



November 9, 2022

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

**Re: Petition for Rulemaking – Replacing Net Worth and Income Requirements Under Rule 501(a) to Reduce DEI Barriers**

Dear Ms. Countryman:

Investor Choice Advocates Network (“ICAN”) submits this petition with the U.S. Securities and Exchange Commission (“Commission” or “SEC”) to request that the Commission reduce the diversity, equity, and inclusion (“DEI”) barriers for “accredited investors” by replacing the net worth and income requirements of Rule 501(a) under the Securities Act of 1933 with non-financial metrics.<sup>1</sup>

We recommend readers of this petition, including the Commission and Commission staff, view the video statements [available here](#) in connection with this petition.

As explained by the SEC, “For companies raising capital, the accredited investor definition largely determines who is in their pool of potential investors, and for investors whether they are eligible to invest in many early-stage companies. Many of the offering exemptions under the federal securities laws limit participation to accredited investors or contain restrictions on participation by non-accredited investors.”<sup>2</sup> Generally, people who do not have a net worth of \$1 million or annual income of \$200,000 (or \$300,000 with a spouse or partner) are simply excluded from most private securities offerings. These financial metrics create DEI barriers to investing that have a disproportionate impact on communities underrepresented in capital markets.

Although in 2020, the Commission began allowing individuals with certain securities broker licenses to become “accredited investors,”<sup>3</sup> this has not meaningfully reduced the DEI barriers to entry for investors. The Commission should replace the current net worth and income requirements with non-financial metrics so that investment opportunities in private share offerings may include more underrepresented and diverse communities. The non-financial metrics could include education attainment certifications such as a high school diploma or

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<sup>1</sup> See 17 C.F.R. 201.192(a).

<sup>2</sup> <https://www.sec.gov/education/capitalraising/building-blocks/accredited-investor>

<sup>3</sup> See Lydia Beyoud, *SEC ‘Accredited Investor’ Definition Tweak Faces Equity Concerns* (February 23, 2022), <https://news.bloomberglaw.com/securities-law/sec-accredited-investor-definition-tweak-faces-equity-concerns>.



equivalent, associate, bachelors, masters, or doctor of philosophy degrees or professional certifications such as those required for certified public accountants, attorneys, chartered financial analysts, certified financial planners, securities brokers, or registered investment advisors. Similarly, evidence that an investor is working with a registered investment advisor would better empower currently non-accredited investors than current prohibitions.

While the net worth and income restrictions may have been originally rooted in the desire to protect individuals of modest means from making financially risky decisions, the rules have had the negative effect of preventing such individuals, and particularly communities of color, from being able to make their own risk assessments and attempting to accrue wealth at a high level. Indeed, Rule 501(a)'s net worth and income requirements have led to the underrepresentation of people of color in the investment industry more broadly.

According to a June 2019 report published by the National Venture Capital Association (“NVCA”) and Deloitte & Touche LLP, 76% of investment professionals identified as white, 17% as Asian or Pacific Islander, 5% as Latino, and just 3% as Black.<sup>4</sup> To compile the report, the NVCA and Deloitte surveyed 2,700 employees at 203 venture capital firms with a total of \$149.4 billion in assets under management in 2018.<sup>5</sup> The SEC’s net worth and income requirements have also negatively-impacted entrepreneurs of color who might seek investors within their own communities as sources of venture capital. According to a 2019 report from the Ewing Marion Kauffman Foundation, in the United States, 22% of Black entrepreneurs, 15% of Latino entrepreneurs, and 13% of Asian entrepreneurs said an inability to obtain capital hurt their company’s profitability, compared to just 9% of white entrepreneurs.<sup>6</sup> The report also noted that Black-owned businesses start with about three times less capital — an average of \$35,205 — than their white-owned counterparts.<sup>7</sup> Businesses targeting consumers of color would likely be able to receive more money if investors were more diverse, according to Mariah Lichtenstern, the founding partner and managing director of investment firm DiverseCity Ventures.<sup>8</sup> “There are a multitude of studies that show that investors tend to invest in people like themselves,” explains Lichtenstern.<sup>9</sup>

Investor-base diversification in early stage companies will also benefit the companies and foster innovation, generally. Start-up companies with a small number of homogenous investors can result in constraints on management that may not be present with a larger, more diverse investor base. Additionally, financial technology is making the 38-year old “accredited investor” rule obsolete. Today, technology has made it both simple and economically feasible for issuers to accommodate a sizeable number of micro-shareholders, enabling smaller investment amounts with correspondingly lower risk for investors. The sweeping economic benefits of investor-

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<sup>4</sup> See Sierra Jackson, *SEC Rule Tweak A Partial Fix For Underrepresented Founders* (September 18, 2020), <https://www.law360.com/articles/1298097/sec-rule-tweak-a-partial-fix-for-underrepresented-founders>.

<sup>5</sup> Id.

<sup>6</sup> Id.

<sup>7</sup> Id.

<sup>8</sup> Id.

<sup>9</sup> Id.



based diversification will result in better products, stronger businesses, more jobs, and greater confidence in the capital markets.

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In connection with this petition, numerous participants in the financial-services industry have pointed out how the SEC would foster opportunity and equity by reducing or eliminating the accreditor investor net worth and income barriers to private-securities offerings, as detailed below and in the accompanying video statements.<sup>10</sup>

**A. Brittany Davis, General Partner at Backstage Capital, comments on unintended consequences of “accredited investor” financial requirements**

Although the “accredited investor” financial requirements originated from a desire to protect less wealthy investors, they have resulted in limiting many individuals from being early investors of private venture funds, as well as limiting entrepreneurs from obtaining much-needed capital. In their early stages of funding, many founders’ only potential sources of funding are their immediate friends and families. However, these friends and families are often unable to meet the SEC’s stringent “accredited investor” qualifications, thereby preventing numerous entrepreneurs from receiving their first \$100,000 or even \$25,000 of capital to get started.

**B. Ryo Ishida, Managing Partner and Co-founder at Rainbow Capital Partners, worries that “accredited investor” requirements prevent ordinary investors from participating in private investments**

Rainbow Capital Partners invests in underfunded entrepreneurs of commercial real estate and underfunded markets, with a primary focus on people of color, the LGBTQ+ community, and female entrepreneurs. One of its main social missions is to lower barriers for ordinary investors to access commercial real estate investments, but the “accredited investor” requirements prevent individuals from investing in projects. Specifically, for each deal it engages in, Rainbow Capital Partners has always practiced saving a several-million dollar tranche for ordinary investors to invest. However, they are forced to limit their acceptance of investors to those who are “accredited,” even if there are long waitlists of individuals who do not meet the financial requirements and yet are still interested in these projects.

**C. Dara Albright, Founder of DWealth Education, points out that “accredited investor” requirements harm small companies trying to raise funds and diversify their investment base**

Not only does broadening access to more investment opportunities positively impact investors’ portfolios, diversification also positively affects issuers and businesses themselves.

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<sup>10</sup> See ICAN, “Net Worth and Income Components of the Accredited Investor Rule Exclude Underrepresented Communities, <https://www.youtube.com/watch?v=lqIDqGbxYpk>.



When a company has a more expansive capitalization table and investor base, this provides the company's upper management with more freedom to focus on innovating.

**D. Ramona Ortega, CEO and Founder of My Money My Future, explains how the “accredited investor” financial requirements contribute to the nation’s wealth gap:**

My Money My Future emphasizes financial education and financial inclusion. The current “accredited investor” rules have a disproportionately negative impact on communities of color, particularly given the existing racial wealth gap. To illustrate, there is approximately a \$100,000 difference in net worth between white families and families of color. Thus, the requirement of a million dollars in net worth, or even \$200,000 dollars in annual salary, has a disparate impact on communities of color, even if they are financially mobile and actively seeking to build long-term wealth. It is crucial that all communities receive opportunities to accumulate wealth through investing – indeed, in the U.S., most wealth has been created through investing in or building businesses. For example, in the Silicon Valley “ecosystem,” the observed pattern has been that early investors of private companies that eventually go public or are acquired are the ones who receive windfalls of capital that can completely change the trajectories of wealth for their families and communities.

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For the foregoing reasons, the Commission should replace the net worth and income requirements of Rule 501(a) under the Securities Act with non-financial metrics. We would be pleased to answer any questions the Commission or its Staff may have regarding our petition. We appreciate the Commission’s continuing attention to this important matter and for allowing us an opportunity to present our views.

Sincerely,

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Nicolas Morgan  
Founder and President  
ICAN

cc: Hon. Gary Gensler, Chair  
Hon. Hester Peirce, Commissioner  
Hon. Caroline Crenshaw, Commissioner  
Hon. Mark Uyeda, Commissioner  
Hon. Jaime Lizárraga, Commissioner