

Response from Catapult Venture Managers Ltd

Consultation Questions

<i>Question</i>	<i>Response</i>
1	The current exemptions are not working as evidenced by the low numbers of HNWI and sophisticated investors currently certified when compared to the population who invest via EIS.
2	The failure of the current exemptions could make it hard for small companies seeking finance to identify investors and comply with regulations.
3	It is important to ask potential investors about whether or not they believe themselves to qualify for the exemptions, however it should not be the responsibility of the company or intermediary to investigate the individual further. On this basis 'reasonable belief' should probably be limited to asking the individuals whether they think that they qualify based on the simple tests already in place/suggested.
4a	Potential investors should be able to self certify their exempt status in a simple manner.
4b	There will undoubtedly be a crossover between groups of sophisticated investors and HNWI, however there will also be a significant pool of investors who have access to funding not held personally, eg in family trusts who would probably not be classified as HNWI.
4c	Self certification should replace the existing regime in order to encourage private investors into a wider public forum.
5	Stay at £250,000. This is on the basis that the reports determine that 40% of angel activity is at the £20k or below level. Given that the market view of many IFA's is that investors should seek to have 5 to 10% of their investment portfolio in unquoted shares, setting the level at £500k may discourage a large pool of potential investors at the lower levels.
6	Self certification for sophisticated investors should be allowed on the basis of reasonable belief after making some simple enquiries. Given the lack of success of the current system it may be better to replace it altogether.
7	I think the proposed criteria for sophistication should be extended to include specific exemptions for entrepreneurs who may not have a legal or financial qualification, but have successfully ran their own businesses and take decisions over risky investments on a day to day basis as part of their business.
8	Self certification without any criteria to test against would only be acceptable if the risks of doing so were clearly laid out to people who wanted to lose the protections they currently have.
9	Model 2 – where HNWI can self certify and where sophisticated investors can self certify on the basis of reasonable experience, subject to the risk warnings being made to all parties about the protections they will lose.
10	Consistency is important as it will allow potential investors a level playing field between investing in specific companies and taking a more portfolio based approach via an ECF.
11	A clearer approach could be adopted providing simple guidelines on what

	warnings potential investors in different situations need to be given and how intermediaries can satisfy these requirements. In addition current regulations whereby a firm who certifies an investor as HNWI or sophisticated is prevented from advising that person are immensely damaging as there is no incentive for any intermediary or IFA to certify these parties. This restriction is one of the most important that needs to be removed to encourage investors to the marketplace.
12	No comment.
13	Our specific comments in relation to the RVCF have been answered in the 'Bridging the Gap' consultation paper.
14	There are a number of providers of intermediary services in the marketplace at present. As stated in the answer to Q11 above, some clarity and simplification of the requirements for the intermediaries would help enormously.