

Informal capital raising – HNW & sophisticated investors

Personal submission from Dr Simon Murdoch (an angel investor)

Overall I welcome these suggestions from the Treasury. I have read the body of the consultation document but not the draft statutory instruments. Here are my answers to your 14 questions.

Q1: No

Q2: Yes.

- It adds to the costs of fund raising and can delay financing. For example in one of my companies (ScreenSelect Ltd) we had to obtain certificates for about 20 investors so there were additional legal deal costs and the financing was delayed by between 1 and 2 weeks as a result.
- It means companies only send plans to angels known personally to themselves or their existing contacts. This reduces the chance of raising the money or reduces the amount of money raised.
- It means there are no effective informal intermediaries or web sites for distributing plans (though there are a few clubs such as Pi Capital and Katalyst where angels need to pay hundreds or thousands of pounds a year to be a member)

Q3: Yes. Definitely. I agree that the current regime is not working.

Q4a: Yes.

Q4b: I agree with the consultation document that by value most investment is from individuals who meet the criteria. However, I am not convinced this is also true by number of investors.

Q4c: Replace.

Q5: Net relevant assets should stay at £250,000. I believe it is perfectly reasonable for an individual with net assets of just over £250,000 to want to put up to say £25,000 or even £50,000 in total into a handful of early stage investments (eg £10,000 each into five companies). I believe that raising the test to £500,000 will have an unwarranted and detrimental effect on the market.

Q6: Yes.

Q7: I believe your proposals are acceptable. However, it is quite possible for someone to work in financial services (eg as an IFA or as an investor/fund manager in public stocks) and not have a proper appreciation of the risks involved in early stage investing. Therefore there is an argument for stricter criteria for the second and third bullet points of 4.14, eg already work in private equity or in venture capital rather than anywhere in financial services.

Q8: If so, there should be a limit on their total amount invested in this asset class. Eg it should be possible for friends and family to invest in an early stage company, but if they do not fulfil the HNW criteria perhaps they need to certify that they are investing a maximum of £25,000 in this asset class. Or perhaps there needs to be a connected

person test so that family members of the entrepreneurs can invest a certain amount in an early stage company?

Q9: Model 2. Or perhaps model 3 with an investment limit (see answer to Q8).

Q10: Yes

Q11: New money laundering rules are a considerable nuisance. In a very recent investment (Serum Ltd) our solicitor was not able to collect the investment monies and send them on to the company once all investors had fulfilled their obligations because otherwise he would have had to investigate all investors for money laundering purposes. This therefore added risk to the investors because we could not be sure that all the other investors were really investing before we instructed our banks to make the transfer. This is a bad new law about solicitors and accountants having to check all parties in a deal.

Q12: Some angels are put off from talking to each other about a potential investment because to do so may constitute advice and they are not authorised to give advice to another angel. Something should be done (eg there should be a form of simple standard disclosure contract) so that angels can talk to each other without risking that they are giving advice.

Q13: Not sure what effect the money laundering laws have on early stage companies raising money. In virtually all cases I know of, the company makes little or no checks on investors but is probably thereby breaking the law.

Q14: Yes, definitely. This is because an intermediary cannot make much money given the levels of investment being made. Any intermediary is better off later in the food chain where the amounts of money involved are larger so the fees are affordable to the investor/investee and sustainable for the intermediary. There is no real solution to this apart from making it easier for angels to do this for themselves (see answer to Q12). Perhaps with the proposed simpler rules for self certification it will become possible for angel groups such as the NBAN to distribute plans to self certified HNW investors perhaps via a web service.

Finally, I would like to repeat that I believe this is a very positive step forward and will make it easier for companies to raise funds from individual investors without undue risks to the investors. In my view it will get the balance about right.

About Simon Murdoch

I am a HNW investor. I was previously an Internet entrepreneur – I set up an Internet bookselling company called Bookpages which we sold to Amazon.com, and I launched Amazon.co.uk in the UK in 1998 before then becoming a venture capitalist running a \$100m fund called Chase Episode 1 LP (in association with Chase Capital Partners since renamed JP Morgan Partners).

The VC fund closed for new investments in 2001 and since then I have been a full time angel investor. I have personal investments in 14 early stage companies and I am a non-executive director of 6 of these.