

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

A response to the consultation document from:

**Dr David R Kingham**  
**Chief Executive, Oxford Innovation Ltd**  
**April 2004**

Oxford Innovation Ltd is a fast growing company that provides services to entrepreneurs and innovative start-up companies. Oxford Innovation currently manages eleven Innovation Centres providing flexible premises and high quality services to over 250 innovative start-up companies.

Oxford Innovation also manages Oxfordshire Investment Opportunity Network (OION), a highly successful technology business angel network that has brokered 61 deals, securing a total investment of £14.8m into innovative start-up companies since 2000.

Oxford Innovation has recently established two new networks working with local supporters and SEEDA, South East England Development Agency. These two new networks are Thames Valley Investment Network and Solent Investment Opportunity Network.

Oxford Innovation currently insists on all investor members of its networks having appropriate certification, either as high net worth individuals or as sophisticated investors. However, in the last few months we have found increasing difficulty in finding accountants or financial advisers prepared to provide this certification.

I am pleased to provide answers to some of the questions posed in the consultation document.

Question	Answer
Q1: Are the current exemptions allowing appropriate numbers of high net worth and sophisticated investors to become certificated?	A1: Although the current exemptions would in principle allow high net worth individuals and sophisticated investors to become certificated, in practice there are increasingly severe difficulties caused by reluctance on the part of financial advisers and accountants to provide certification.
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.	A2: In practice this is now causing a problem. We would like to give our investors a choice of several accountants and financial advisers willing to provide certification free of charge.  Several accountants and financial advisers have now withdrawn the certification service that they had previously agreed to provide, as they are not sure whether they could be held liable in the event of the investor making an unsuccessful investment. They are also concerned that providing certification to an investor may preclude them from advising on behalf of that investor in future transactions.

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 individual or a certified sophisticated investor?	A3: Promotions should certainly be allowed on the basis of a reasonable belief that an individual is appropriately certified. Business angel networks typically operate on very modest budgets and would not willingly take on the liability of an elaborate scheme for ensuring that certification is in place for all investor members.
Q4a: Should potential investors be able to self-certify that they qualify as high-net worth individuals?	A4a: Yes.
Q4b: Do the majority of sophisticated investors already meet the high net worth criteria?	A4b: Yes. The majority, but not all.
Q4c: If yes to Q4a, should the self-certification exemption replace or be introduced alongside the current high net worth exemption?	A4c: Self-certification should replace the current high net worth exemption.
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?	A5: In our view the net asset test should remain at £250,000. We certainly do not wish to discourage any existing members of our networks who have net assets between £250,000 and £500,000
Q6: Do you think a test for self-certifying as a sophisticated investor should be introduced alongside the current regime?	A6: Yes.
Q7: Do you agree with the proposed criteria for sophistication? What changes do you suggest and why?	A7: n/a
Q8: Do you think self-certifying as a sophisticated investor without detailed criteria to test against should be introduced?	A8: Yes.

<p>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?</p>	<p>A9: We favour model 3 as it puts the onus on the individual investor to "self-certify" and this may be better discipline for such investors than seeking third party certification.</p> <p>Crucially model 3 can be administered by a business angel network without relying on accountants or financial advisers who may be reluctant to provide certification.</p> <p>The key evidence we have seen recently is the increasing unwillingness of accountants and financial advisers to provide certification.</p>
<p>Q10 - Q13:</p>	<p>A10 - A13: No comment.</p>
<p>Q14: Is there an under-provision of private sector intermediation in this area and if so, what are the causes?</p>	<p>A14: Oxford Innovation Ltd would be very willing to increase provision of this technology business angel network intermediation in the UK. Although this provision would be on a not-for-profit basis through Oxfordshire Investment Opportunity Network Ltd, it is a potentially vital part of the overall suite of services that we aim to provide to entrepreneurs and innovative start-up companies.</p> <p>However, we often find that publicly funded entities are competing with us, rather than supporting what we can do and allowing us to achieve great leverage. It seems to us to be an inappropriate use of public funds for wholly or primarily Government funded bodies to establish their own business angel networks (often at huge expense) rather than seek private sector providers who could operate such networks for them on a much more efficient basis.</p> <p>In our experience business angel networks run by public sector bodies (with a few notable exceptions) have been largely ineffective - consuming large amounts of public funding, but resulting in few, if any, business angel investments. We believe the underlining reason for this is that publicly funded bodies tend to focus more on "trying to help companies raise money" than on "trying to provide excellent quality deal flow to serious angel investors".</p> <p>It seems strange to us that publicly funded economic development and business support organisations understand that they need private sector skills in the management of seed venture capital funds, but do not seem to understand that those same private sector skills may be vital in the management of successful business angel networks.</p>

I hope that this response is helpful. I am pleased to confirm that I am happy for it to be made public.

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