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United States Senate

WASHINGTON, DC 20510

October 16, 2014

Hon. Mary Jo White
Chair, Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Dear Chair White,

As the Securities and Exchange Commission (SEC) continues its evaluation of the definition of the term "accredited investor," which is required by Section 413(b)(2)(A) of the Dodd-Frank Act, I write to express my serious concerns with the review's potential to harm capital formation for high growth ventures in states that lack a strong venture capital base. Should a definition modification result in a significant reduction in active accredited investors or limit their ability to invest in entrepreneurial ventures, the resulting chill in younger, smaller startup communities could be devastating.

The *Maine Angels*, a small group of accredited private equity investors that make investments in New England entrepreneurs with an emphasis on Maine businesses, have invested nearly $13 million in over 50 early stage companies since 2003. Having recently met with this group, I can tell you that the ongoing review of the accredited investor definition is the federal issue that most worries them today. A 2012 national report on angel group investment activity singled out the *Maine Angels* for being especially active in education technology funding and for being the 10th most active angel group in the nation that year – a very big deal for a small state like Maine. Several members of the group have told me that if the financial thresholds are raised, they are very likely to be precluded from further investing.

The Center for Venture Research at the University of New Hampshire found that both the number of angel investors and the total dollars invested by angel investors have grown substantially over the past decade. The data indicates that individual investments in entrepreneurial ventures by angel investors have increased as well, from $78,500 in 2002 to $83,050 in 2013. Accredited investors are startups' virtual lifeblood, providing the necessary seed money, mentorship, and often additional rounds of investment in follow-up funding. Recent research from the Kauffman Foundation suggests that new businesses account for nearly all net new job creation in the United States, underscoring the importance of supporting America's entrepreneurs – as well as the investors who support them.

The recommendations under consideration as part of the ongoing evaluation could make substantial changes to who can qualify as an accredited investor. A key recommendation limiting investments in private offerings to a percentage of assets or income would – if not properly calculated – likely cause a sudden reduction in the size of individual investments by accredited investors. Most significantly, adjusting the thresholds for inflation would immediately exclude a significant percentage of currently active accredited investors from the private placement market. If a change in definition reduces the pool of accredited investors or their available investment capital from the private placement market, it does not seem unreasonable to suggest that there could be corollary effects with startups that depend on that funding source – the impact of which would be felt most keenly in states like Maine, where venture support is already a significant challenge.

I urge the Commission to take my comments into strong consideration. The outcome of this review could fundamentally alter startup formation efforts in my state and other states that are similarly attempting to cultivate a strong startup community. In Maine, this issue will be central to small business capital access and the growth of new ventures – financial goals that I am deeply passionate about – and I will be monitoring the SEC's progress closely to ensure that the missions of investor protection and facilitating capital formation are carefully balanced. As the SEC continues its ongoing review, I ask the Commission and the IAC to carefully consider the impacts on younger, smaller startup economies and tailor any changes to the definition to mitigate adverse impacts on these emerging areas of growth in our economy.

Sincerely,

ANGUS S. KING, JR.
United States Senator