



## ANGEL CAPITAL ASSOCIATION

February 15, 2016

The Honorable Jeb Hensarling  
Committee on Financial Services  
United States House of Representatives  
Washington, DC 20515

Dear Chairman Hensarling:

The Angel Capital Association, a membership of 13,000 individuals, angel investing groups and family offices and the voice of the 300,000 strong accredited angel investor community, strongly supports HR 4498, the Helping Angels Lead Our Startups Act (HALOS Act). In addition, we commend the bi-partisan Members of Congress of the Financial Services Committee who share your commitment to capital formation and startup innovation who have joined as original co-sponsors; Representatives Kyrsten Sinema and Robert Hurt. Their leadership to bring this bill to mark-up has been exceptional.

We believe the HALOS Act will help more job-creating startup companies raise the funding they need because it removes a barrier to funding. The barrier comes from an unintended consequence of SEC rulemaking for the Jumpstart Our Business Startups (JOBS) Act. Regulation D 506(c) permits private issuers to use general solicitation when raising capital as long as they take reasonable steps to verify that the investors who purchase their securities are accredited investors. Currently most attorneys advise startups to use the “safe harbors” included in the SEC rule, which generally requires an investor to provide financial and/or wealth documentation to a third party or to the issuing entrepreneur. Handing over personal wealth and financial documentation to a third party poses privacy concerns and asking entrepreneurs, which many not have the physical or financial means to vet investors puts these entrepreneurs at risk of violating compliance with Regulation D.

This rule is particularly difficult for “Demo Days,” events in which entrepreneurs highlight their companies to investors and others, usually after a month or more of education and mentoring to improve their business strategies. These events come in a variety of forms: university business plan competitions, statewide venture forums, and incubator or accelerator demo days, among others. Demo days have multiple purposes: connecting early-stage entrepreneurs with experts who may mentor and invest in them in the future, highlighting the economic development capabilities of communities and regions, and educating a variety of attendees on important facets of starting and growing businesses.

Demo Days have been an important part of the entrepreneurial financing process for literally decades, often with lead sponsorship by federal, state and local government entities for the purpose of economic development. Thousands of these events have been held annually. We are not aware of investor fraud issues connected to these events. Requiring verification of accredited investors for these events creates

a new burden for participating entrepreneurs and makes investors less likely to invest in participating companies because they are concerned about the requirements of the SEC rule.

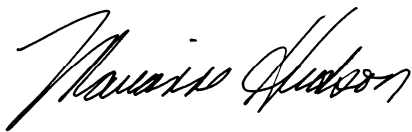
The HALOS Act would exempt Demo Days from general solicitation requirements. It is true that these events are mostly open to the general public, but it is important to point out that the actual investors in participating startup companies would continue to be restricted to those who meet the legal definition of an accredited investor.

Further it is important to understand the reasons that Demo Days should include unaccredited investors as attendees. Their education and economic development purposes might be even more important than connecting entrepreneurs to potential investors. For instance, entrepreneurs who are not presenting their companies attend to learn from the presentations of other entrepreneurs and the kinds of questions and feedback they receive from investors and business experts. College classes and programs build in attendance to demo days for students to similarly learn from entrepreneurs and investors – this is a practical way to learn the finer points of building real businesses to success. Small business agencies can better understand the kinds of companies that most interest angel investors and VCs so that they may improve the support services they have for new high growth entrepreneurs.

The Angel Capital Association and our 13,000-member accredited angel investors across the U.S. strongly support the HALOS Act. Demo days are important to the support of high growth entrepreneurs and are also important to education of the entrepreneurial ecosystem and to economic development activities in many communities. Attendees at these events have an understanding of their role at the events and it is well known that only accredited investors may invest in the startups. Given that investor fraud has not been a part of Demo Days – with thousands of events annually over multiple decades – we believe Demo Days merit an exemption from general solicitation rules.

Thank you again for your leadership in promoting American startups, capital formation and job creation. Your Committee's focus on legislation which will help foster innovation and job growth is a testament to the power of harnessing entrepreneurs along with capital markets to leverage economic growth. We commend you for your leadership and look to swift passage of the HALOS Act by the United States House of Representatives.

Regards,

A handwritten signature in black ink, appearing to read "Marianne Hudson". The signature is fluid and cursive, with the first name being more prominent.

Marianne Hudson  
Executive Director