

RESPONSE FROM CHRISTOPHER SAUNDERS (BUSINESS ANGEL AND LEAD INVESTOR)

Thank you for the opportunity to contribute to this important debate, and particularly for the invitation to the seminar on March 11. Referring to the summary of conclusions in Phil Wynn Owen's letter of 2 April, I consider that while a sophisticated investor test of sorts is needed, it must inevitably be voluntary and based on a form or guidance that should make an investor think about what it means before certifying themselves. It will not be practical to enforce compliance, therefore keep it simple and clear.

I have received a copy of the answers to your questions submitted by FiSMA Ltd, and generally agree. Their point that matters should be permitted unless specifically forbidden is a good one. I attach a copy of your questions, annotated with short answers. If the long hand is difficult please phone and I will gladly clarify. Below are my own comments, not all directly answering your questions, but I hope relevant and useful.

1. Objective: to help fill the equity gap, variously described as from a few thousand pounds to £2M, with more informal investment by individuals.
2. Principle: provide an investment regime that is as simple as possible, low in cost, that will maximize investment by individuals of amounts they can afford to lose without affecting their life style, while recognising that it is not possible to provide complete protection for the fool against his or her folly. Caveat Emptor applies. Create a regime that is based on the characteristics of informal investment, rather than a watered down version of what is appropriate for listed public markets.
- 3) Practice and Method to include:
 - a) Remove legal and regulatory constraints and confusion about whether unregulated lead investors can bring together syndicates to invest in particular companies. Allow lead investors, if they need to, to charge modest success – only fees (sliding scale depending on amount raised, say 6% max for significant work to 1½% introduction only) to the investee company. I believe the companies Act 1985 forbids companies paying fees for the sale or promotion of their shares to unregulated individuals like myself. Such individuals could find investment opportunities, then assist companies to produce attractive propositions, find non-executive directors, advise on management and strategy as well as find potential investors, who they reasonably believe are either high net worth or sophisticated investors. After investment, they can help to channel advice, contacts and so on from investors to the company.
 - b) Follow the US approach of a lengthy form for self certification to be signed when committing to the investment that makes anyone who reads it think harder about whether they can afford the investment it covers.

- c) Make it clear that it is not essential to have any Business Plans or other documents describing the investment vetted by a lawyer or accountant, and avoid the unnecessary page of disclaimers that often appears and must cost fees. See attached examples of a practical short form and a longer, less appropriate one.
- d) The ‘reasonable belief’ approach should in principle eliminate advertising and blanket mail or email distribution of information about investment possibilities, though those types of promotion are not appropriate and this should be emphasised.
- e) Endorse work by University Enterprise Centres or similar bodies to provide advice, mentoring, management training and guidance on legal documents to companies seeking informal investment, and also increase in quantity and quality of management education in this country.
- f) Support work on standardising as far as possible essential legal documents for informal investment, eg Shareholder and Subscription Agreements, Memorandum and Articles, IPR licensing and transfer agreements.