Ewing Marion
KAUFFMAN
Foundation

July 2, 2014

The Honorable Mary Jo White
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Accredited Investor Definition

Dear Chairman White:

The existing financial thresholds for accredited investors create a large pool of individuals who can invest in private offerings by businesses seeking capital. Raising the thresholds will significantly shrink this group, which we believe would be detrimental to startups with high growth potential. Because these young firms are the primary source of new job creation, such a change will have a negative economic impact and should be avoided.

To qualify as an accredited investor, the U.S. Securities and Exchange Commission currently requires a person to have an annual income of $200,000 or more — or $300,000 for a married couple — or a net worth of more than $1 million, excluding the person's primary residence. The SEC uses this definition as a gauge for whether an individual may have the ability to understand the inherent risks of investing. The current definition works fine and should remain as is.

Increasing the financial threshold to attain or retain qualification as an accredited investor will have particularly negative consequences to angel investing, which provides an important source of capital to startups. According to the Center for Venture Research, 70,730 entrepreneurial ventures received angel funding in 2013. Forty-five percent of these investments were to new businesses in the seed and startup stage.[i]

Kauffman Foundation research has established that were it not for new businesses, there would be no net job growth in the U.S. economy.[ii] Between 1980 and 2005, companies less than five years old were responsible for nearly all net new job creation.[iii]

While startups are the engine of American job growth, that engine has been slowing down. The rate at which new firms are created has steadily declined for the past 30+ years, with a particularly steep drop during the recent recession. The rate of new business creation has slowed to such an extent that there are now more business exits than births.[iv]

Because startups matter so greatly to the American economy, the declining rate at which new businesses are being formed is especially troublesome. Although more research is needed to understand the cause of this decline, we are convinced that public policy should make it easier, not more difficult, for entrepreneurs to start and grow new companies.

Capital is an essential ingredient for new business creation and growth. If the definition of an accredited investor were adjusted just for inflation over more than 30 years — raising the $1 million threshold for minimum net worth to $2.3 million — it would reduce the number of U.S. households that qualify as accredited investors from 8.5 million to 3.7 million, according to a July 2013 analysis by the General Accounting Office.

Furthermore, a January 2014 survey by the Angel Capital Association's 12,000-plus members indicated that more than a quarter of their members would lose their status as an accredited investor if the SEC implemented the higher thresholds.

Given the importance of startups to the American economy, and the declining rate of new business creation, we believe the potential impact of raising the definition of an accredited investor (thereby reducing the number of Americans who can legally invest in private offerings) will be detrimental to entrepreneurship, job creation, and overall U.S. economic health. We therefore restate our opposition to changes to the definition of an accredited investor that will reduce the number of Americans who can invest in startups.

Sincerely,

Alicia Robb

Alicia Robb, Ph.D
Senior Fellow, Research & Policy
Ewing Marion Kauffman Foundation
[redacted]

Dane Stangler
Vice President, Research & Policy
Ewing Marion Kauffman Foundation
[redacted]

Ewing Marion
KAUFFMAN
Foundation

---

[i] "The Angel Investor Market in 2013: A Return to Seed Investing". Jeffrey Sohl. Center for Venture Research. April 30, 2014. Available at: https://paulcollege.unh.edu/sites/paulcollege.unh.edu/files/2013%20Analysis%20Report%20FINAL.pdf.

[ii] "The Importance of Startups in Job Creation and Job Destruction". Tim Kane. Ewing Marion Kauffman Foundation. July 2010. Available at: http://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/the-importance-of-startups-in-job-creation-and-job-destruction.

[iii] "Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States". John Haltiwanger, Ron Jarmin, and Javier Miranda. Ewing Marion Kauffman Foundation. January 2009. Available at: http://www.kauffman.org/~/media/kauffman_org/research%20reports%20and%20covers/2009/01/bds_jobs_created_011209b.pdf.

[iv] "Declining Business Dynamism in the United States: A Look at States and Metros". Ian Hathaway and Robert E. Litan. The Brookings Institution. May 2014. Available at: http://www.brookings.edu/~/media/research/files/papers/2014/05/declining%20business%20dynamism%20litan/declining_business_dynamism_hathaway_litan.pdf.