

Updated Investor Bulletin: Accredited Investors

Jan. 31, 2019

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, only persons who are *accredited investors* may participate in certain securities offerings. One reason these offerings are limited to accredited investors is to ensure that all participating investors are financially sophisticated and able to fend for themselves or sustain the risk of loss, thus rendering unnecessary the protections that come from a registered offering.

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 involve unique risks and you should be aware that you could lose your entire investment.

Who is 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).

There are other categories of accredited investors, including the following, which may be relevant to you:

- any trust, with total assets in excess of \$5 million, not formed specifically to 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:

	<u>Jane Doe</u>	<u>John Smith</u>	<u>James Lee</u>
Primary residence <i>(not included except for related liabilities below):</i>			
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

Source: SEC