

Helping Angels Lead Our Startups (HALOS) Act

On July 10, 2013, the Securities and Exchange Commission adopted Regulation D 506(c) in accordance with provisions in the *Jumpstart Our Business Startup (JOBS) Act*. Intended to help expand startups' access to capital, 506(c) permits startups to use general solicitation when raising capital for non-publicly traded corporations, but only if investors are deemed accredited. Currently, the SEC has created several safe harbors for identifying accredited investors: providing financial and wealth documentation directly to the entrepreneur, or to their broker, banker, or accountant. However, these safe harbors raise privacy and compliance concerns for angel investors, requiring entrepreneurs and startups to take on a job they may not have the physical or financial means to do.

The SEC's rule change has its heart in the right place: allowing businesses to take advantage of vastly expanded information technology to advertise, while seeking to protect these businesses from investors with financial means but little experience in managing risk. However, it has put educational and economic development events like demo days – where startups get important interface with angel investors and venture capitalists – at risk of being subject to onerous 506(c) third-party verification rules. Demo days existed for years without issue during the ban on general solicitation through Regulation D 506(b) rules, which allowed investors to self-certify their accreditation at demo days through a questionnaire. It doesn't make sense to change this process now, and add additional hurdles for angels and other accredited investors in an effort to fix something that isn't broken. With an average of 15 years investment experience and 9 years entrepreneurial experience, angel investors are valuable investors and mentors to our startups, and our laws should be helping, not hindering their work.

The *HALOS Act* would preserve the spirit of the *JOBS Act* and alleviate some of the burden posed by the new general solicitation rule by protecting events like demo days from being classified as general solicitation. Specifically, the bill would clarify the definition of general solicitation as not applying to a presentation, communication, or event:

- Sponsored by federal, state, or local government; a college or university; non-profit; established angel group; venture forum, venture capital association or trade association; or any other group approved by the SEC
- Whose advertising does not make any specific investment offerings
- Whose sponsor does not make investment recommendations, provide investment advice to attendees, engage in investment negotiations, or charge any entrance fees other than what covers the cost of the administrative cost of the event
- Where no specific information regarding investments is communicated by the issuer other than that they are offering securities, the type and amount of securities being offered, the amount of securities still available, and the intended use of the securities

This bill is supported by the Angel Capital Association.