

Informal capital-raising consultation responses  
Enterprise Team (4/N2)  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Direct line: 020 7220 3105  
Email: [debbie.clarke@mazars.co.uk](mailto:debbie.clarke@mazars.co.uk)

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Dear Sir / Madam

**FPO consultation document response**

Q1: Are current exemptions allowing appropriate numbers of HNWI and sophisticated investors to become certified?

No. Many people see the process as too onerous and so are trying to find ways of putting together structures which avoid it. Advisers such as ourselves are avoiding carrying out transactions which involve sourcing HNWI for funding.

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.

Smaller companies are having to look for alternative sources if advisors do not or can not introduce HNWI. This is causing companies to take longer to seek funds and in some cases will deter them from this course of funding.

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

Yes. This is assuming all advisers carry out internal clearances and due diligence and hence would be able to go through a 'sense check' before sending the information.

Q4a: Should potential investors be able to self-certify that they qualify as HNWI?

Yes so long as part of the completion document involves a legal due diligence to verify that the individual qualifies.

Q4b: Do the majority of sophisticated investors already meet the HNWI criteria?

Not necessarily.

Q4b: If yes to Q4a should the self-certification exemption replace or be introduced alongside the current exemption?

Alongside

Q5: Should the net assets test for self-certification by HNWI investors be increased, remain same or be set at another level?

Remain at £250,000 this size allows for small investments but stops the uninformed public from entering to risky an investment.

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

Yes

Q7: Do you agree with the proposed criteria for sophistication? What changes would you suggest and why?  
The proposed criteria should have a two out of three requirement. The current proposal would allow an accountant or lawyer who practises in a small niche area to be seen as sophisticated when in fact they many not have the corporate or commercial experience. Qualification would be required as to proof that the securities transactions had been made e.g. brokers report of activity or bank qualification.

Q8: Do you think self-certifying as a sophisticated investor without detailed criteria to test against should be introduced?  
NO

Q9: Out of models 1, 2 and 3 which do you think provides the most appropriate balance between investor protection and facilitating investment in SMEs, and why?  
Model 2. On the basis certain HNWI can self certify and for the same reason in Q7 that sophisticated investors may not be 'sophisticated' just by qualification of an exam but will require additional tests.

Q10: No comment

Q11: What other regulatory issue are proving a constraint on business angel investment?  
Training and procedures required by firms to enable them to deal with angel investors. This is making firms wary of using this source of funding. The POS regulations re also a constraint as they limit the number of investors who can be approached. If raising £1million from angels whose minimum investment is £25,000 this would be broken.

Q12: Answer as above for POS regs.

Q13: What regulatory constraints or costs impact on access to equity finance for growing firms?  
VC's are increasing looking for large transactions and investment sizes but the government investment size whilst being reviewed is still small. POS regulations costs for prospectuses are high as are the additional costs which angel networks are charging to syndicate transactions. This makes it difficult for a company to have an adviser providing advise on alternative sources of finance (such as debt options) a review of which should be carried out prior to deciding on the route to finance.

Q14: No comment.

Yours sincerely

**Debbie E Clarke**  
Director, Corporate Finance