



ANGEL CAPITAL ASSOCIATION

October 30, 2014

The Honorable Mary Jo White
Chairman
US Securities and Exchange Commission (SEC)
100 F St NE
Washington, DC 20549

RE: Investor Advisory Committee Recommendations -- Accredited Investor Definition

Dear Chairman White:

The Angel Capital Association (ACA) appreciates the work done by the Investor Advisory Committee (IAC) in addressing the complex issues surrounding the accredited investor definition. As the Commission considers its next steps in studying the issue, we want to add our comments on the IAC document. We agree that the SEC should first determine whether the current definition effectively defines a class of individuals who do not need protection of the 1933 Act. We also agree that a key goal should be to not unduly constrain the supply of capital to the private markets, especially the startup sector that is so essential to job creation and innovation in our economy.

We agree with the IAC's focus on including financial sophistication as a component of the definition, irrespective of wealth or income. While the financial thresholds today appear to be working well in the angel community, we concur that sophistication is an important additional category that can prudently expand the class of investors who may participate in the private market, while protecting the most vulnerable and unsophisticated.

We also agree that a variety of sophistication measures may apply, including professional experience, prior investment in private equity, education and certain credentials. A list of measures we believe could effectively be used is included in our letter of February 28, 2014¹. We urge the SEC to ensure that any such sophistication measures be clear, reasonable to implement, and not unduly impede the flow of capital to startups.

We welcome the IAC's suggestion that one approach to qualifying as an accredited investor could be "participation in an angel group that follows best practices." Of particular significance is the fact that participation in an angel group meets the three qualifying factors set forth as benchmarks for a non-vulnerable investor; namely 1) access to adequate information to make a reasoned judgment about the investment; 2) ability to bear the economic risk associated with the investment; and 3) experience and sophistication to evaluate the merits and risks of the investment. For these reasons, we believe membership in an angel group should be recognized as a clear test for qualifying as an accredited

¹ Angel Capital Association: Accredited Investor Definition Comment and Recommendations
www.angelcapitalassociation.org/data/Documents/Public%20Policy/ACAACcreditedInvestorDefCommentLetter02-28-14.pdf

investor. To further delineate this class of angel investors, ACA has developed a set of criteria to certify such Established Angel Groups™ that operate using best practices.²

ACA is concerned with certain recommendations, including whether to limit investments to a percentage of assets or income. Such concepts are highly problematic – investors would likely have to disclose significant and unacceptable levels of personal information regarding wealth, income, total investments, etc.; and, issuers would be tasked with verifying such data in a secure way that protects privacy and prevents identity theft and associated risks. The complexities and inherent risks of this process would have a chilling effect on capital formation across the private markets.

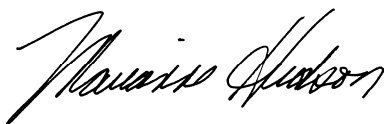
We share the IAC's view that the SEC act on complete information when assessing the accredited investor definition; however, we do not agree that it should implement proposed amendments to Regulation D and Form D. These amendments are unacceptably costly and almost impossible for small issuers to follow. If enacted, the disclosure mandates and attendant penalties would devastate the startup economy. Instead, we suggest the Commission continue to study and sample the marketplace to determine how this market is operating under the current accredited investor definition and general solicitation rules. ACA's 12,000+ members have collectively invested in thousands of startups, and we would be pleased to share our best practices information regarding screening, due diligence and negotiation processes used in undertaking such investments.

As the Commission conducts periodic reviews of the accredited investor definition, we urge that any revisions – in particular any that would involve the financial thresholds -- be phased in gradually, so as not to sharply disrupt the private markets. We continue to believe the current definition works very well, and that adjustment, if any, should reflect market conditions on a go-forward basis that acknowledges the vast growth of the private market, and the need to ensure appropriate access for both issuers and investors.

The IAC also addressed concerns regarding the issuer requirement to verify accredited status of investors in Rule 506 offerings involving general solicitation. One means by which we suggest this could be alleviated would be to make the verification process a one-time, portable step that could be indefinitely used for subsequent investments.

Accredited angel investors work tirelessly across all regions and industries to help young companies raise capital and grow. In most regions of the country, this sector remains fragile and relies almost entirely on knowledgeable angel investors to gain a firm footing. As the Commission studies the accredited investor definition, we appreciate the consideration being given to the needs of this sector of the private markets.

Sincerely,



Marianne Hudson, Executive Director
David Verrill, Chairman
Christopher Mirabile, Vice Chairman

Mike Eckert, Public Policy Chair
Jean Peters, Member of the Board
Linda Smith, Member of the Board

² Angel Capital Association: Established Angel Group© certification: www.angelcapitalassociation.org/eag