an illiquid investment accurately while having limited capacity to hold it through an adverse period. Recognizing that distinction need not prevent a knowledge-based qualification. It should inform what the examination tests and how the resulting status is explained to investors.

The notice already acknowledges that some newly eligible investors may have fewer financial resources and discusses illiquidity, conflicts and uncertainty about portfolio benefits. The planned Investment Risks content also includes concentration, diversification and longer investment horizons. The practical task is to test whether candidates can connect these considerations to a decision about committing their own funds. [1]

The public description of the qualification should make clear that passing demonstrates the competence assessed by the examination. It does not establish that a particular investment is appropriate for the holder's circumstances or that losses will be affordable. This distinction should accompany the explanation of the status, where it can inform decisions, rather than depend on an investor inferring it from technical rules.

Applied judgment within the proposed format

The contemplated subject areas offer a sound basis for an examination directed at private-market investing. I would encourage FINRA to use short, realistic scenarios that require candidates to combine those areas within the proposed multiple-choice format. Knowing a definition and recognizing when it changes an investment decision are different achievements. The standard-setting process should make the intended connection between the two visible. [1]

For example, a hypothetical investor could be shown a proposed investment with attractive projected returns, limited resale opportunities and uncertain distributions. A question could ask which additional information is necessary to assess whether the commitment is compatible with foreseeable cash needs. Another could ask why a reported increase in estimated value does not establish that money will be available when required. Such items would connect valuation, disclosure and liquidity without assuming a single correct allocation for every household.

Conflicts could be assessed in the same way. A candidate might have to identify how an intermediary's compensation or preferential information rights could affect the interpretation of an investment presentation. The objective would be to evaluate the information and incentives surrounding the decision, using the conflicts and governance topics already contemplated in the notice.

Before designation becomes effective, the Commission should explain how the final design supports the reliability and validity considered under Rule 501(a)(10). A public account of the competencies assessed

and the standard-setting approach would help readers understand the qualification without disclosing live questions. The explanation should also distinguish evidence about what the examination measures from expectations about how successful candidates will subsequently invest. [2]

Access to preparation and meaningful qualification

The intended route is open without association with a FINRA member firm. Its accessibility will therefore depend partly on how clearly candidates outside that environment can understand and prepare for it. The notice anticipates a published content outline and enrollment information. Those materials could be complemented by free illustrative questions explaining the reasoning behind answers, including common errors about liquidity and conflicts. [1]

Examples would give self-directed learners a clearer view of the competence expected and help distinguish useful preparation from promises of easy qualification. They should illustrate the reasoning being assessed without turning the examination into recognition of a published answer bank. A transparent route to preparation would also make the prospective cost of qualifying easier for candidates to evaluate.

The Commission and FINRA should consider the combined burden of preparation, travel and repeat attempts when evaluating access. The notice already discusses those costs and envisages in-person delivery and accommodations. The relevant question is whether avoidable logistical or information barriers impede otherwise capable candidates. Reviewing those barriers can improve access while preserving the same substantive standard. [1]

Validity verification and review

Building on the notice's explanation of the intended ten-year validity period, the final designation could distinguish enduring concepts from knowledge affected by changes in products and rules. The notice provides for ongoing review of examination content and independent verification of holders' status. Updating the examination, however, reaches new candidates and those retaking it; existing holders may remain qualified under an earlier version. [1]

During that interval, FINRA could provide holders with accessible updates explaining material developments relevant to the tested competencies. Initially these could be educational resources rather than an additional renewal condition. Evidence from the operation of the examination should inform any later change to the validity period, including whether developments have materially changed the competence needed to assess investment risks.

Finally, verification should communicate the status it actually establishes, with clear passage and expiry dates as envisaged. A later review of the designation could consider access costs and whether the examination continues to test the intended competence, alongside available investor-protection evidence. Neither a high participation rate nor a low pass rate would alone establish success. The useful question is whether this route provides a credible, understandable basis for the financial sophistication that the rule seeks to recognize.

References

[1] [SEC Potential Designation of Passage of an Accredited Investor Exam Release 33 11445 File 4 931](#)

[2] [17 CFR 230.501 a 10 Definitions and terms used in Regulation D](#)