Accredited Investor Definition
Current Accredited Investor Definition

- Individuals
  - Wealth
  - Income
- Entities
Role of Accredited Investor Definition

• Bring certainty to exceptions to Rule 506 limitations on number of investors and information requirements (and to 4(a)(5) exemption).
• Identify permitted investors if general solicitation used (Rule 506(c))
  • Since JOBS Act
  • Verification requirement
• Identify holders of record who do not count toward 500 limit until 2,000 limit crossed for 12(g) registration
Assessing Accredited Investor Definition

• All can agree on desirability of balancing investor protection and facilitation of capital formation, including importance of investor confidence to capital formation
• Issue is structuring “right” balance
  • Tightening definition impairs capital formation; expanding it enhances capital formation
Assessing Accredited Investor Definition (continued)

• Surrogate for sophistication/ability to fend for oneself or to hire someone who can (and secondarily to bear loss of investment)
• Is precision necessary/desirable or just general approximation?
• Should it be approached theoretically/analytically or practically/pragmatically?
 Alternatives for Accredited Investor Definition Revision

• Scrap wealth/income test and adopt truer sophistication test
• Add qualitative sophistication criteria
• Index quantitative wealth/income tests
  • Retroactive/prospective
  • Reasons for and against indexing
• Do nothing based on absence of evidence of a problem
Factors to Consider

- Investor protection
  - Does it enhance investor protection?
  - Is there a problem in need of fixing?
- Capital formation
  - Is it enhanced or impaired?
- Is the test workable?
- Is the test “verifiable”?
- Political impact