

[] 2004

Informal Capital Raising Consultation Responses
Enterprise Team (4/N2)
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Sirs

INFORMAL CAPITAL RAISING AND HIGH NET WORTH AND SOPHISTICATED INVESTORS

We wish to respond to the issues and questions raised in the above paper.

About Amadeus

Amadeus Capital Partners Limited manages a number of unregulated collective investment funds totalling £288m which specialise in early stage technology investments. We are regulated and authorised by the FSA.

Background

As an institutional investor in early stage, unquoted companies, we rely heavily on new companies raising initial funds from “friends and family” and “business angels” in order to grow to the point at which institutional funding is needed and appropriate. This “seed corn” funding is usually less than £500,000 in total, spread over a number of investors, but occasionally can be more.

We are aware of the difficulty which some companies have in raising their “seed corn” funding, and therefore welcome the initiative to make it easier to promote such companies to high net worth individuals or sophisticated investors.

As well as our main institutional funds, we operate two smaller side funds for “Affiliates” which enable individuals to invest *pari passu* with the main funds and so spread their investment risk over a number of unquoted investments. The investors in these funds are all classified as high net worth or sophisticated investors and are mostly from outside the UK.

Answers to questions posed

Question 1

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

No

Question 2

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, in our observation this is posing a problem for smaller firms seeking to raise capital. The requirement to provide an employer's certificate of earnings over £100k may not be possible in a number of cases. Individuals may be self employed, work for a number of different businesses, or have made sufficient money not to have to work at all. These are the ideal type of business angels.

The alternative requirement to obtain an accountant's certificate that the individual has net assets in excess of £250m may also be difficult. Often, an individual may deal with his own financial affairs and not employ an accountant at all (or he may be one). Even if he does employ an accountant, a major part of his portfolio may consist of unquoted investments. This would present difficulties in valuation sufficient to satisfy an accountant.

The requirement to obtain a certificate from an authorised person that an individual is a sophisticated investor is even more likely to be difficult. It will be hard for the authorised person to come to such a view, especially if the individual makes his own investments, and manages his own portfolio. He may not use an authorised person at all, and may not know one who would be prepared to certify him. Any authorised person would have to be very sure of his facts in order to avoid the possibility of being held responsible, and so would naturally be reluctant.

Question 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 certificated sophisticated investor?

Yes – subject to proper self-certification.

Question 4a

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

Yes – we believe they should.

Question 4b

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

We believe that the majority do but not all.

Question 4c

If Yes to Question 4a, should the self-certification exemption replace or be introduced alongside the current high net worth exemption?

It should replace it.

Question 5

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.

It should remain at £250k. A typical business angel investment might only be £25k and so a small proportion of the total portfolio.

Question 6

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

No – it should be instead of – you don't need both.

Question 7

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

We think that the proposed criteria do not indicate sophistication in making investments in unquoted securities. If you are going to have a test, it needs to be more biased towards having invested in, or been involved with, more than one unquoted investment in the past.

Question 8

Do you think self-certifying as a sophisticated investor without detailed criteria to test against should be introduced.

Yes

Question 9

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.

Model 3- This poses the easiest and lightest regulatory environment for the companies and investors. By careful drafting of the self-certificate, the investor can be required to consider the possibility that he may lose the total investment.

Question 10

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

Yes – the same arguments apply

Question 11

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

We are not aware of any.

Question 12

Are there particular regulatory barriers preventing angel syndication?

We are not aware of any.

Question 13

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

We are not aware of any.

Question 14

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

We don't think so – most of the accountancy firms provide intermediaries in this way. Other Forums also exist where companies can meet investors, particularly in the Cambridge area, but this may not be the case in other parts of the country.

Yours faithfully

Peter Wynn
Director