ANGEL CAPITAL ASSOCIATION

Angel Capital Association Takes Action to Avoid Threat to Startup Funding

Potential SEC Rule Changes Could Eliminate 60 Percent of Angel Investors

Kansas City, Mo., May 20, 2014 – The Angel Capital Association (ACA) today launched a campaign to protect startups from a devastating loss of angel capital if the Securities and Exchange Commission (SEC) increases the financial qualifications for accredited investors. The "Protect Angel Funding" initiative is a call to action to the startup ecosystem—from angel investors to economic development organizations and entrepreneurs – to urge regulators to preserve the definition of who qualifies as an accredited angel investor. Protecting this important investment class is critical to preserving the economic fuel it provides to startups and job creation. If changes proposed by "investor protection" organizations are enacted by the SEC, nearly 60 percent of angel investors would be eliminated.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires the SEC to review the definition of an accredited investor in 2014 to determine whether it should be modified "for the protection of investors, in the public interest and in light of the economy." Currently, an individual accredited investor is defined as someone with $1 million in net worth excluding the value of a primary residence, or annual income of $200,000. At issue is whether these financial thresholds should be arbitrarily raised based on inflation.

Angel investors are accredited investors who invest in high-growth startup businesses, which create most of the nation's jobs. "Imposing higher financial limits on who may qualify as accredited would be devastating to angel investing, the startup economy, and job growth that depend on it," said David Verrill, chairman of ACA. "The current definition has enabled a vibrant sector of angel investors that is increasingly critical to our economy and serves the public interest as the primary support for high-growth young companies that create the vast majority of new jobs."

In 2013, accredited angel investors directly invested $24.8 billion into nearly 71,000 early-stage companies, according to estimates by the Center for Venture Research at the University of New Hampshire.

The "Protect Angel Funding" initiative supports keeping the financial definition of an accredited angel investor intact because accredited angel investors provide 90 percent of outside equity capital to startups and they also support these companies with mentoring and additional funds as they grow. This startup fuel is especially critical in regions of the country where there is no venture capital.

"We appreciate the importance of regulation to protect investors from fraud, however regulations need to be focused in areas with a proven need for added oversight. The angel investment asset class has experienced very little fraud, because angel investors have strong processes for due diligence and investment terms, and ongoing entrepreneurial support", said Marianne Hudson, ACA's executive director.

According to both SEC and General Accounting Office estimates, adjusting the net worth test for inflation, as advocated by some organizations as a form of "investor protection," would eliminate about 60 percent of current accredited investors. The two agencies estimate inflation-based adjustments would increase the net worth standard to about $2.5 million and annual income to $450,000.

A survey of ACA's members in January found that more than 25 percent of its 12,000 plus members would lose accredited investor status if net worth and income thresholds were raised. Outside of California, Boston and New York, nearly one-third of members would lose their accredited investor status, making this potential change especially harsh to other areas of the country where the capital infusion is needed most.

In recent public comments, SEC officials have indicated they are considering alternative criteria, including experience and sophistication based on factors such as membership in an angel group, employment history, relevant investment experience, total liquid assets, or by limiting the percentage of net worth that could be invested in any one offering.

"We are encouraged that the SEC is reviewing qualitative criteria in a way that both protects investors and maintains this essential market for startups," said Hudson. "Criteria including experience and training for individuals who do not meet the financial thresholds would afford additional investor protection, and enable this market to continue to develop, grow and rapidly create jobs. A robust, well-informed accredited angel investor population is essential in light of our growing innovation economy, and serves the public interest best."

ACA's comment letter to the SEC regarding the accredited investor definition, along with materials that entrepreneurs, investors and the startup support community may use to support the Protect Angel Funding campaign can be found on the ACA website at: www.angelcapitalassociation.org/aca-public-policy-protect-angel-funding/.

About ACA
The Angel Capital Association is the leading professional and trade association focused on fueling the success of accredited angel investors and portfolio companies in high-growth, early-stage ventures. ACA is the voice of the angel industry, providing comprehensive services in support of members working in angel groups, through portals and individually. ACA provides professional development, public policy advocacy and significant benefits and resources to its membership of 220 angel groups and platforms and more than 12,000 individual accredited investors. www.angelcapitalassociation.org; @ACAAngelCapital.

For information contact:
Cheryl Isen, Media Relations for Angel Capital Association
(425) 222-0779
Cheryl@isenandco.com