

April 26, 2023

House Financial Services Committee  
Chairman Patrick McHenry  
Ranking Member Maxine Waters  
2129 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman McHenry, Ranking Member Waters, and members of the House Financial Services Committee,

We represent startup founders, investors, and entrepreneur support organizations from industries and communities across the country. Access to capital is perhaps the most significant barrier startup founders face—founders need better pathways to more easily raise the capital they need to launch and grow startups and serve as leading innovators and job creators. As such, we want to thank the Committee for its commitment to improving capital access for innovators.

It has been more than ten years since the passage of the Jumpstart our Business Startups (JOBS) Act, and while we have seen growth in our startup ecosystem through improved capital formation policies, we appreciate policymakers once again turning their attention to unlocking capital for entrepreneurs, providing more opportunities for founders from all backgrounds, and increasing access to investment opportunities for more Americans.

Expanding the accredited investor definition would represent a huge step in bringing more investors with different backgrounds and from different communities into the startup ecosystem, giving them access to private capital markets and enabling them to build lasting generational wealth. An estimated 10-15 percent of American households are able to qualify as accredited investors under the current definition.<sup>1</sup> That means most Americans are ineligible to invest in early stage startups. Moreover, just 1.3 percent of angel investors are Black and only 2.3 percent are Hispanic,<sup>2</sup> and the vast majority of early stage investors are men<sup>3</sup>—which means that just a fraction of accredited investors are women and just a fraction of those are women of color. Would-be investors are boxed out of opportunities because of high income and net worth thresholds that do not account for cost of living or financial acumen. The current accredited investor definition assumes that lacking independent or generational wealth equates to a lack of financial knowledge,<sup>4</sup> which is patently false.

Expanding the accredited investor definition would also enable more investment in U.S. startups coming out of communities that have historically been overlooked. Underrepresented

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<sup>1</sup> PK, *How Many Accredited Investors are there in America?* (June 8, 2021), <https://dqydj.com/accredited-investors-in-america/>.

<sup>2</sup> The American Angel, *Who is the American Angel?* [http://docs.wixstatic.com/ugd/e9be\\_aa3c0cd8a09e4116a3f88967a5232949.pdf](http://docs.wixstatic.com/ugd/e9be_aa3c0cd8a09e4116a3f88967a5232949.pdf).

<sup>3</sup> See: <https://www.sec.gov/comments/s7-25-19/s72519-7112588-215968.pdf>.

<sup>4</sup> Jennifer J. Schulp, *Sophistication or Discrimination? How the Accredited Investor Definition Unfairly Limits Investment Access for the Non-wealthy and the Need for Reform* (Feb. 8, 2023), <https://www.cato.org/testimony/sophistication-or-discrimination-how-accredited-investor-definition-unfairly-limits#the-accredited-investor-definition-harms-investors-and-entrepreneurs>.

founders already face significant challenges in raising the capital they need to launch and grow their startups. In 2020, Black and Hispanic women founders received just .43 percent of venture capital dollars.<sup>5</sup> Limiting the pool of investors from underrepresented backgrounds only exacerbates these challenges.<sup>6</sup> As we've seen in venture capital, diversity amongst investment teams itself results in the funding of diverse founders.<sup>7</sup> Expanding the pool of eligible investors opens up more opportunities for underrepresented founders to secure startup funding, something the SEC has recognized as a potential benefit.<sup>8</sup>

Rural founders also stand to benefit from an expanded accredited investor definition. Because the income and net worth thresholds are not indexed for cost of living, founders from rural communities or low cost-of-living areas may have less access to relatively high net worth potential investors.<sup>9</sup> Expanding the definition to include more Americans or, at minimum, accounting for cost-of-living would open up the pool of investors in a rural founder's network.<sup>10</sup>

Though the SEC took steps to amend the definition in 2020, there was no change to the financial thresholds that determine eligibility. The current rules, while intended to protect investors from losing assets, are overreaching and contribute to inequity in the ecosystem. Americans need greater opportunity to build wealth, in part through the ability to invest in startups. And startups need opportunities to access capital so that they can continue to drive American innovation and fuel job growth in the U.S.

We thank you for exploring efforts to boost capital access for startup founders and increase opportunities for investors.

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<sup>5</sup> Imani Augustus, *Women Wanted: The Equity Gap in Venture Capital* (March 22, 2022), <https://www.thirdway.org/report/women-wanted-the-equity-gap-in-venture-capital>.

<sup>6</sup> Nathan Lindfors,  *Policymakers Should Expand the Pool of Startup Investors, Not Narrow It* (March 10, 2022), <https://engineadvocacyfoundation.medium.com/policymakers-should-expand-the-pool-of-startup-investors-not-narrow-it-b8854a7770f6>.

<sup>7</sup> Julia Boorstin, Women VCs: Greater diversity among start-up funders and founders drives higher returns (Dec. 18, 2018), <https://www.cnbc.com/2018/12/18/greater-diversity-among-funders-and-founders-drives-higher-returns.html>.

<sup>8</sup> Schulp, *supra* note 4; Securities and Exchange Commission, "Amending the 'Accredited Investor' Definition," Proposed Rule, <https://www.sec.gov/rules/proposed/2019/33-10734.pdf>.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

Sincerely,

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757 Accelerate

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Arcum.ai

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PIE  
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