Via electronic mail at rule-comments@ sec.gov

June 3, 2014

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Accredited Investor Definition
File No. S7-06-15

Dear Ms. Murphy:

Thank you for the opportunity to provide comments to the Securities and Exchange Commission regarding the definition of an "accredited investor".

AngelList is a web-based platform that helps connect startups in need of financing with accredited investors. At this point, over 2,500 new companies have raised money from accredited investors they connected with via AngelList. Over 30,000 accredited investors are on the platform.

Since AngelList runs a service that handles both 506(b) and 506(c) accredited investor verification along with investor profiles, we have one of the largest angel investor data sets in the world. I would like to share some specific aggregated data from our platform that may inform your deliberations. Of those investors whose accreditation we have verified:

- 45% of the investors are accredited, but not Qualified Clients (≥$2M in assets) or Qualified Purchasers (≥$5M in investments)
- 23% of the money invested into new startups comes from that group
- Those accredited investors are sophisticated – approximately 70% of them have founded a company or have invested in more than 2 startups (the real percentage is probably higher, as some investors don't provide full data). Most of the remainder are financial professionals or senior managers at fast-growth technology companies.

These are precisely the type of experienced and well connected investors that companies seek out. More importantly, I believe these are the type of investors the SEC had in mind when they set the thresholds for sophistication. Policy changes that would exclude any part of this investor group would have a significant impact on startup financing. Not only would startups receive less capital, but they would also be deprived of the expertise and connections of successful entrepreneurs.

The United States has recently experienced a sharp decline in new startups according to the Bureau of Labor Statistics, and that is just now beginning to recover. The current rate of net new company creation is still well below **any** pre-crisis year this century (2000 – 2008).[1] Any changes in the accredited investor definition will have a significant impact on new company formation and job creation.

While I realize that the flow of capital into startups represents a small proportion of total capital, it has an outsized impact on the economy. According to the Kauffman Foundation, all net new job growth comes from companies under 5 years old.[2] As such, the impact on startup financing of any regulatory change merits serious consideration.

Based on our experiences, we can make several recommendations:

1. *Leave the current net worth and income standards as they are today.* Any increase that excludes sophisticated private investors the startups rely on would have an outsized ripple through the economy.

2. *Create an additional way to qualify as accredited based on past experience.* There are potential investors that can't show they meet the current standard, but clearly understand the risks of startup investing. Senior managers at successful new startups, financial professionals with MBAs or other financial training, angel group members and others can also add value to companies and understand the risks. A questionnaire, professional financial experience, a post-graduate degree in finance or business, past startup investing track record, or membership in a formal angel group should all qualify an investor as able to invest in early stage startups even if they don't meet the income or asset standards.

3. *Avoid adding complexity with new rules.* Any new ways to qualify should be frictionless for the investor. For example, we can see on our platform that there are roughly 15% of investors that will not invest in 506(c) offerings because of the additional administrative burden placed upon them by "reasonable steps to verify" accreditation. The investors most likely to be put off were actually the most experienced investors, both because they value their time the most and because they have large holdings in successful startups that are difficult to objectively value in a way that would meet the standard.

4. *Simplify the existing standard.* The current practice that has built up over time is very cumbersome and involves lots of duplicate work. Each new issuer must re-validate each investor's accredited status, and evidence proving net worth only lasts 3 months according to the SEC's guidelines. When active investors are doing 15 deals a year, this multiplies quickly to a huge burden with no meaningful investor protection benefits.

---

[1] http://www.economicmodeling.com/2014/01/29/the-states-leading-the-way-in-net-new-business-establishments-since-the-recession/

[2] http://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/the-importance-of-startups-in-job-creation-and-job-destruction

Three simple clarifications would reduce the cost of accreditation checking without harming investor protections.

a. Evidence of accreditation should last a year (rather than 3 months, as is posited in some of the current regulations).

b. Letters stipulating accreditation should be valid for a year after investors (or third parties for 506(c)) sign them.

c. Credit reports should not be required. For all the accredited evidence we have collected, the credit report has not been the determining factor. It is simply an extra painful step for the investor without any apparent benefit in screening out inappropriate investors.

Inappropriate investors are bad for startups. That's part of the reason we created AngelList – to filter the investors ahead of time so that companies are dealing with appropriate investors. However, I can state from experience that increasing net worth or income standards won't increase the appropriateness of the investors for startup investing. There are far better ways to protect investors that would not hurt both savvy investors and good companies. Modern technology and platforms maintaining status can help decrease friction and increase accuracy of screening.

We are prepared to provide further data or input if you would like to follow up on any of the points in this letter.

Sincerely,

Naval Ravikant
CEO, AngelList