



February 8th, 2023

The Honorable Patrick McHenry  
Chairman  
Committee on Financial Services  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Maxine Waters  
Ranking Member  
Committee on Financial Services  
U.S. House of Representatives  
Washington, DC 20515

**Re: February 8<sup>th</sup> Subcommittee on Capital Markets Hearing Entitled  
“Sophistication or Discrimination: How the Accredited Investor Definition Unfairly  
Limits Investment Access for the Non-wealthy and the Need for Reform”**

Dear Chairman McHenry and Ranking Member Waters:

The Small Business Investor Alliance (“SBIA”) submits these comments for the February 8<sup>th</sup> hearing of the Capital Markets Subcommittee regarding the “accredited investor” definition and related Securities and Exchange Commission (SEC) regulations. SBIA appreciates the Financial Services Committee prioritizing capital formation initiatives early in the 118<sup>th</sup> Congress, and we support several of the bills that will be considered during the February 8<sup>th</sup> hearing.

SBIA is a national association that develops, supports, and advocates on behalf of policies that benefit investment funds that finance small and mid-size businesses in the lower middle market, as well as the investors that provide capital to these funds. Our membership consists of the advisers of traditional 3(c)(1) and 3(c)(7) private funds, small business investment companies (“SBICs”), rural business investment companies (“RBICs”), funds registered as business development companies (“BDCs”) under the Investment Company Act of 1940, and the investors that invest in these funds including banks, family offices, and fund of funds.

SBIA strongly supports the adoption of additional methods to determine whether an investor can be deemed “accredited” or sophisticated enough to understand the risks and rewards associated with nontraditional investment products. For nearly forty years, the only way most investors could achieve accredited status was through earning a minimum level of annual income or having a minimum net worth. In practice, these thresholds allowed only wealthier individuals to invest in private offerings or other vehicles, regardless of an investor’s financial sophistication, level of education or professional certification, or their ability to understand complex products.

In 2020, the SEC adopted incremental changes to the accredited investor definition to include additional, non-financial metrics.<sup>1</sup> These reforms expanded the definition to include individuals that hold certain professional certifications (e.g. holders of Series 7, 65, or 82 licenses), investment advisers registered under Section 203 of the Investment Advisers Act,

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<sup>1</sup> Accredited Investor Definition (August 26, 2020)

“knowledgeable employees” of private funds, as well as rural business investment companies (RBICs).

SBIA strongly supported these reforms, however we believe the accredited investor definition should be expanded further to include individuals that are able to demonstrate a certain level of financial expertise or hold other certifications or licenses that currently fall outside the definition. SBIA also supports the ability of investors to self-certify their accredited status which would make the capital raising process for private issuers more efficient and protect the sensitive tax and financial records of potential investors. Notably the annual report of the SEC Office of the Advocate for Small Business Capital Formation recently endorsed recommendations to expand accredited investor criteria.<sup>2</sup>

Accordingly, SBIA supports the bills related to the accredited investor rules that the Subcommittee will examine during the February 8<sup>th</sup> hearing. Collectively, these bills will increase capital access for small and middle market businesses, create investment and growth opportunities for most households that have been left behind by current SEC rules, and maintain investor protections that are critical to confidence in the U.S. capital markets.

SBIA appreciates the ongoing bipartisan work of the Financial Services Committee to promote capital formation in our economy. We look forward to working with all members of the Committee on these important issues.

Sincerely,



Brett Palmer  
President  
Small Business Investor Alliance

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<sup>2</sup> Office of the Advocate for Small Business Capital Formation annual report at 73: “*The Commission should expand the definition to include additional qualitative professional criteria and offer more opportunities to demonstrate financial sophistication as an alternative to the income and net worth thresholds.*”