

## **Great Eastern Investment Forum Member Response to HM Treasury – April 04**

### **Consultation on informal capital raising, high net worth individuals & sophisticated investors**

---

#### **Background**

The Great Eastern Investment Forum ([www.geif.co.uk](http://www.geif.co.uk)) is a leading business angel network located in Cambridge, providing a matching service between high growth companies seeking funding and business angels seeking quality investment opportunities.

Since its establishment in 1995, GEIF angels have provided invaluable management input and funding to over 80 early-stage UK-based companies. In the last year alone, GEIF angels invested £1.2m into 14 companies that presented to the Forum, £800K of which was matched by the £5m GEIF Ventures co-investment fund ([www.geifventures.co.uk](http://www.geifventures.co.uk)), making a total of £2m.

GEIF is a membership-based business angel network, with over 320 existing members (the majority of which are Cambridge and London based) made up of the following:

- 1) Individual Members: high net worth (HNW) individuals - mixture of inherited wealth, entrepreneurs and high-earning professionals
- 2) Corporate Members: corporate angels, VCs or companies with access to HNW clients

GEIF is part of the NW Brown Group, a Cambridge based company founded in 1974 offering a wide range of financial services to private and corporate clients from the Cambridgeshire region and beyond. In March, GEIF was awarded the Business Investment title of the Cambridge Evening News Business Excellence Awards 2003.

#### **GEIF member response**

As a result of the request for comment on the Treasury consultation document, the GEIF team contacted the membership with a view to collating responses. Nine members responded and this document draws together their comments with the intention of offering the Treasury a considered response from active, investing business angels.

Two of the members (Angels 8 & 9) responded via letter as opposed to answering the set questions directly. They are therefore not included within the stats in Q1 – 14, but their comments are instead included in the comments section at the end of this document.

#### **Headline comments**

Based on the attached business angel feedback, the following points are worth highlighting:

1. The current exemptions are not allowing appropriate numbers of HNW & Sophisticated investors to become certified and this is almost certainly posing a problem for firms wishing to raise angel finance
2. The concept of allowing promotions to HNWI & SI on the basis of reasonable belief was welcomed, but angels commented on the lack of focus on regulating the investment decision as opposed to just the process of promotion
3. The concept of HWNI self-certification was welcomed, but a) respondents felt that the new procedures should replace the old and b) feedback regarding the level of the net assets test was mixed.
4. The concept of self-certifying as a SI met with a mixed response but the general response favoured detailed criteria to test against and certainly change to the current system - Model 1 (i.e. the model suggesting the continuation of the current certification process for SIs) received no votes at all.

**GEIF comment**

In our position as an intermediary facilitating introductions between business angels and companies seeking angel finance, we (GEIF) have the following additional comments:

- i) In addition to regulation and certification processes regarding investor obligations, the 'flip side' of the process – namely the obligations upon the investee companies to carry out due diligence into their prospective investors and the investment decision process – should also be considered. In our experience the level of due diligence in this direction is variable and could benefit from more guidance.
- ii) Given that the recommendations are focussed on reducing risk and therefore addressing issues of liability, there seems to be an obvious connection with the area of insurance that has not been drawn in the consultation document. Our past experience has been that some intermediaries have been unable to offer the current certification processes due to their PI insurance not covering these particular risks. We would therefore suggest that before changing any of the mechanisms addressed in the consultation document, the Treasury ensures that it consults with the relevant insurance industry specialists.

Overall, the paper does appear to be moving in the right direction, however there are a number of areas of concern that have been highlighted either in the main by the GEIF angel comments contained in the following pages, or by the two points raised by GEIF above. A final point to highlight is the fact that the current recommendations remain solely focused on solicitation as opposed to addressing the investment decision, an area highlighted by a number of angels on the following pages.

Andrea Blakesley  
Great Eastern Investment Forum  
19 April 2004

**Q1: Are the current exemptions allowing appropriate numbers of high net worth and sophisticated investors to become certified?**

Yes	
No	86%
Possibly	
Don't know	14%

**Comments:**

Angel 4	Does not seem to cover companies prepared to invest.
Angel 5	Certification is hardly used and difficult to obtain. There is no satisfactory means for a 3rd party to confirm anyone's net assets, as they cannot guarantee full disclosure of liabilities. Earnings are also not always easy to verify and they change.
Angel 6	It is virtually impossible to obtain certification as a sophisticated investor because of the lack of definition and the perceived risks to the issuer. Most high net worth individuals will require certification by an accountant and this involves time and money. I'm sure that many potential small investors have been put off by these requirements, which seem to be in place only to protect them from themselves.
Angel 7	I was not aware that there was a system of certification! Who certified me?

**Q2: If no to question 1, is this posing a problem for smaller firms seeking to raise capital via unlisted equity and for investors? Please give examples where appropriate.**

Yes	71%
No	
Possibly	29%
Don't know	

**Comments:**

Angel 2	The requirement on SMEs or start-ups to find duly certified investors adds to the time and cost involved in capital raising. Further, potential investors may be put off participating in investing in such companies because of the bureaucracy, hence reducing the pool of funds available.
Angel 4	Not attractive to larger companies.
Angel 5	A little. Generally they ignore it and the only victims are those that gesture at compliance.
Angel 6	I am aware of a situation where a potential investor has withdrawn from a prospective investment because, at the time, his 'high net worth' documentation was not up to date. The requirements also add another layer of administration to the investment process, which could deter a small investor from becoming involved in private equity.

**Q3: Do you agree that promotions should be allowed on the basis of a reasonable belief that an individual is either a certified high net worth investor or a certified sophisticated investor?**

Yes	86%
No	
Possibly	
Don't know	

Angel 5 commented below

**Comments:**

Angel 2	Investees should make clear the very high-risk nature of the funding concerned, i.e. a 'health warning'.
Angel 5	The issue is still silly. Solicitations are a nuisance but not worse. Solicitation should be allowed on the basis that there is a reasonable belief that someone might qualify as a sensible investor. Investment should require a stronger basis.

**Q4a: Should potential investors be able to self-certify that they qualify as high net worth individuals?**

Yes	86%
No	14%
Possibly	
Don't know	

**Comments:**

Angel 2	See comments on 'caveat emptor' below. As mentioned above, what is essential is that the potential investee makes clear on his information/business plan that it is a high-risk investment and should talk to his professional advisers.
Angel 4	Also companies.
Angel 5	Yes. Particularly as 3rd parties cannot reliably do so without powers of discovery normally reserved for bankruptcy investigation!
Angel 7	But perhaps the criteria for self certification should be better known

**Q4b: Do the majority of sophisticated investors already meet the high net worth criteria?**

Yes	14%
No	14%
Possibly	29%
Don't know	43%

**Comments:**

Angel 2	To be a sophisticated investor is a matter of either or both of expertise and experience and not a matter of net worth
---------	--

Angel 5	Probably. Frankly how could I know?
Angel 6	My expectation would be that given the current high net worth criteria, most sophisticated investors would qualify.

**Q4c: If yes to Q4a, should the self-certification exemption replace or be introduced alongside the current high net worth exemption?**

Replace	86%
Introduce alongside	14%
Other (indicate)	
Don't know	

**Comments:**

Angel 2	It is essential to reduce or eliminate bureaucracy to oil the wheels of financing high-risk ventures. In broad terms it is almost as risky as being a serious backer of horses and it is well known that this is not a game for orphans: caveat emptor should apply.
Angel 5	Replace. There is no need for a second process.

**Q5: Should the net assets test for self-certification by high net worth investors be increased to £500K, remain at £250K, or be set at another level? Please give reasons and evidence for your choice.**

£500K	14%
£250K	43%
Other level	29%
Don't know	

**Comments:**

Angel 1	£100K
Angel 2	The level is irrelevant. An investor with net assets of £0.5m who 'bets' £0.5m on a start-up or early stage venture is almost certainly a fool. What matters is that the investment is 'proportionate' and here again caveat emptor should apply, although investee companies should as mentioned above provide a high risk 'health warning' and strongly recommend that potential investors consult their professional advisers.
Angel 5	<p>This is where the foolishness of the current regime – and the proposals – becomes most obvious. If I am asked to invest £1m and my net worth is £250k, then the investment is imprudent – but if I am asked to invest £20k it probably is not so personally risky.</p> <p>Any level should be set at something proportionate. Investors who could certify that the investment does not exceed (say) 25% of their net worth before investment could be allowed to complete an investment.</p> <p>It is not the presumed intent of policy to stop someone investing £10k into (say) a new shop out of £100k net worth – proportionality is the issue not absolute magnitude. And small investment should be encouraged.</p>

Angel 6	I think that the current level is definitely too low.
Angel 7	I think that a reasonable criteria should be that an individual should be trusted to invest 20 -25% of available investment resource in unquoted companies. So £250K is about right.

**Q6: Do you think a test for self-certifying as a sophisticated investor should be introduced alongside the current regime?**

Yes	29%
No	43%
Possibly	29%
Don't know	

**Comments:**

Angel 2	There appears to be little or no evidence that certification as a sophisticated investor is at all necessary.
Angel 5	Yes – and no! The test should be introduced but not “alongside”. It is fictional to imagine that authorized persons are generally equipped to give the required judgement.
Angel 6	Yes, but only with the introduction of clear, objective, criteria.

**Q7: Do you agree with the proposed criteria for sophistication? What changes do you suggest and why?**

Yes	29%
No	43%
Possibly	14%
Don't know	14%

**Comments:**

Angel 2	The fact is that the degree of sophistication or otherwise is a subjective judgement.
Angel 3	Criteria for sophistication should be that they 1) understand Articles of Association 2) understand a Shareholders Agreement 3) can analyse a set of accounts 4) understand business valuations.
Angel 5	<p>No. The proposals are absolutely ludicrous in the detailed drafting proposed and largely do no reflect the very varying requirements (possibly uncatchable) to review and evaluate diverse unquoted investment risks. Such risks range from technological to legal to financial to managerial and are not obviously caught in actuarial training!</p> <p>A major problem in financial regulation generally is the complexity thereof. In this area of smaller companies the likelihood of the entrepreneur, or his adviser, following “proposed Article 50A(4)(b) in Schedule 1 to the Model 2 draft S1 at Annex B” (doubtless as amended) is insignificant.</p> <p>In 4.15 of the text there is a request for evidence. This is not easy as presumably the concern is to demonstrate that some lack of sophistication demonstrably generates a level of loss. I do not</p>

	<p>believe any meaningful study exists, or could be constructed in the practical world.</p> <p>I would suggest that the “sophisticated investor” test be reduced to a requirement that the investee reasonably believes the investor capable of understanding the nature of the material risks inherent in the investment and that they have been brought to his attention. Otherwise, to be effective, particularly for a wider range of investments (hedge funds etc.) the requirements need to be onerous or inadequate.</p>
--	---

**Q8: Do you think self-certifying as a sophisticated investor without detailed criteria to test against should be introduced?**

Yes	29%
No	57%
Possibly	14%
Don't know	

**Comments:**

Angel 2	As indicated above, in broad terms this is all unnecessary bureaucracy.
Angel 5	Obviously as the question is constructed the answer is no. However, the lack of appropriate and relevant “detailed criteria” is a serious issue for any form of certification.

**Q9: Out of models 1, 2 & 3, which do you think provides the most appropriate balance between investor protection and facilitating investment in SMEs, and why? Please provide examples or supply evidence where appropriate.**

Model 1	
Model 2	29%
Model 3	43%
None of them	14%
Don't know	29%

**Comments:**

Angel 2	As indicated above investee companies should provide 'wealth' warnings like health warnings on cigarette packets. Otherwise investors should be left to decide.
Angel 5	Again I find the question unduly restrictive. 2 is the best of a bad lot. Haemorrhoids are better than tumours but it does not make them necessary. Given the lack of compelling evidence for the scale of damage arising without regulation it is impossible to give evidence to support one inappropriate regime or another. Cost-effectiveness should feature more in this consideration.
Angel 6	[chose 2] Model 1 is the 'worst of both worlds' and model 3 provides, potentially, no protection at all.
Angel 7	Allow self certification against known criteria for both high worth and sophisticated investors

**Q10: Should amendments equivalent to those made to the Financial Promotion Order be made to the CIS Order?**

Yes	14%
No	14%
Possibly	29%
Don't know	29%

**Comments:**

Angel 2	The FSMA legislation should only require 'wealth warnings'
Angel 5	CIS are usually quite different from one-off angel investing with appropriately different risks and costs. The desire for consistency is misplaced.

**Q11: What other regulatory issues are proving a constraint on business angel investment?**

**Comments:**

Angel 2	Intermediaries who connect investees and investors should be clearly exempted from FSMA regulation.
Angel 3	Syndication is essential to grow the sector, and it is not easy. Each investor has to act separately.
Angel 4	No tax concessions for companies wishing to invest. Tax definitions vis a vis trading/investment status.
Angel 5	The biggest threats to angel investing are excessive regulation either in Financial Services or in taxation. Complexity exists at levels not justifiable and not followable by smaller enterprises and investors.

**Q12: Are there particular regulatory barriers preventing angel syndication?**

Yes	29%
No	43%
Possibly	
Don't know	29%

**Comments:**

Angel 2	The FSMA would almost certainly require an intermediary acting to form a syndicate to be a 'registered person', i.e. registered with the FSA. In so far as this is the case, it is another piece of unnecessary and expensive (re the investee) bureaucracy.
Angel 5	No significant barriers outside Financial Services regulation.

**Q13: What regulatory constraints or costs impact on access to equity finance for growing firms?**

**Comments:**

Angel 2	In so far as intermediaries advising early stage companies and start-ups need to register with the FSA, the costs of such registration have to be passed on to such companies. Equally those unregistered consultancies and others that might well be catalytic in this high risk fund raising may be deterred from helping in case they stray into the area of giving 'investment advice' which is a regulated activity. Surely, the whole point of the FSMA originally was to try and protect widows and orphans from misselling of financial products - which it didn't (see Equitable Life, endowment policies, split capital investment trusts etc.) What we are talking about is very high-risk investment and must be labelled as such.
Angel 3	Cost of regulation for advisers. Cost of access to senior markets. Compliance with burdensome legislation on money laundering.
Angel 5	Excessive complexity of Financial Services regulation and taxation. Perhaps not in the intended field of this paper but the new Schedule 22 effects on taxation of management equity are likely to be severe and adverse – indeed they are already restricting transactions.
Angel 6	This may be just a Cambridge thing, but I believe that any small business with a reasonable and well-documented commercial proposition should be able to raise funds in the local market place.

**Q14: Is there an under-provision of private sector intermediation in this area and if so, what are the causes?**

Yes	43%
No	29%
Possibly	
Don't know	29%

**Comments:**

Angel 2	Reasons given above: the probable need for FSA registration and the costs involved as a consequence.
Angel 3	You can't make money from intermediation per se. There are too many barriers to informal investors entering the market, and as a consequence intermediaries cannot flourish. You can't have good intermediaries without an active investor community, and you can't have that with the present burdens of legislation.
Angel 5	There is no visible shortage. Quality is an issue and likely to remain so given the small investment sizes with corresponding small rewards for intermediaries.
Angel 6	The Cambridge area has a broad and sophisticated private equity market.

**Other Comments:**

**Angel 5** I will not debate the point that the equity gap might actually be largely generated by the general lack of return existing to those filling the gap. It may well be that "hole" is a better word than "gap" though.

There is no question that personal equity investing in small unquoted companies is very risky. A very substantial majority of such investments end in failure.

My daily experience is that the current restrictions are very widely ignored and not policed at all. Out of 10 proposals put to me it is unusual for 1 to follow the FSMA rules.

Before I start the "authorized" questions list, might I point out the following: -

Out of 20 people approached on a typical fundraising it may be that 1 proceeds to invest. The application of regulation to the other 19 is a waste of time and expense. A BIG POINT!

Regulation should be a condition precedent to investment not to solicitation. This is more material than the proposed changes.

**Angel 6** Instead of continuing with separate tests for HNWIs and SIs why not have one class of 'Permitted Investors' who satisfy the criteria set out in model 2.

**Angel 7** Would like to be protected against companies raising funds to meet current liabilities and that a company should set a minimum and put angel funds into an escrow until the minimum funding has been reached.

**Angel 8** Your various proposals for relaxing the procedures for dealing with high net worth and sophisticated investors are welcome as, whichever model is adopted, the operations of the market for informal capital should be improved. There is one aspect of this market, however, which seems to have been overlooked in your discussion paper.

Your objective is to lower the barriers facing the promoters of smaller enterprises who wish to raise capital from angels. Yet such promoters face two risks if the rules are not strictly observed: (A) they may be subject to severe penalties under the FSMA, and (b) they may be vulnerable to unscrupulous investors who use a defect in procedure as the basis on which they later renege from an investment which turns sour. So promoters must either buy expensive advice or do some careful study on the limits of permissible activity. Promoters need some protection too!

The 'reasonable belief' exemption in the draft paragraph 48 (1)(b) is welcome, but, in my submission, does not go far enough. Consider the circumstances operating in angel groups whose unregulated meetings are open both to 'exempt' individuals and others such as providers of professional services (with some attendees enjoying both roles). In these circumstances, a promoter has no basis on which confidently to form a reasonable belief in the exempt status of any individual, and so cannot be certain whether a written follow-up to that individual will fall foul of the regulations.

The obvious next step for the promoter is to ask the individual whether or not they are exempt. But, human nature being what it is, potential investors are reluctant to disclose their status without having confirmed at least in broad outline the nature of the investment proposal. So here's a quandary: to elicit a response from a potential investor, the promoter must give at least a short description of the offering. If it turns out that the individual was not an exempt investor, the hapless promoter may have broken the rules.

A simple addition to the proposals for change would give the promoter the freedom required. Taking model 1 of the proposed revised SI, a new sub-paragraph within 48 (1) might provide that the financial promotion restriction does not apply to any communications made to an individual for the purposes of establishing the exempt status of that individual so long as any description of the investment opportunity in that communication does not exceed, say, 250 words. Thus promoters will have a simple definition of what they can do (in contrast to a catalogue of what is prohibited), and so can design their approach letters with confidence that the risks earlier mentioned have been avoided.

**Angel 9** **1. The present regulations in practice**

1.1. There is a general consensus that unquoted investing, particularly in early stage and/or technology projects is appropriate only for those who can afford to lose the capital invested and understand the risks they are taking.

**Angel 9  
cont.**

- 1.2. Policy making in this area is hampered by a lack of empirical data. Anecdotally it would appear that the vast majority of private investments are inherently unprofitable but that few investors are aware of this. Given the overall performance of such investments in recent years it is somewhat surprising that there has been no widespread clamour for tighter regulation.
- 1.3. There is an anomaly in the current legislative position in that it is prohibited to solicit capital but not to accept it. It is therefore not acceptable to promote an investment to an unsophisticated investor with net worth below £250k but it is perfectly acceptable to take his money. This approach could perhaps be described as 'belt only' as opposed to the 'belt and braces' approach used for mainstream financial products where controls are applied at both the moment of marketing and of completion of the investment.
- 1.4. I do not believe it is the Treasury's intention to prohibit the making of unquoted investments by certain categories of individuals but to ensure, firstly, that all possible warning signs are given to potential investors and, secondly, to prevent widespread marketing of such investments to the general public.
- 1.5. The current system works well in that it prevents mass-mailings of unquoted business plans to the general public. This is because the people who own those databases (the IFAs and other financial institutions) are well aware of their responsibilities under FSMA. As a result the business of fund-raising for private companies tends to be a highly informal one, largely prosecuted outside the developed network of professional compliance officers.
- 1.6. Fund-raising amongst private investors is primarily a matter of networking. The entrepreneur approaches family, friends and existing contacts and then gradually expands the search, sometimes using intermediaries. Typically the initial approach will be by telephone or personal contact with the offer to send on an outline business plan or concept paper.
- 1.7. Within this informal market the FSMA regulations are almost universally ignored. I receive 3-4 business plans a week and have made several unquoted investments but have never been asked to provide a HNWSI certificate.
- 1.8. The lack of compliance with FSMA is a function of ignorance, informality and lack of incentive. Unlike financial institutions and IFAs, entrepreneurs and investors are rarely 'FSMA aware' and perceive little value in the certification system – it is just more paperwork and cost. Many business angels also perhaps resent the implication that they need a certificate to enable them to do business. As a result there is something of a 'conspiracy of ignorance' between investors and entrepreneurs.
- 1.9. Unlike the financial services market in general, the business angel market does not have the benefit of a well-resourced network of professional compliance officers. One might expect the accountants and lawyers servicing this market to provide this but in my experience they do not. In many cases this is simply because entrepreneurs and investors avoid their use on grounds of cost (even a few hundred pounds can be a deterrent). But even where accountants/lawyers do get involved, they would appear in many cases to be equally ignorant of the certification requirements. In one recent case I was repeatedly reminded by the company's accountants (actually quite a large mid-tier firm) of money-laundering regulations but never asked for a HNWSI certificate.
- 1.10. The informality of the investor search process makes it extremely difficult to control the marketing of such investments. By contrast there is almost always a higher degree of formality at completion, invariably involving at least a lawyer. It is also almost always the case that the company and the investors expect to obtain EIS relief and take advice accordingly. There is an argument therefore that it would be much easier to seek to protect the investor at the point of completion rather than at the point of first approach, particularly if it could be tied into granting of EIS status.

**2. Are the current exemptions allowing appropriate numbers of investors to become certificated?**

Angel 9  
cont.

2.1. Since companies are not asking to see certificates, this does not act to restrict the population of available investors. While companies are not therefore struggling to find willing investors, it is almost certainly true that propositions are being marketed to individuals who do not fall within the exemptions.

**3. Do you agree that promotions should be allowed on the basis of a reasonable belief that an individual is either a certified high net worth investor or a certified sophisticated investor?**

- 3.1. It makes sense to distinguish here between restrictions on promotion and restrictions on investment. I agree that promotions should be allowed on the basis of reasonable belief etc but that a further check should then be required prior to investment that the investor actually does appreciate the risks he is taking.
- 3.2. There is a need to address the question of incentive to comply for both entrepreneur and investor. The reality is that FSMA is generally aimed at a large industry with the incentive and resources to deploy an effective compliance structure. No such structure exists in relation to the informal private equity market. Non-compliance entails little downside for the entrepreneur and little upside for the investor.
- 3.3. The key to compliance is therefore is to devise incentives for both entrepreneurs and investors. One idea would be to make EIS approval conditional upon confirmation that the appropriate regulations have been complied with.

**4. High Net Worth Individuals and Sophisticated Investors**

- 4.1. The high net worth test is sensible but also crude since a raw financial snapshot can only say so much about the true investment preferences of any individual. Accordingly it is difficult to apply much science to determine the appropriate threshold. However a sensible personal asset allocation to unquoted might be 10-20% of net worth. Since there are few fund-raising willing to accept units of less than £25k this would seem to support a threshold of £250k.
- 4.2. In the absence of empirical data suggesting that the current level is somehow inappropriate, I can see no justification for increasing the limit.
- 4.3. The sophisticated investor test is more problematic as, in my experience, a large percentage of those expressing an interest in unquoted investing honestly believe that they understand the risks involved when they patently do not. Many individuals come to the market armed with little more than (one of) general management experience, some related sector knowledge, or some background in financial markets. Few appreciate the battery of tools employed by professional venture capitalists to mitigate risk and protect their investment or understand in reality how poor are the prospective returns.
- 4.4. My view is that the sophisticated investor test is an over-elaborate way to solicit an acknowledgement from the potential investor that he understands and can articulate the risks he is taking. My preference would be to scrap it completely and simply ask for a written statement to that effect.

**5. Self-certification**

- 5.1. Self-certification is certainly more consistent with the informality of the market and reflects more accurately what actually happens at present.
- 5.2. The net asset test is an objective matter and lends itself naturally to self-certification. I think it perfectly acceptable that promotions may be made in the reasonable belief that the recipient satisfies the net asset test, provided that some further protection is provided nearer to the point of actual investment. As stated above it may be worth considering linking EIS approval to the completion of these requirements.
- 5.3. The sophisticated investor test is a subjective matter and, as such, I believe that the investor is the only person in a position to confirm that he understands the

**Angel 9  
cont.**

risks involved. In that sense self-certification is the only logical possibility. However I believe it is a mistake to introduce the battery of criteria proposed. Instead the investor should simply be required (again prior to completion of his investment) to state in writing that he understands that his investment will be illiquid and that there is a high probability that he will lose all the invested capital.

## **6. Summary**

- 6.1. The present system works successfully to prevent the mass-marketing of unquoted business plans to the general public but is ineffective in regulating the informal market which connects entrepreneurs with investors.
- 6.2. It is extremely difficult to control the marketing of such investments due to the informality of the investor search process. There is a strong argument for shifting the balance of investor protection to the back-end of the process, where there is greater structure and usually professional intervention.
- 6.3. My preference would be to allow entrepreneurs to approach potential investors who they reasonably believe have sufficient personal wealth and understand the risks involved. The regulator should publish guidelines as to the characteristics of appropriate investors. One approach would be to ensure that these guidelines are formally acknowledged by both company and investor prior to completion. The guidelines should, inter alia, give an indication as to the maximum proportion of net worth it might be sensible to allocate overall to unquoted investments.
- 6.4. Individuals should be allowed to self-certify that they have read and understood the official guidelines.
- 6.5. The absence of a developed compliance infrastructure means that entrepreneurs and investors must be given incentives to comply with the regulations. One way to do this is via the highly-developed EIS tax relief system