March 16, 2020

Via email (rule-comments@sec.gov)

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Attention: Vanessa A. Countryman, Secretary

Re: Amending the "Accredited Investor" Definition (File Number S7-25-19)

Dear Ms. Countryman:

eShares, Inc. d/b/a Carta, Inc. ("Carta") appreciates the opportunity to comment on the Securities and Exchange Commission's ("SEC" or "Commission") Proposed Rule to Amend the Accredited Investor Definition (the "Proposal" or "Proposed Rule").[1]

Introduction

Carta was founded in 2012 to develop software to digitize paper stock certificates and manage capitalization tables for private companies. Carta recognized that private equity, including venture capital, was suffering from a paper crisis that rivaled the "Back Room Crisis" that crippled public equities markets in the late 1960's and early 1970's.[2] Rather than solving this crisis through centralization and share *immobilization* as was done in public equities, Carta developed a centralized registry of private asset ownership that simplified share *mobilization* through modern technology.

Since then, Carta has evolved into a multi-faceted financial technology company that helps issuers, investors, and employees manage and value equity ownership. Today, Carta has nearly 1,000 employees across 10 offices in the US and abroad. Together we support over 1,000,000 security holders at more than 16,000 companies who manage over $800 billion in equity value across Carta's platform. We provide portfolio management and reporting tools for thousands of investors and employees, and provide valuation and fund administration services to hundreds of venture capital firms. This is just the beginning, as Carta drives forward to fulfill our mission to create more owners, reduce income inequality, and pull more wage-earners out of the debt stack and into the equity stack.

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[1] See Concept Release on Harmonization of Securities Offering Exemptions, Securities Act Release No. 10649 (June 18, 2019), https://www.sec.gov/rules/concept/2019/33-10649.pdf.

[2] See *Revolution on Wall Street: the Rise and Decline of the New York Stock Exchange*, Ch. 7, Marshall E. Blume, Jeremy J. Siegel & Dan Rottenberg (1993).

We are pleased the Commission has decided to modernize the definition of Accredited Investor and we support the direction of the Proposal. Our comments align with the recommendations we provided in response to the *Concept Release on Harmonization of Securities Offering Exemptions*, while building on certain areas based on the Proposal. Specifically, our comments will focus on additional recommendations to how individuals may qualify to become an Accredited Investor, and the Commission's proposed revisions to the scope of "family offices."

Impact of Updating the Accredited Investor Definition

As we noted previously, Carta believes asset ownership is a critical component of narrowing the wealth distribution gap in the US and globally. The Commission's proposal will appropriately expand the universe of individuals and entities able to benefit from investments in a key asset class.

The number of public companies has been steadily declining since 2000.[3] In 2018, registered offerings accounted for $1.4T of new capital compared to approximately $2.9T that was raised through exempt offering channels.[4] Fewer companies are electing to go public and those that do, often do so later in their lifecycle and growth trajectory. The median range for an IPO has increased from 8 years between 1990-1998 to 11 years between 2001 - 2018.[5] Perhaps more important than duration is the growth stage at which companies elect to register and go public. Previously, many companies viewed an IPO as a tool to fuel growth at an earlier stage in their development. Currently, more and more companies use private capital to fuel growth and IPO at a far more mature stage. The end result is that non-accredited investors are restricted from investing in and benefiting from the growth stages of companies before they decide to go public, if they ever do. Put simply, alpha has shifted from the public to private markets.

In addition to offering investors growth opportunities, the private market offers diversification. In its proposal, the Commission notes that an expanded definition may increase competition among the broader universe of investors and therefore lower returns and diminish the benefits of diversification. Increased competition may put pressure on returns, but the benefits of diversification are not centered solely around yield, but through providing a broader base to mitigate downside risk and smooth out returns.

When proposing this amended definition, the Commission is correctly concerned with maintaining consumer protections. Private markets function differently than public markets and prospective investors should meet a different threshold. We do not, however, believe that increased access results in decreased investor protection. At core, the ability to invest in

[3] See *Where Have All the Public Companies Gone?* Bloomberg Opinion, (April 9, 2018), available at https://www.bloomberg.com/opinion/articles/2018-04-09/where-have-all-the-u-s-public-companies-gone.
[4] See data from Professor Jay Ritter and the Warrington School of business, available at https://site.warrington.ufl.edu/ritter/files/2019/04/IPOs2018Tech-Stock.pdf.
[5] See *supra* note 4. Note, the median age at IPO between 1999 and 2000 at the height of the market was 5 years.

additional asset classes, such as private markets, can bolster investor protections through diversification.

Additional Policy Recommendations

Carta supports the direction of the SEC's proposal. In response to the Commission's questions, we will highlight some additional recommendations.

New Categories

Under the Proposal, the Commission would establish additional categories for individuals and entities to qualify as Accredited Investors. We support this aim, as the current definition is too narrow and too reliant on financial resilience while not sufficiently taking into account sophistication and the ability to assess risk.

We believe that professional certifications, designations, and other credentials are appropriate for determining eligible accredited investors. And for the most part, we believe the Proposal strikes a strong balance identifying certifications and licenses that should qualify under its specified criteria. We would, however, recommend that an initial Commission order accompanying the final rule, if adopted, include Certified Public Accountants, Certified Management Accountants, Certified Financial Analysts, Chartered Alternative Investment Analysts, and Certified Financial Planners. Each brings with it a level of expertise that we believe demonstrates an individual's comprehension and sophistication in the areas of securities and investing, and thus obviates the need for various restrictions on their investment choices.

Further, regardless of the finalized scope of certifications, we do urge the Commission to establish a routine review of the defined list of eligible designations, certifications, and licenses. The final rule should provide the Commission with flexibility to reevaluate previously designated certifications, designations, or credentials if they change over time, and also designate other, possibly new, certifications, designations, or credentials that meet specified criteria. The marketplace is dynamic and it will be important to ensure that existing certifications and designations keep pace, while also considering which if any designations not currently included should be added.

We recommend FINRA establish an examination that would enable an individual to become an accredited investor. FINRA is well positioned to create and administer an examination it believes appropriate to ensure an individual has the ability to operate as a sophisticated investor. Importantly, such an exam—just as the Securities Industry Essentials (SIE) is currently structured—would not require an individual to be associated with a broker-dealer firm. This accomplishes the goal of preparing an investor but creates a more accessible onramp to investment opportunities that as we have noted drive alpha and help with diversification. Such an avenue may make a material difference in democratizing ownership.

Family Office
We support the Commission's decision to propose including Family Offices and Family Clients of Family Offices with greater than $5 million in assets under management. Family Offices are assembled to manage financial holdings and investments. These entities should have the ability to invest in a wide variety of assets, including private and exempt offerings.

According to the Proposal, the Commission believes the proposed parameters—the $5 million threshold and directed by a person capable of assessing the merits and risks of prospective investments—would make "...all or most current family offices…" eligible to be accredited investors. We lack the data to confirm that statement, but share the aim. We would encourage the Commission to confirm that scope and adjust as necessary to achieve it.

<u>Market Impact</u>

If done correctly, the expansion of the accredited investor definition will help democratize ownership while driving economic opportunity. As previously noted, the expansion would enable a broader class of investor to gain from an asset class that diversifies their portfolio and has been outperforming public markets.

This benefit also accrues to issuers and the broader economy. An appropriately expanded Accredited Investor definition will increase the investor base and likely create more liquidity. As the Commission knows, liquidity can be a key factor in an issuer's ability to compete. We see this reality throughout the marketplace and appreciate Chairman Clayton's awareness and desire to address it:

> "I found the observations of firms that focus on smaller companies to be particularly enlightening. They emphasized that the relative lack of liquidity in the stocks of smaller companies not only affects investors when they trade, but also detracts from the companies' prospects for success. Illiquidity hampers them in many areas, including in their ability to raise additional capital, obtain research coverage, engage in mergers and acquisitions, and hire and retain personnel."[6]

These comments were made in reference to thinly-traded securities on the OTC market. But what is true there is even more so in private markets with a limited investor pool. It can make the difference for a company. Taking the steps the Commission has to strike a more appropriate Accredited Investor rule will increase liquidity. That resulting lower cost of capital will help issuers compete and invest in their futures—raising capital to hire people, fund innovation, and serve their customers.

The Background Analysis of the Proposal notes that more available liquidity may deter private companies from going public. We cannot be sure whether that is true. We understand the

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[6] See Roundtable on Market Structure for Thinly-Traded Securities, Division of Trading and Markets. https://www.sec.gov/spotlight/equity-market-structure-roundtables/thinly-traded-securities-rountable-042318-transcript.txt.

Commission’s concern and appreciate the work it is doing on a number of fronts to help erode barriers to IPO; Carta shares your ambition to create a spectrum on which companies can effectively be served by markets, private and public, throughout their growth life cycle. It is, however, our belief that the underlying regulatory structure has created impediments for companies to go public. We should not seek to solve one issue—fewer companies going public—by choosing not to solve another issue—the Definition of Accredited Investor. The Commission has taken promising and meaningful steps forward on this matter. We applaud your efforts and support the Proposed Amendment.

Thank you for the opportunity to comment. If you have any questions, please contact Anthony Cimino, Head of Policy, at 202.734.9592 or Anthony.Cimino@Carta.com.

Sincerely,

Henry Ward
CEO

Anthony Cimino
Head of Policy