

Investor Alerts and Bulletins

Accredited Investors – Updated Investor Bulletin

April 14, 2021

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 or *spousal equivalent*) 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 or *spousal equivalent* (excluding the value of the person's primary residence), OR
- holds in good standing a Series [7](#), [65](#) or [82](#) license.

Financial professional licenses. The General Securities Representative license ([Series 7](#)), the Private Securities Offering Representative license ([Series 82](#)) and the Licensed Investment Adviser Representative ([Series 65](#)) are [professional certifications and designations](#) for [financial professionals](#). In order to obtain and qualify for these licenses, an individual must pass the related exam. Whether one is considered in good standing is specific to the designation, and persons seeking accredited investor status as a Series 7, 65 or 82 license holder should consult FINRA rules and any state rules applicable to them.

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**
- certain entity with total **investments** in excess of \$5 million, not formed to specifically purchase the subject securities, **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?

Generally, 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 or *spousal equivalent*, at the time of the sale of the securities. If calculating joint net worth with a spouse or *spousal equivalent*, it is not necessary that property be held jointly and the securities being purchased do not have to be acquired jointly. Calculating net worth involves adding up all your assets and subtracting all your liabilities. The resulting sum is your net worth.

Spousal equivalent. A *spousal equivalent* means a cohabitant occupying a relationship generally equivalent to that of a spouse.

The value of your primary residence is not included in your net worth calculation. In addition, any mortgage or other loan on the primary 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 primary 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 (other than for the purchase of the primary residence) in the 60 days prior to your purchase of the securities (even if the loan amount does not exceed the value of the primary 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).....
-
<hr/>
100,000
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-

Total included liabilities.
\$ 200,000
<hr/>
\$ 300,000
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\$ 300,000
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Net worth.....
\$ 1,020,000
<hr/>
\$ 920,000
<hr/>
\$ 920,000
<hr/>

Accredited investor.....
Yes
No
No

Additional Resources

To learn more about accredited investor, see this [website](#) and [Rule 501\(a\)](#) of Regulation D.

If you are considering an ICO or other investment opportunity involving digital assets, see the SEC resources available at [Spotlight on Initial Coin Offerings and Digital Assets](#).

To check your investment professional, visit our [Investment Adviser Public Disclosure \(IAPD\)](#) website.

To research whether your investment professional has a judgment or order entered against them in an SEC enforcement action, see our [SEC Action Lookup – Individuals \(SALI\)](#) website.

For additional investor educational information, see the SEC’s website for individual investors, [Investor.gov](#).

This bulletin represents the views of the staff of the Office of Investor Education and Advocacy. It is not a rule, regulation, or statement of the Securities and Exchange Commission (the “Commission”). The Commission has neither approved nor disapproved its content. This bulletin, like all staff statements, has no legal force or effect: it does not alter or amend applicable law, and it creates no new or additional obligations for any person.

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