## OPINION

# Angels Out of America

### How the Dodd bill harms start-ups.

Senator Chris Dodd's 1,400-page financial reform bill contains many economic land mines, and here's one of the worst: Provisions that would make it harder for business start-ups to raise seed capital.

Currently, wealthy individuals who want to invest directly in a new business can do so with minimum interference from regulators. The law requires only that the investor be "accredited" by meeting thresholds for net worth ($1 million) or income ($250,000). Entrepreneurs depend on these "angel" investors, since many new businesses lack the collateral for bank loans and are too small to interest venture capitalists.

Amazon, Yahoo, Google and Facebook all benefited from angel investors, who typically target companies under five years old. According to a 2009 Kaufman Foundation study, such firms are less than 1% of all companies yet generate about 10% of new jobs. Between 1980 and 2005, companies less than five years old accounted for all net job growth in the U.S. In 2008, angels invested some $19 billion in more than 55,000 companies.

Mr. Dodd's bill would change all this for the worse. Most preposterously, it would require that start-ups seeking angel investments file with the Securities and Exchange Commission and endure a 120-day review. Rare is the new company that doesn't need immediate access to the capital it raises, and a four-month delay is the kind of rule popular in banana republics that create few new businesses.

The legislation also removes a federal pre-emption that prevents start-ups and investors from being subject to 50 different state regulators. The North American Securities Administrators Association, which represents state regulators, argues that federal pre-emption contributes to fraud. But angel investors don't use broker-dealers and other middlemen linked to recent investment scandals. Nascent companies often seek financing from multiple investors in different states, and a state-by-state regulatory regime would mean higher compliance costs and more legal risks.

The Dodd bill also raises the net worth and income thresholds to $2.3 million and $450,000, respectively. The Angel Capital Association, a trade group, estimates that these provisions would disqualify about 77% of current accredited investors. Accreditation matters in luring other potential investors, such as venture capitalists who enter the picture once a company begins to mature.

We hear Senator Dodd is taking such complaints seriously, and we hope so. No one believes angel investors pose a systemic risk, so it's hard to understand why these proposals are part of a bill aimed at preventing another financial collapse. The economy needs more private job creation, as Democrats who have to explain a 9.7% jobless rate should especially understand.