The Angel Capital Association (ACA) wishes to provide our support for the concept of crowdfunding, currently addressed in H.R.2930 and S.1791. ACA is the North American trade association of angel groups and private investors that invest in high growth, early-stage ventures. ACA membership includes more than 160 angel groups and 20 affiliate organizations across North America. ACA member angel groups represent more than 7,000 accredited investors. Our focus is on professional development for accredited investors active in supporting some of the nation’s highest growth startups.

ACA’s leadership has reviewed the legislation and supports the general concept of crowdfunding because it is important support growth in current economic times and ensure laws and regulations that are in step with modern social networking. The legislation has greatly improved since it was first introduced, reducing initial concerns about fraud and interference with sophisticated angel investing.

ACA’s Board adopted the following statement on December 2nd:

- Crowdfunding legislation is needed. Given the fall in net worth from decreased home values, entrepreneurs are much less able to self-finance the earliest development of their companies. Likewise, obtaining financing from friends and family has become more difficult.
- “Friends and Family” financing is often critical in getting startup companies off the ground. Crowdfunding helps fill this “Friends and Family” gap.
- If crowdfunding helps get more companies started, that is a good thing and a welcome change.
- Angel groups (and individual angels) are the next stage of financing and it is important to ensure that entrepreneurs have access to robust angel capital. These types of accredited investors are also important to entrepreneurs for their mentoring and advice, as well as to structuring investments for better opportunities for long-term growth.
- We strongly support the efforts of Sen. Mark Pryor and Sen. Scott Brown to enact an Angel Tax Credit (S.256) that will complement the crowdfunding legislation so that the most promising companies can grow beyond the crowdfunding stage. This is good and sensible policy.
- We remain concerned about the potential for fraud in this kind of financing and believe it is important to protect unaccredited investors from unscrupulous issuers. It will be important to have a mechanism for due diligence on the investment opportunities, as it is clear that due diligence is important to mitigating investment risk. Academic studies of angel investing found that 52 percent of all the investment deals went out of business. Crowdfunding is likely to have even more associated risk.

Angel groups and serious angel investors are important to high growth entrepreneurial ventures to Congress and the startup community. Crowdfunding may help many small startups, but active accredited angels are needed to get to the kind of growth that Washington intends.

Dan Rosen, Chair of Public Policy, ACA
Marianne Hudson, Executive Director, ACA