

GAO Highlights

Highlights of [GAO-13-640](#), a report to Congressional Committees

Why GAO Did This Study

Accredited investors who meet certain income and net worth thresholds may participate in unregistered securities offerings. GAO determined that the intended purposes of the accredited investor standard are to (1) protect investors by allowing only those who can withstand financial losses access to unregistered securities offerings and (2) streamline capital formation for small businesses. To qualify as accredited, SEC requires an investor to have an annual income over \$200,000 (\$300,000 for a married couple) or a net worth over \$1 million, excluding a primary residence. The thresholds were set in the 1980s and 2010. The Dodd-Frank Wall Street Reform and Consumer Protection Act mandates GAO to study the criteria for qualifying individual investors as accredited.

This report examines market participants' views on (1) the existing criteria for accredited investor status and (2) alternative criteria. To address these objectives, GAO conducted a literature review, examined relevant data, and interviewed domestic and foreign regulators and industry representatives to identify alternative criteria. GAO also conducted structured interviews of 27 market participants (including broker-dealers, investment advisers, attorneys, and accredited investors).

What GAO Recommends

SEC should consider alternative criteria for the accredited investor standard. For example, participants with whom GAO spoke identified adding liquid investments and use of a registered adviser as alternative criteria. SEC agreed with GAO's recommendation.

View [GAO-13-640](#). For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov

July 2013

SECURITIES AND EXCHANGE COMMISSION

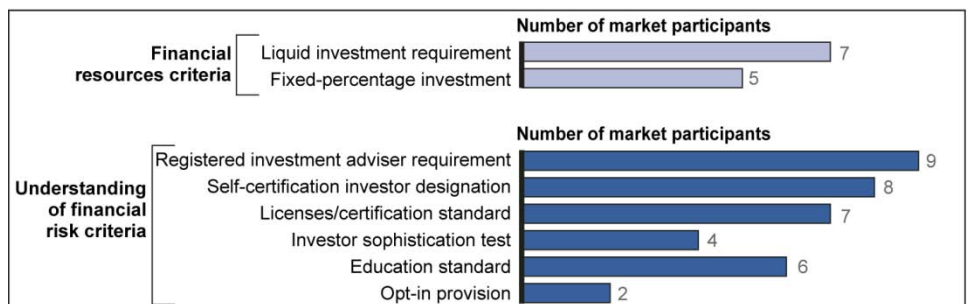
Alternative Criteria for Qualifying As an Accredited Investor Should Be Considered

What GAO Found

Of the existing criteria in the Securities and Exchange Commission's (SEC) accredited investor standard, many market participants identified net worth as the most important criterion for balancing investor protection and capital formation. For example, two market participants said the net worth criterion, more so than income, likely indicates the investors' ability to accumulate wealth and their investment knowledge. Others noted that some parts of the market might not accept adjustments to the thresholds. For example, an association of angel investors—accredited investors who invest in start-up companies—told GAO that they would be resistant to increased thresholds because it would decrease the number of eligible investors. GAO analysis of federal data on household net worth showed that adjusting the \$1 million minimum threshold to approximately \$2.3 million, to account for inflation, would decrease the number of households qualifying as accredited from approximately 8.5 million to 3.7 million.

While citing net worth as the most important criterion, several market participants GAO interviewed said that alternative criteria related to an investor's liquid investments and their use of an investment adviser also could balance investor protection and capital formation. GAO obtained views on eight alternative criteria that focus on investors' financial resources and their understanding of financial risk—criteria that SEC or industry groups previously proposed or that foreign regulators use. Among the financial resources criteria, market participants with whom GAO spoke most often identified a liquid investments requirement—a minimum dollar amount of investments in assets that can be easily sold, are marketable, and the value of which can be verified—as the most important for balancing investor protection and capital formation. Among the understanding financial risk criteria, market participants most often identified the use of a registered investment adviser. Beginning in 2014, SEC must review the accredited investor definition every 4 years to determine whether it should be adjusted. This study provides a reasonable starting point for SEC's review. Specifically, SEC will have the views of market participants about how existing and alternative qualifying criteria could help determine an investor's ability to bear and understand risks associated with unregistered securities offerings.

Market Participants' Views on Which Alternative Criteria Best Balance Investor Protection and Capital Formation



Source: GAO analysis of structured interviews.