

Robert Sheffrin  
V.C.A.S  
83 South Downs Road  
Bowdon, Cheshire, WA14 3DZ  
Tel: 0161 929 5554  
Mob: 07720 715101



## **Informal capital raising and high net worth and sophisticated investors**

### **Response to Consultation Document**

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

No. Although this should be a fairly straightforward process, it is misunderstood. The “fear” of getting it wrong and subsequent FSA repercussions or risk of professional liability appears to be deterring some. The cost of specialist advice to clarify the situation is also a deterrent.

#### **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.**

In paragraph 1.2 it is stated that a small proportion of businesses find it difficult to raise funds. Historically there has been a dearth of funding available to innovative small companies, particularly early stage businesses. This is particularly evident where the funding requirement is sub £2 million.

Individuals typically have a more flexible approach to investment than private equity funds. The certification requirements, whilst laudable, and to an extent necessary, do hinder companies looking for investment. The opportunities for investors and companies to meet are limited. Business angel networks provide an excellent forum that needs further encouragement. In another area, anecdotal evidence suggests that professionals may be circumventing the certification requirements through personal introductions to clients seeking funding. If this is the case, it is arguable that simplification of the certification system will allow greater openness and access to capital.

The problem of funding availability has been partially addressed through limited regional initiatives where private equity funds investing up to £500,000 have been either encouraged or funded by the Regional Development Agency. A good example is the North West where technology, early stage and more traditional venture capital funds have been provided by the North West Development Agency. Certain of these funds have been designed so that they can only provide part of the investment requirement encouraging business angel co-invest through the Agencies business angel network.

There is considerable potential for business angel monies to be harnessed into managed collective investment schemes. Again the cost and difficulty in obtaining certification has been a disincentive.

**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?**

No. This would be subjective and place an additional burden on those having to make the assessment.

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

Yes

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

It is likely that a significant number of members of business angel networks do not meet the HNW criteria. From observation, a number invest relatively small amounts (say £5k - £25k) and also seek to generate income from consultancy or director appointments. This suggests that they may have an income of less than £100k and "free" assets of less than £250k.

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

Replace

**Q5: Should the net assets test for self-certification by high net worth investors be increased to £500,000, remain at £250,000 or be set at another level? Please give reasons and evidence for your choice.**

The net asset test should not be increased as this is likely to exclude a significant number of business angel investors who invest in the very small end of the market.

**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 do you suggest and why?**

The professional qualification criteria are reasonable. The experience criteria for numbers of transactions on securities markets is set too high.

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

No detailed criteria are required but must be clear and simple to apply; i.e. avoid grey areas.

**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? Please provide examples or supply evidence where appropriate.**

Self certification using model 3 simplifies the system, does not involve professional fees and removes barriers to investment. Clear criteria are essential for this to work. To allow entry for those falling outside the stated criteria, a form of third party certification could be introduced. Though this by its nature would be subjective, it would provide a form of protection or screening for those that want to invest in this area.

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

Yes. Consistency is important to avoid confusion.

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

No other significant constraints

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

No significant constraints

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

No unreasonable regulatory constraints or costs

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

No