



Anthony J. Zeoli, Esq.
Direct: [REDACTED]
[REDACTED]
www.crowdfundinglegalhub.com

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

Commissioner Daniel M. Gallagher
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Recommendation - Accredited Investor Licensing

Dear Chair White and Commissioner Gallagher:

I know there has been a lot of heated debate recently over the issue of if/how the current "accredited investor" definition should be changed. First, let me say that it is my opinion that the current income/net worth standards should not be changed. There is just not enough data at this time to properly estimate the effects of increasing these benchmark amounts and, given the potential material adverse effects that an increase in these amounts would cause, I strongly recommend that the amounts be left the same. That being said, the primary purpose of this letter is not to express my personal views regarding changes to the definitional standards but, rather to make a recommendation for improving the process of certifying individuals/entities as "accredited investors."

My recommendation is for the S.E.C. to overhaul the current patchwork standards of certifying individuals/entities as "accredited investors" by moving to centralize the process through a single agency entity. The current process of having issuers/portals, or even third-party processors, be responsible for verifying that a particular individual/entity is an "accredited investor" is flawed for multiple reasons. First, self-certification alone, which has been a staple in the private placement industry for years and is still acceptable for non-Rule 506(c) offerings and cannot be relied upon. In speaking with several third-party verification services, there is often a high percentage of self-represented "accredited investors" who ultimately turn out not to meet the qualifications. Second, Rule 506(c) requires that active measures be taken by issuers/portals to verify that an individual/entity is an "accredited investors" but there is no real uniformity in the standards currently being used by these entities to make such verification. This inevitably can lead to sub-standard or haphazard verifications which again cannot be relied upon. Even with spot testing, the S.E.C. does not have the time or resources necessary to oversee each entity's verification processes and, more importantly, they should not have to.

Finally, and I think most importantly, the current verification process does not lend itself to proper data collection. One of the primary reasons it is so hard to determine the effects of any changes to the current definition is the lack of credible data. Under the current process the S.E.C. is made aware of the number of "accredited investors" who

participate in private placement offerings, but they do not receive any identifying demographic information vital to compiling useable data (e.g. investor age, geographic location, education, income, etc.). Centralizing the verification processes will remedy each of these issues as well as provide multiple cost-saving and other benefits.

My proposal would be to have the S.E.C (or other S.E.C. elected entity) act as a central registry for the verification and licensing of individuals/entities as "accredited investors." Essentially the process could be set-up much like the online I.R.S. application for obtaining an Employment Identification Number (EIN) wherein the applicant is asked a series of questions etc. (and in this case would also upload certain required supporting documentation). The application questions would include any of a number of identifying informational requirements such as name, current mailing address, age, income, etc. Upon completion of the process, a unique "investor license number" would be automatically generated which would be the number the individual/entity would be required to use (and issuers/portals would be required to receive) when viewing/participating in a private offering. Upon receipt, the issuer/portal would then be required to verify the then current validity of such investor license numbers with the S.E.C. (via an electronic interface) before providing the investor with access to the offering information and/or allowing the investor to participate in a particular offering (as applicable).

This process would allow for numerous benefits over the current system including the following:

- **More Reliable Certification:**

As opposed to the current self-certification process or the hodgepodge of current verification standards, centralizing the process allows the S.E.C. to directly control how individuals/entities are verified. Moreover, this process would even allow the S.E.C. to develop more robust verification methods that would otherwise be considered over burdensome under the current certification methods. For example, requiring that all issuers/portals obtain a copy of an investor's tax return in order to verify that they meet the required income/net worth statements would be impossibly burdensome on both the issuers/portals and the potential investors. However, if the investor is only asked to provide that information once in order to obtain (or in order to renew as discussed later), an "investor license number" that would not be overly burdensome at all. Especially considering that the S.E.C. could further ease the process by developing a one-page accountant certification letter (or the like) which a C.P.A. could offer to individuals/entities when preparing their tax return.

- **Improved Data Collection:**

As stated, the biggest issue with current data collection is that the S.E.C. is not able to easily capture necessary demographic, income and other data regarding "accredited Investors" who participate in private offerings. By centralizing the process as recommended, it will not only be possible to obtain that information, but it will be virtually effortless.

Under the recommended process, an investor would be required to provide the issuer/portal with their respective "investor license number" in order to participate in an offering. Upon completion of such offering, the issuer/portal would easily be able to generate, and deliver to the S.E.C. (manually or electronically), a post-deal summary sheet showing the investor license numbers of the individuals/entities who participated in the offering. By virtue of obtaining this post-deal summary sheet, the S.E.C. would have access to the underlying demographic information of the participating individuals/entities for each private offering. The S.E.C. would then be able to compile and sort this information in any number of useful ways (e.g. investment amount by geographic location, participation by age group, etc.). Moreover, this process would allow the S.E.C. to identify when a particular investor participates in more than one offering (something which is virtually impossible to do under the current process).

Having access to this post-deal summary sheet would be a significant improvement over the current system and would give the S.E.C. a wealth of information that is currently unobtainable. Further, to the extent the S.E.C. developed an electronic method for the collection of the post-deal summary sheet information, the process of obtaining and manipulating the information would be almost completely automated and thus require minimum additional effort on behalf of the S.E.C. or its staff.

- **Cost/Time Savings:**

Currently each issuer/portal is required to verify whether an individual/entity is accredited prior to allowing the investor to view offering information and/or participate in an offering. Moreover, the same individual/entity is required to be verified each time they participate in an offering (if not within the three (3) month time frame) and each time they access a new 506(c) portal. These multiple verifications are not only costly to issuers/portals they are redundant.

Requiring individuals/entities to obtain an accredited investor license number would completely eliminate the time and expense currently expended by issuers and portals to certify potential investors (both in terms of viewing offering information and in ultimately participating in an offering). Issuers and portals would simply be required to obtain a potential investor's investor license number, and to verify the validity of the investor license number against an accessible database, before the investor would be able to access offering information/participate in an offering. These requirements could ultimately be completely automated further reducing the associated time and expense. Moreover, the proposed licensing system would allow for the complete standardization of the process for meeting the required investor verification required for Rule 506(c) internet offerings.

- **Increased Privacy Protection.**

Under the current verification processes, potential investors (particularly for 506(c) offerings) are often asked to provide confidential information to the issuer/portal/third-party in support of their status as an "accredited investor." Moreover, as stated above, the investor is typically required to give this information multiple times and to various parties if they elect to participate in more than one offering. There are currently no bright line standards for what types of supporting information is being requested from investors or what procedures should be in place to protect the privacy of that confidential information. Accordingly, the risk is great that the privacy of confidential investor information (including financial information) may be compromised. This risk is especially great with respect to information transferred over the internet.

By centralizing the verification process the S.E.C. would be able to control the required privacy protection procedures much like they do with the information submitted electronically through the EDGAR portal. Issuers/portals verifying an investor's respective investor license number would receive only a minimum amount of personal information concerning the respective investor(s) (e.g. the validity of the investor license number, the name and address of the investor, etc.). Moreover, only having to submit the information once (or from time-to-time as required for renewal) in and of itself lessens the probability that the privacy of the information will be compromised.

- **Ease of Verification Of New Standards:**

As has been recommended by the Investor Advisory Committee (IAC) (and again at the most recent Forum on Small Business Capital Formation breakout group in which I participated), the S.E.C. should consider expanding the "accredited investor" definition to include individuals based on certain education/financial sophistication standards. The majority of the criticisms surrounding these standards (beyond exactly what qualifications should be included) center on how to verify individuals based on

such standards without overburdening the issuer/portal. Centralizing the certification process would again make any implementation of such additional qualifications exponentially easier. For example, let's assume that the S.E.C. expands the definition to include licensed C.P.A.s and/or individuals with an M.B.A. degree. As part of the licensing application process, an individual could be asked to provide evidence (via upload or otherwise) of their license/degree. As discussed above, what might be considered burdensome to do over and over again is completely reasonable, if it only needs to be done once (or from time to time as required for renewal).

A centralized verification process would also be particularly effective to the extent that the S.E.C. elects to incorporate the recommended investor qualification test (similar to that currently used in the U.K.). The test could be administered directly through the centralized verification site as part of the application process. Alternatively, the test could be administered by another approved organization (e.g. FINRA) and the results uploaded as part of the application process. Either way, centralizing the process lends itself perfectly to the concept of allowing an individual to certify as an accredited investor by completing a qualifying online test.

- **Continued Certification (*as applicable*):**

Under the current verification processes for Rule 506(c) offerings, potential individual investors are required to be re-certified every ninety (90) days. This is redundant, inefficient and creates unnecessary compliance costs. If we assume (solely for purposes of this argument) that the net worth/income of an individual is an accurate measure of that person's investment sophistication, then it should really only need to be measured once. Put another way, if an investor makes enough money to have met this qualification at any point (and thus be deemed a "sophisticated" investor) then it is hard to see how losing a job/portion of their income would somehow decrease their acumen as an investor.

On the other hand, most people view the current net worth/income standards more as a measure for the ability of an investor to absorb potential losses. This is a better rationale for the need to verify an individual's status more than once but I still do not see the benefit in having it verified every three (3) months. It is hard to see how an individual who has made \$200,000 a year for the last two years, and/or has \$1 Million in net worth, is going to be materially affected financially in such a short time frame. Moreover, with respect to income, an individual who satisfies the test in one year but then drops below the benchmarks in year three would effectively be required to wait three (3) more years before they could qualify again. This is a harsh result given that an individual can easily be affected by a short term financial condition; just consider the last recession.

By centralizing the verification process, the S.E.C. would have greater flexibility to increase the amount of time before a person would need to renew their certification. Surely a qualifying individual, even if hit by temporary hard times, would have the financial ability to absorb losses for a period of a couple years at least. Thus, the S.E.C. could require that an individual renew their license every two (2) or even three (3) years rather than every ninety (90) days. Additionally, increasing the time an individual's verification remains valid will alleviate the harsh result caused by an individual's temporary fluctuations in income. As a further added benefit, to the extent the S.E.C. eventually raises the minimum income/net worth amounts, a two (2) to three (3) year licensing period would help to mitigate any potential negative effects of such changes (i.e. investors who cannot meet the new qualification will be phased out over time rather than all at once).

Finally, in the event that the S.E.C. elects to incorporate one or more qualifying independent education/financial sophistication standards, these individuals could remain licensed for even longer periods of time (and potentially indefinitely). The argument here would be that such standards would be designed to evidence an investor's financial acumen only and, once met, such investor should be deemed

to forever have that level of financial acumen (or at least have it for the foreseeable future). Borrowing from the above example, let's assume a person qualifies as an "accredited investor" by virtue of having obtained a C.P.A. If that individual later chooses not to maintain that license, or to practice in a new field, such decision would not make that individual any less financially intelligent. Accordingly, there would be no reason to incur additional time and expense certifying these individuals over and over again.

- **Additional Benefits:**

Once a centralized verification system is established, the S.E.C. could eventually look to allow an investor to apply for multiple qualifications (e.g. "accredit investor," "qualified purchaser," etc.) under the same investor license number. For example an investor's respective license number could identify him/her/it as both an "accredited investor" and a "qualified purchaser" and the same investor license number could be used for multiple types of offerings. This would allow for the standardization of verification procedures across multiple types of private offerings as well as providing for the benefit of enhanced data collection and the other benefits discussed above. The process could also be used to set up new qualifications such as "Title III investor" (which would allow for the tracking of per-investor annual investment caps) and/or "[State] investor" (which would identify the investors home residence and allow issuers/portals conducting an intrastate offering to better limit access to offering information to investors within the state). Again these can be add-ons to the same license number and an investor can apply for additional qualifications over time.

As outlined, centralizing the "accredited investor" verification process will result in multiple significant advantages to the S.E.C. as well as issuers, portals and potential investors. Moreover, it will require very little effort or cost on the part of the S.E.C. to institute such a system. Assuming that the S.E.C. is willing to take charge of the ownership of the centralized process and database, the existing infrastructure of the current EDGAR system should allow for easy implementation of an online licensing application (and related upload of supporting information). On the other hand, the S.E.C. could also work with a trade association like FINRA or a single third-party provider to facilitate the process. Either way, I believe that the potential benefits of a centralized system far outweigh the minimal costs associated with setting up the processes and database. Particularly when you consider the considerable improvements that can be made in terms of the quantity and quality of data the S.E.C. would have access to.

Thank you for your time and consideration in reviewing my proposal. Should you have any questions regarding my proposal please do not hesitate to contact me.

Regards,

A handwritten signature in blue ink, appearing to read "Anthony Zeoli", is written over the printed name.

Anthony Zeoli