ADISA and IPA Comment on SEC’s Accredited Investor Definition

The Alternative & Direct Investment Securities Association and the Investment Program Association, two trade organizations representing the alternative and direct investment industry, submitted a joint comment letter to the Securities and Exchange Commission regarding its review of the definition of an “accredited investor.”

Every four years, the Securities and Exchange Commission reviews the accredited investor definition to determine if it should be modified or adjusted for the protection of investors, in the public interest, and in light of the economy. In a letter to SEC Secretary Brent Fields, the IPA and ADISA said that they believe there is no objective, measurable basis for changing the definition at this time.

The two organizations noted that, “the potential for market disruption and investor harm that might result from changing the definition outweighs any potential investor protection or other public policy benefit, and believe that changes to the definition might in fact negatively impact the ability of companies and businesses across the country to raise needed capital for their operation and growth.”

Highlights from the letter are below:

No Changes Are Needed to Protect Investors: The current definition appears to adequately identify investors whose financial sophistication and ability to sustain the risk of loss of investment or have the ability to fend for themselves. Quite simply, there is no evidence to suggest that these investors are being harmed currently, and that excluding them from participation in future private placements would contribute to the SEC's goal of investor protection.

There is No Discernible Public Interest to be Served: While more people qualify as accredited investors than in the past, there is a substantial likelihood that a decrease in the size of the accredited investor pool brought about by an increase in the net worth threshold would have a disproportionate effect on women and minority entrepreneurs.

Avoiding Disruption to the Private Placement Environment: Any changes to the definition of accredited investor introduced by the Commission would likely have a far-ranging and negative impact on all manner of investors and private placement offerings. Investors who are accredited under the current definition and who have purchased interests in various companies and programs through private placements would be at substantial risk of being excluded from future participation in the same companies and programs in which they already have invested, or excluded from making investments in follow on or successor programs.

The letter, which can be read here in its entirety, was signed by ADISA president Mike Bendix, DFPG Investments, and Anthony Chereso, president and chief executive officer of IPA. The letter's drafting committee included: John Grady of DLA Piper, Ryan Kretschmer of Walton International Group, John Harrison, executive director and chief executive officer of ADISA, Martin Hewitt, attorney at law, Darryl Steinhause of DLA Piper, Larry Sullivan of Passco, and Bill Winn of Starboard Realty Advisors.

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