# Bond Case Briefs

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## WSJ: SEC Weighs Altering Rule on Private Deals.

Individuals With Financial Training Could Buy Into Nonpublic Stock, Bond Offers Without Meeting Income Threshold

Securities regulators are weighing whether to allow financially sophisticated investors with only moderate wealth to buy significant stakes in startups, as part of a review of 30-year-old rules that could ease constraints on investing in private companies.

Currently, only individuals who meet certain wealth or income standards are allowed to invest in private stock and bond offerings that are issued outside the public markets by companies.

But the Securities and Exchange Commission disclosed in a letter to lawmakers that it may alter standards for "accredited investors," which could allow individuals who don't meet the income threshold to invest in such deals if they have specialized training in finance, economics or accounting.

"Holding a particular license or degree may provide an individual with the knowledge and sophistication necessary to qualify as an accredited investor," SEC Chairman Mary Jo White wrote Friday in a letter to Reps. Patrick McHenry (R., N.C.) and Scott Garrett (R., N.J).

Lawmakers seeking the change say it would help fuel demand for private shares of technology firms and other startups. They argue existing constraints have shut out many financially sophisticated investors from some of the fastest-growing market sectors, since shares in private companies are generally available only to investors whose individual net worth is at least $1 million—excluding their primary residence—or who make at least $200,000 annually.

The SEC is expected to update those thresholds as early as next summer, when it is required by law to report to Congress on the issue.

The existing thresholds, which stem from the 1980s and weren't pegged to inflation, are widely viewed as outdated. The agency sought comment earlier this year on whether the existing net worth and annual income criteria are the best ways to measure financial sophistication, as part of a larger rule proposal. SEC officials also have discussed the idea of determining sophistication based on the amount of money an individual has invested, rather than on their income or wealth levels.

The review comes as the SEC has advanced rules, required by last year's Jumpstart Our Business Startups Act, that aim to make it easier for startups and hedge funds to advertise private offerings, as long as they only sell the investments to accredited investors. About 8.5 million U.S. households currently qualify, though only a small portion of those households participate.

The agency also last month proposed rules allowing startups to raise as much as $1 million using online "crowdfunding" techniques to sell small shares to lots of ordinary investors. The agency is expected to complete those rules next year.

Broadening the standards would likely increase the pool of eligible investors, encouraging more firms to raise money privately at a time when the market for such offerings already eclipses that of public offerings. Last year, companies raised more than $900 billion in private placements, nearly four times the amount raised through public stock offerings, according to a report released by the SEC this summer. The private placements were sold to just 234,000 investors.

Messrs. McHenry and Garrett say the SEC must modernize the accredited-investor criteria in a manner that doesn't reduce the pool of qualifying investors by simply raising the existing income and wealth thresholds. Last month, they asked the SEC to broaden the standards to include those who work as certified public accountants, financial analysts and licensed securities traders.

"It's time the SEC abolished its biased policy of shutting out everyday Americans from investment opportunities exclusively reserved for the top three percent," Mr. McHenry said in a statement Monday. "A modern fix that offers all Americans merit-based access to the benefits of being an accredited investor will level the investment playing field and expand access to capital for aspiring entrepreneurs."

In her letter Friday, Ms. White told Messrs. McHenry and Garrett that SEC staff have begun a "comprehensive review" of the accredited definitions, and that staff would consider and evaluate "alternative criteria" as part of that review. She acknowledged broadening the criteria the way they envision could boost liquidity for private offerings while also increasing "the extent of the expert review of the issuances."

Ms. White cautioned that some argue criteria should factor a person's ability to absorb the potential loss of an investment, and therefore favor standards based on net worth and income. She added it is possible many of the individuals who might qualify based on their professional credentials already meet the existing income and wealth thresholds.

Investor advocates agree the criteria are outmoded. Barbara Roper, director of investor protection at the Consumer Federation of America, said the existing thresholds are "inadequate."

"We're looking at ways to improve that definition," including ways to account for financial sophistication, she said.

By ANDREW ACKERMAN