

March 16, 2020

Ms. Vanessa A. Countryman
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Amending the “Accredited Investor” Definition; File No. S7-25-19

Dear Ms. Countryman:

We appreciate the opportunity to comment on the proposed changes to the accredited investor definition that will allow more investors to access private markets. Our position is consistent with [our earlier response to SEC Concept Release File No. S7-08-19](#) on ways to harmonize private securities offering exemptions.

Improving portfolio outcomes for individual investors is essential, particularly given the growing awareness of the challenges investors face in meeting their retirement income needs. Private market strategies such as private equity and private credit typically offer higher income and return potential compared with the public markets, but current restrictions prevent most investors from accessing them.

While the SEC’s current proposal for updating the accredited investor definition is a step in the right direction, we feel additional modifications are worth considering. On its own and in partnership with industry participants, the SEC needs to address four issues to enable individual investors to access the benefits of private markets responsibly:

- Expand the accredited investor definition proposal to include investors outside the financial services industry
- Provide more vehicles for accredited investors to access private markets
- Create more liquidity options for individual investors in private market funds
- Mandate education for advisors and investors before they commit to a private market strategy

Expand the accredited investor definition proposal to include more investors

The SEC’s proposal opens the door for investors to become accredited without meeting current wealth and income requirements, provided they have relevant knowledge, experience, or certifications. The proposal includes FINRA Series 7, 65, and 82 licensees as well as knowledgeable employees of private funds who wish to invest in those funds.

We believe access to private markets could also be extended safely to individuals outside the financial services industry who do not meet current income and net worth requirements. In particular, access could be extended to the clients of qualified financial advisors acting as fiduciaries. To reduce the potential for an unsuitable allocation, these clients could be required to attest that they understand the key characteristics and potential risks of private markets strategies before investing in them.

Provide more vehicles for accredited investors to access private markets

An increase in the number of investors able to access private markets would necessitate an increase in available opportunities. Many in the industry have called for the expansion of registered private market funds to meet this need. While registered funds offer certain benefits, there are a limited number of high-quality strategies available to retail investors today.

Opening Section 3(c)(7) feeder funds to a broader audience would provide an additional, more direct way for investors to participate alongside institutions in private market strategies. These funds offer relatively low investment minimums and a more attractive fee structure versus registered funds. With a few rule changes, a wide range of 3(c)(7) funds could quickly be made available to accredited investors. In fact, many top-quartile managers already offer them because they give general partners a way to diversify their investor base by efficiently aggregating capital from the retail market.

Create more liquidity options for individual investors in private market funds

Private market fund managers create value for investors by executing strategic plans within their portfolio companies. This is a particularly “active” form of investing that is time intensive and necessitates that private equity firms can access capital as opportunities arise. Still, for private markets to work for a broader range of investors, liquidity options are also important. This need could be satisfied by the creation of secondary marketplaces that facilitate periodic liquidity for private market funds. These opportunities exist today for institutional investors and should be made available to the retail market at competitive pricing.

Mandate education for advisors and investors

Advisors and investors need to understand private market strategies before committing to them, and we believe that a certification for advisors would be an appropriate requirement. Industry participants have an essential role to play in creating these educational resources and making them widely available. This includes providing broad asset class education and unbiased, affordable, fund-specific research, which is particularly important given the significant performance dispersion in private markets.

To this end, a wealth of information about private market investing already exists and should be packaged and made available to financial advisors and clients. Further, there is significant research produced on private market funds on behalf of institutional investors and family offices. Industry participants must work collaboratively to create a mechanism for getting this research into the hands of advisors and investors. Doing this thoughtfully and at the beginning of the process, versus years down the road, will create the greatest opportunity for new investors to access the private markets successfully.

We support the SEC’s efforts to expand the population of investors who can access private investments because it offers retail investors a way to materially improve the diversification and return potential of their portfolios. The SEC’s proposal is a strong first step, but we encourage the agency and industry participants to consider additional, prudent ways to make the benefits of private markets available to a significantly broader audience.

Sincerely,

Lawrence Calcano
CEO, iCapital Network

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