

MEMORANDUM

FILE: S7-06-13

FROM: Sebastian Gomez Abero
Chief, Office of Small Business Policy
U.S. Securities and Exchange Commission

RE: Meeting with Representatives of the Angel Capital Association (“ACA”)

DATE: January 29, 2015

On January 28, 2015, Commission staff met with representatives of ACA, to discuss the accredited investor definition.

The following Commission staff representatives participated: Lona Nallengara and Tamara Brightwell from the Office of the Chair; and Sebastian Gomez Abero from the Division of Corporation Finance.

The following representatives of ACA participated: Marianne Hudson, Executive Director, ACA; Mike Eckert, Chair of the Public Policy Committee, ACA; Christopher McCannell, APCO Worldwide; and Joel Riethmiller, APCO Worldwide.

Attachment.



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Angel Investors, Innovative Startups and the Accredited Investor Definition

Mike Eckert – NO/LA Angel Network Chair and ACA Board

Marianne Hudson – ACA Executive Director and Member, Women's Capital
Connection and Mid-America Angels



ANGEL CAPITAL ASSOCIATION

Angel Capital Association

World's Largest Association of Accredited Angel Investors

www.angelcapitalassociation.org

- 12,000+ individual accredited investors
- 220+ angel groups and accredited platforms
- Voice of accredited angels
 - Best practices
 - Public policy



**Mission: fuel success of angel groups and accredited investors and
the early-stage companies they support**

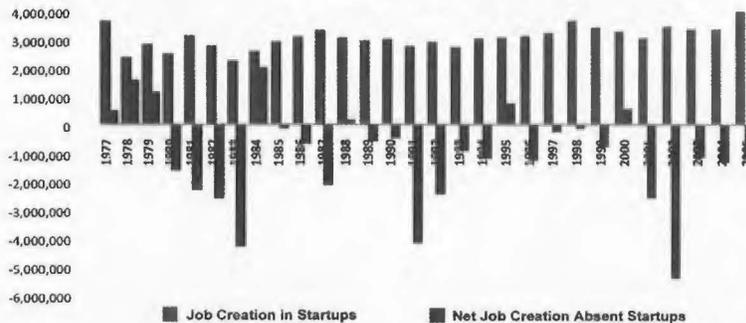


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...And Startups Create the Most Net Jobs

ENTREPRENEURS ARE KEY TO JOB CREATION

No Startups, No Job Creation



Source: Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States. Kauffman Foundation, January 2009.



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Angel Investing = Hands-On Work

- Not just a check – ongoing support of entrepreneur
 - Customer acquisition
 - Personnel
 - Develop strategy
 - Resources: office space, accounting, etc.
- Work hand-in-hand
 - Economic development
 - University tech transfer
 - Accelerators/ incubators
- Active deal/risk assessment
 - Deal screening
 - ❖ Typically reject 90% that apply
 - ❖ Potential for growth/value creation
 - ❖ Fraud almost never an issue
 - Extensive due diligence
 - Negotiated terms – issuer does not set
 - ❖ Information rights
 - ❖ Board or observer seat
 - Intermediaries not involved
- Accredited platforms
 - Investors may follow a successful lead investor

Harvard/MIT study: angel support improves startup success rate



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Accredited Investor Definition Goals & Objectives

- Regulatory Objectives
 - Investor protection
 - Streamline capital formation for small business
 - Maintain market integrity
- ACA Goals
 - Preserve ability of knowledgeable investors to fund startups essential to job creation
 - Prevent undue obstacles to investor/entrepreneur relationship
 - Provide accredited investors education and best practices to enhance sophistication



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ACA Recommendation 1

- **Leave financial thresholds alone**
 - Clearly understood and worked well for decades
 - Removal of primary residence (2010) was significant shift
 - Private market too large and vital to further restrict investor access
 - Increases for inflation would have large market impact and reduce capital pool for entrepreneurs



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28% of ACA Members Don't Meet Higher Thresholds



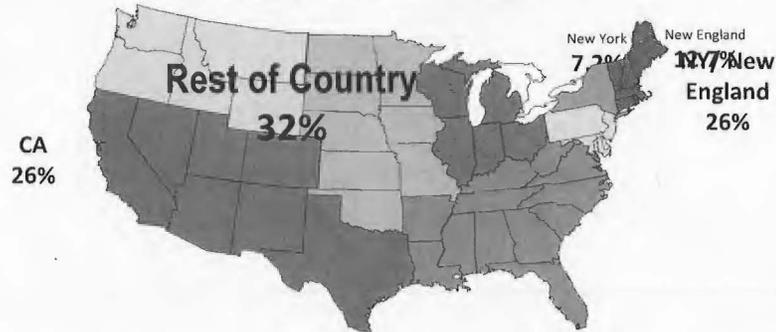
Source: ACA Survey, December 2013-January 2014 – 1009 members



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Impact of Raising Thresholds - \$2.5M / \$400K

% of ACA members who would not qualify



Nationwide, nearly 60% of accredited investors would cease to qualify (Source: GAO)

Map Data Source: ACA Member Survey, December 2013-January 2014



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ACA Recommendation 2

- Add sophistication criteria to expand class
 - Prior board, executive or financial responsibility
 - Relevant degree or training: ACA certificate, MBA, JD, CPA, CFA, etc.
 - Previous experience with Reg D offerings
 - Membership in an Established Angel Group™
- Enable investors to certify via detailed questionnaire
 - Validates sophistication
 - Satisfy “issuer verification” for 506(c) deals
 - Reasonable simplicity of administration for all
- Once qualified as accredited investor, always qualified



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Sample Accredited Investor Qualifying Form

ACCREDITED INVESTOR TYPE

Which of the following, if any, applies to the investor:

- A natural person whose individual net worth, or joint net worth with spouse, exceeds \$1,000,000, not including primary residence.
- A natural person with individual income in excess of \$200,000 or joint income with that person's spouse of \$300,000 and who has a reasonable expectation of reaching the same income level in the current year.

INVESTOR BACKGROUND INFORMATION

Indicate which of the following categories, if any, applies to the investor. This information is sufficient to satisfy the issuer verification requirement regarding the accredited investor status of a purchaser.

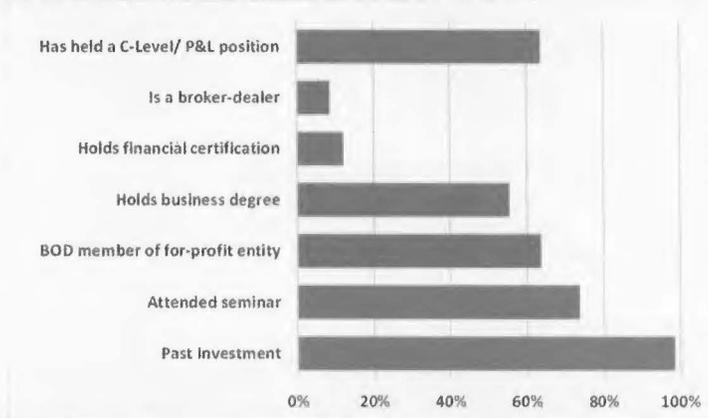
- Previous/current investor in an exempt offering under Regulation D
- Previous/current member of an Established Angel Group
- Previous/current C-Suite executive, financial officer or directors of a private or public for-profit entity
- Previous/current CEO or executive of a for-profit entity which included income statement responsibility
- Received a Certificate of Education from the Angel Capital Association, the Angel Resource Institute, or similar professional training from an Established Angel Group (EAG)
- Holder of relevant degree such as MBA, accounting, finance, etc. Please specify:
- Current or former holder of registration such as Certified Financial Adviser, Certified Public Accountant or similar registration. Please specify.
- Current or former registered broker dealer, financial advisor or similar.



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Common Sense Sophistication Measures

No Market Disruption / Investors Fend for Themselves



Source: ACA Survey, December 2013-January 2014 – 1009 members



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ACA Recommendation 3

- Make investor education more widely known and available
 - Example: Kauffman Foundation's Investor IQ program





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Comments on Investor Advisor Committee Recommendations

- Removing retirement assets from net worth calculation problematic
 - Many sophisticated angels invest from these accounts
 - Some advised to convert most assets into Roth IRAs, for example, by tax experts
- Do not implement proposed amendments to Regulation D and Form D
- Any revisions to definition should be phased in gradually so they don't sharply disrupt private markets



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Accredited Investor Definition Recommendations

1. Leave the financial thresholds where they currently are
 - Clearly understood and worked well for decades
 - Increases for inflation would have large market impact and reduce capital pool for entrepreneurs
2. Add sophistication criteria to grow the base for individuals who do not meet the thresholds
 - Ensure measures are simple to administer
 - Provide multiple criteria to ensure many qualify
3. Make investor education more widely known and available