

# Accredited Investor Pool\*

**Meeting of SEC Advisory Committee on  
Small and Emerging Companies**  
December 17, 2014

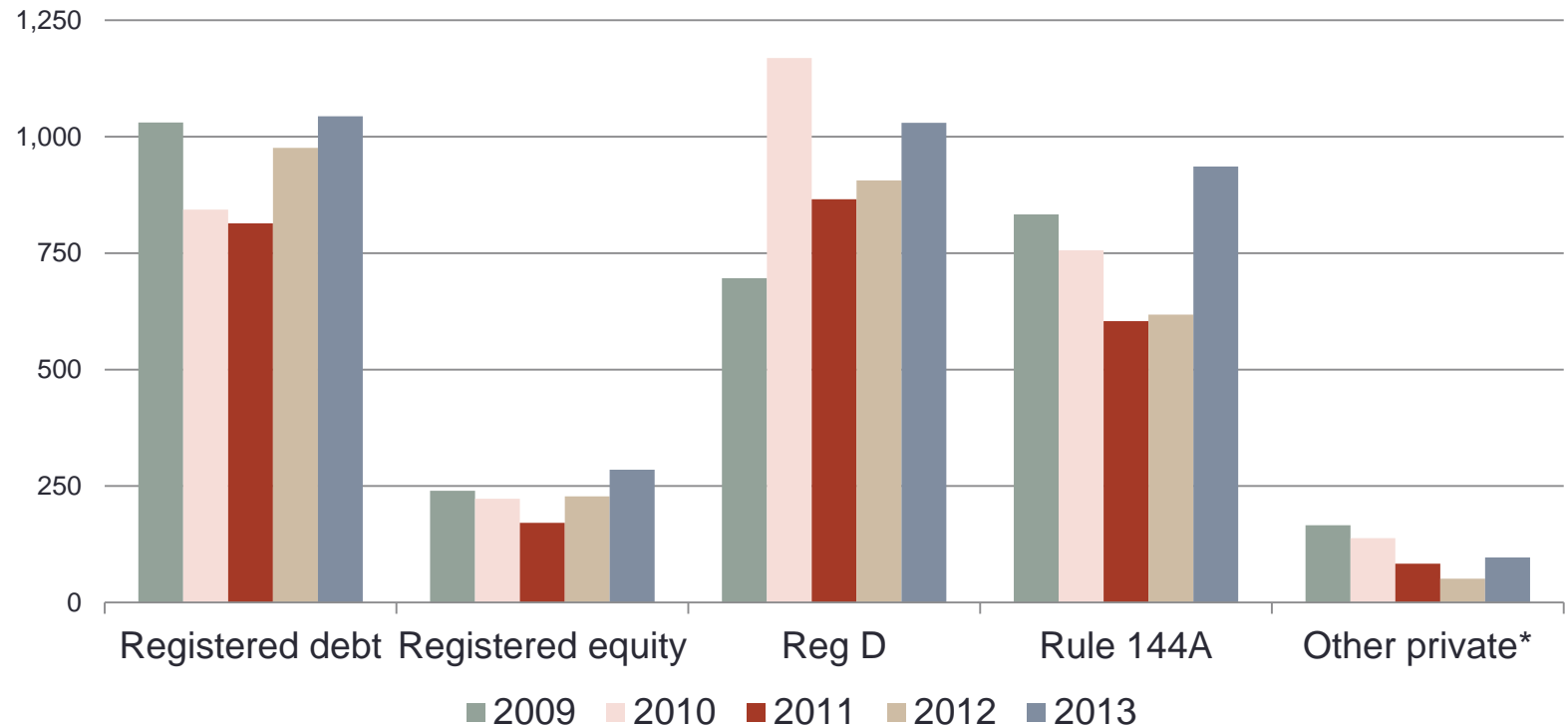
**Rachita Gullapalli**  
*Financial Economist*  
*Division of Economic and Risk Analysis*

\* The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission or of the author's colleagues upon the staff of the Commission."

# Accredited Investors

- SEC defined investor category (Rule 501 of Regulation D):
  - who companies can sell to, for their offerings under Rule 505 and Rule 506 of Regulation D.
- Dodd-Frank Act (2010) requires SEC to revisit the accredited investor definition for natural persons
  - not been comprehensively re-examined since 1982

# Regulation D Offerings\*

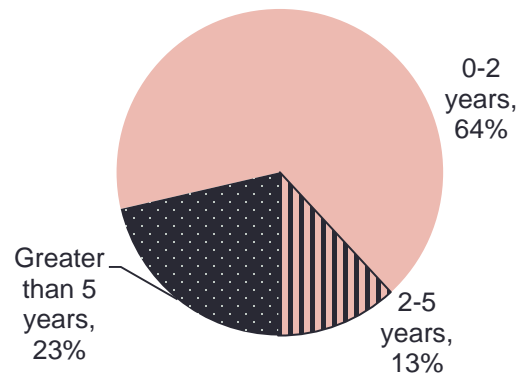


- Almost 99% raised in Rule 506 offerings.
- New exemption Rule 506(c) created in 2013 where offerings can be sold to only accredited investors.

\* Sources: EDGAR Form D and Form D/A filings for Rule 504, 505, and 506 offerings; Thomson Financial for all others

# Regulation D Offerings

- Important market for small business capital formation
  - More than 70% of new offerings in Regulation D market are by non-fund issuers (operating companies and financial companies).
  - In the 12 month period, September 23, 2013-September 22, 2014, there were almost 15,000 new offerings by non-fund issuers.
  - Rule 506 Non-fund Issuers by Age



- Fund Issuers - include VCs, Private equity and other investment funds - that are an important source of financing for small, early-stage and start-up firms.

## Regulation D Offerings - Investors

	Average number of investors per offering	Average number of investors per year*	% offerings with at least one non- accredited investor	Average number of non-accredited investors per year*
Hedge Fund	20	39,025	7.1%	144
Private Equity Fund	19	18,032	6.0%	54
Venture Capital Fund	15	4,531	1.2%	4
Other Investment Fund	27	27,241	8.3%	78
Banking	38	12,831	14.4%	167
Real Estate	23	35,983	14.6%	232
Non-financial issuers	9	96,433	10.4%	1,079

- Approximately 250,000-300,000 investors in new offerings every year
  - Entities/Natural persons

*\*Double counting occurs to the extent that investors participate in more than one offering during the year  
Source: EDGAR Form D filings from 2009 to 2013. Amended (Form D/A) filings excluded*

## Accredited Investors – Natural Persons

- Who should qualify as an accredited investor?
  - Sophistication to understand risk-reward tradeoffs
  - Ability to withstand losses
- Existing Standard for Natural Persons (Rule 501):
  - Individual Income of at-least \$200,000
  - Joint Income, with spouse of at-least \$300,000
  - Net-Worth (or joint net-worth with spouse) of at-least \$1 million (*excluding value of primary residence, and including indebtedness secured by such primary residence as a liability*).
  - Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer.

# Accredited Investors - Natural Persons

## Current Thresholds

	Current Thresholds*	Survey of Consumer Finances <sup>#</sup> 1983	Survey of Consumer Finances 2013
Income - Individual	\$200,000	0.44	8.07
Income - Joint**	\$300,000		4.04
Net Worth <sup>##</sup>	\$1,000,000	1.42	9.23
Income or Net Worth Basis		<b>1.51</b> <i>(1.8%)</i>	<b>12.41</b> <i>(10.1%)</i>

\* Rule 501, Regulation D

\*\* The joint income standard was established in 1988. The inflation-adjustment is therefore for the period 1988-August 2014.

# Data is based on the 1983 and 2013 Survey of Consumer Finances (SCF), a triennial survey conducted by the Federal Reserve Board.

Figures in parentheses represent proportion of total U.S. households that qualify as accredited investors..

Total Number of U.S. Households - 2013 database: 122.5 Million

Total Number of U.S. Households - 1983 database: 83.9 Million

The 2013 SCF Survey reports data collected for 2012, but are inflation-adjusted to reflect 2014 \$ amounts.

## Excludes net value of primary residence, as per Section 431(a) of Dodd-Frank Act.

## Accredited Investors - Natural Persons

### Current and Inflation-Adjusted Thresholds

	Current Threshold	Inflation-Adjusted Threshold*
Income - Individual	\$200,000	\$492,958
Income - Joint**	\$300,000	\$628,130
Net Worth	\$1,000,000	\$2,464,788

\* Inflation adjustment for period 1983-August 31, 2014, based on Consumer Price Index-All Urban Consumers, Bureau of Labor Statistics

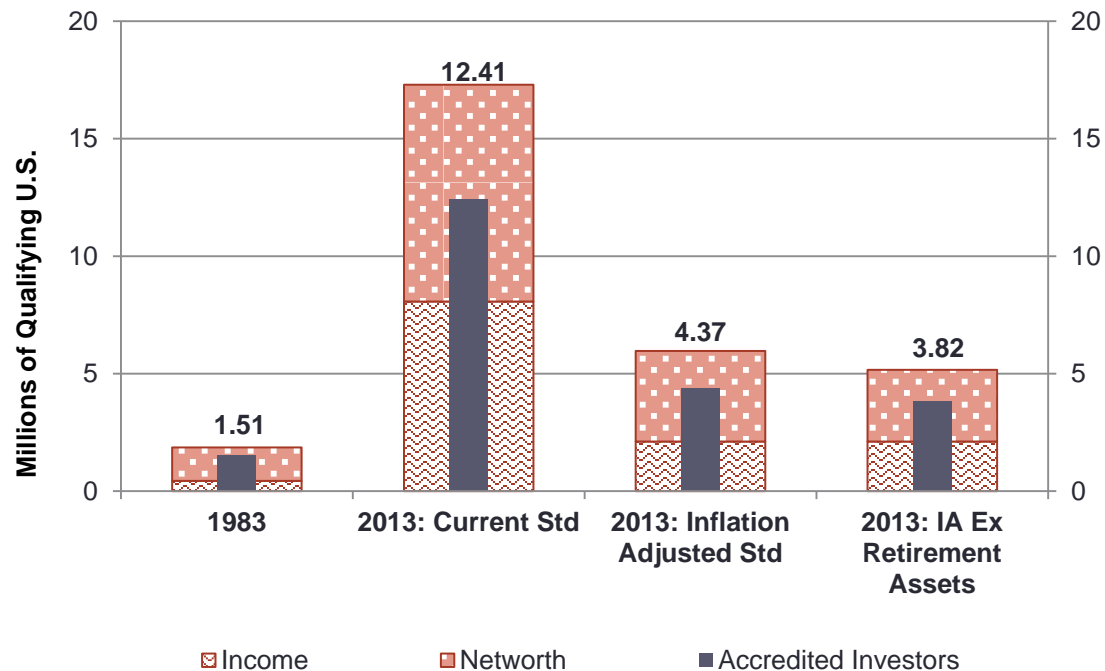
\*\* The joint income standard was established in 1988. The inflation-adjustment is therefore for the period 1988-August 2014.



## Accredited Investor Pool - Natural Persons

Number of U.S. Households (millions) Qualifying as Accredited Investors

### Alternate Criteria



- Retirement assets in SCF 2013 are quasi-liquid assets that include IRA/KEOGH accounts, thrift type retirement accounts, future pension assets and current pension assets, if any

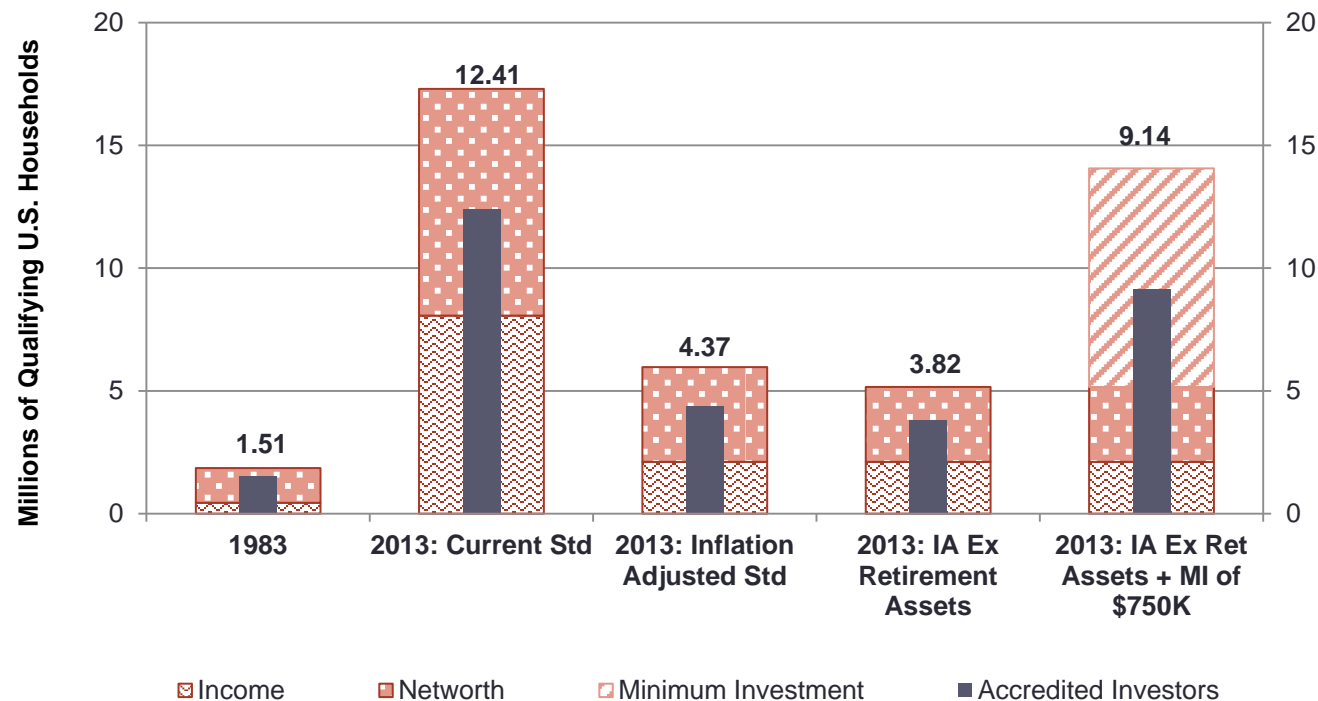
## Accredited Investors - Sophistication

- Income/Net worth
  - Good proxy for ability to withstand losses
  - Better proxies available to measure sophistication
- Alternate Criteria for Sophistication
  - Education/Certification
  - Work experience
  - Investment Experience
  - .....
- 2007 Proposal: Minimum Investment Experience of \$750,000

# Accredited Investor Pool - Natural Persons

Number of U.S. Households (millions) Qualifying as Accredited Investors

## Alternate Criteria with Minimum Investment Experience



- Retirement assets in SCF 2013 are quasi-liquid assets that include IRA/KEOGH accounts, thrift type retirement accounts, future pension assets and current pension assets, if any
- Minimum Investment of \$750,000 is an alternative criteria for qualifying as an accredited investor. Investments used in the calculation of minimum investment include financial assets, real-estate excluding primary residence, and business interest, if any.

Thank You