



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY

INVESTOR BULLETIN

Accredited Investors

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to educate individual investors about what it means to be an "accredited investor."

What does it mean to be an accredited investor?

Under the federal securities laws, a company or private fund may not offer or sell securities unless the transaction has been registered with the SEC or an exemption from registration is available. Certain securities offerings that are exempt from registration may only be offered to, or purchased by, persons who are *accredited investors*. One principal purpose of the accredited investor concept is to identify persons who can bear the economic risk of investing in these unregistered securities.

Unlike offerings registered with the SEC in which certain information is required to be disclosed, companies and private funds, such as a [hedge fund](#) or venture capital fund, engaging in these exempt offerings do not have to make prescribed disclosures to accredited investors. ***These offerings, sometimes referred to as private placements, involve unique risks and you should be aware that you could lose your entire investment.***

The SEC recently adopted rules to permit [general advertising](#) for certain exempt offerings.

Are you an accredited investor?

An *accredited investor*, in the context of a natural person, includes anyone who:

- earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, **OR**
- has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person's primary residence).

On the income test, the person must satisfy the thresholds for the three years consistently either alone or with a spouse, and cannot, for example, satisfy one year based on individual income and the next two years based on joint income with a spouse. The only exception is if a person is married within this period, in which case the person may satisfy the threshold on the basis of joint income for the years during which the person was married and on the basis of individual income for the other years.

In addition, entities such as banks, partnerships, corporations, nonprofits and trusts may be accredited investors. Of the entities that would be considered accredited investors and depending on your circumstances, the following may be relevant to you:

- any trust, with total assets in excess of \$5 million, not formed to specifically purchase the subject securities, whose purchase is directed by a *sophisticated* person, or
- any entity in which all of the equity owners are accredited investors.

In this context, a *sophisticated* person means the person must have, or the company or private fund offering the securities reasonably believes that this person has, sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of the prospective investment.

How do I calculate my net worth?

To qualify as an accredited investor under the net worth test, you must have a net worth that exceeds \$1 million, either alone or with a spouse. If calculating joint net worth with a spouse, it is not necessary that property be held jointly. Calculating net worth involves adding up all your

assets and subtracting all your liabilities. The resulting sum is your net worth.

The value of your primary residence is not included in your net worth calculation. In addition, any mortgage or other loan on the residence does not count as a liability up to the fair market value of the residence. If the loan is for more than the fair market value of the residence (*i.e.*, if your mortgage is underwater), then the loan amount that is over the fair market value counts as a liability under the net worth test.

Further, any increase in the loan amount in the 60 days prior to your purchase of the securities (even if the loan amount does not exceed the value of the residence) will count as a liability as well. The reason for this is to prevent net worth from being artificially inflated through converting home equity into cash or other assets.

The following table sets forth examples of calculations under the net worth test for being an accredited investor:

	Jane Doe	John Smith	James Lee
Primary residence (not included except for related liabilities below):			
Home value	\$ 500,000	\$ 500,000	\$ 500,000
Mortgage	300,000	200,000	600,000
Home equity line	–	150,000	–
Included assets:			
Bank accounts	\$ 400,000	\$ 400,000	\$ 400,000
401(k)/IRA accounts	400,000	400,000	400,000
Other investments	400,000	400,000	400,000
Car	20,000	20,000	20,000
Total included assets	\$ 1,220,000	\$ 1,220,000	\$ 1,220,000
Included liabilities:			
Student and car loans	\$ 100,000	\$ 100,000	\$ 100,000
Other liabilities	100,000	100,000	100,000
Portion of mortgage underwater	–	–	100,000
Balance on home equity line (less than 60 days old)	–	100,000	–
Total included liabilities	\$ 200,000	\$ 300,000	\$ 300,000
Net worth	\$ 1,020,000	\$ 920,000	\$ 920,000
Accredited investor	Yes	No	No

What if I am no longer an accredited investor?

The rules defining *accredited investor* were changed with the passage of the Dodd-Frank Act to exclude a primary residence from the net worth test. This means that some investors who were accredited investors prior to July 20, 2010 are now not accredited investors. For these investors, any purchase rights, such as preemptive rights or rights of first offer, related to securities that they invested in as accredited investors prior to July 20, 2010 are grandfathered in, provided that certain conditions are met. This means that the investor can still exercise these rights even though the investor may not meet the current definition of accredited investor.

Additional Information

For our [Investor Bulletin](#) about hedge funds, visit sec.gov/investor/alerts/ib_hedgefunds.pdf.

For our [Investor Alert](#) about general advertising for private placements, visit sec.gov/investor/alerts/ia_solicitation.pdf.

For FINRA's [BrokerCheck](#) resource, visit www.finra.org/Investors/ToolsCalculators/BrokerCheck/.

For our [Investment Adviser Public Disclosure \(IAPD\)](#) website, visit www.adviserinfo.sec.gov.

For more information about certain exemptions for private placements, visit sec.gov/answers/regd.htm.

For our “Rule 144: Selling Restricted and Control Securities,” visit sec.gov/investor/pubs/rule144.htm.

For additional investor educational information, see the SEC's website for individual investors, investor.gov.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

