

## RESPONSE FROM ROGER LAWSON

I have received the consultation document on “informal capital raising” and have the following comments. I have made a number of “business angel” type investments and would qualify for “High Net Worth” certification (although in practice I have not done so, nobody seems to worry about that too much which clearly demonstrates that the existing system is not working as anticipated!). I have also raised capital in the past for small start-up business from such investors.

The answers to the specific questions are:

Q1. Well people are not getting certificated for several reasons. Such as a) Can't be bothered; b) Object to revealing information to people like accountants who might certify them; c) the kind of entrepreneurs who wish to make such investments do not like government interference in their affairs and needless regulations. Clearly not enough people are getting certificated, but the number of exemptions is pretty irrelevant to that issue.

Q2. Government interference in this area is clearly proving a problem for smaller firms raising capital at present. The main problem is that the regulations are too complex, and are not understood by the kind of people who need to raise such funds (in fact they are mainly ignorant of the regulations in my experience). However, if there is a problem, it is more that the regulations are simply being ignored.

Q3. Self certification is better than nothing, but I would prefer one of the following alternatives:

a – That no regulation takes place in this area. Why should the government be interfering in what people do with their own money?

b – That instead of “self-certification” it is simply necessary for fund raisers to print a clear warning on any proposal documents that anyone with less than £500,000 of net worth should not consider it (I believe £250,000 is too low a figure), but that if they choose to ignore this warning it is at their own risk.

Q4a. Yes – but see above.

Q4b. Yes surely. Being a “sophisticated investor” should not permit someone to make such investments unless they meet the net worth criteria. This is a silly concept that should be dropped.

Q4c. No – lets simplify not complicate!

Q5. I agree it should be raised to £500,000

Q6. No, for the reasons given above.

Q7. Do not agree with the whole principle of “sophisticated investors” – for example to suggest that someone who is a lawyer or accountant is qualified to invest in early

stage businesses is total lunacy as many of them have no experience of this market sector at all.

Q8. Against the whole principle as stated above.

Q9. Don't agree with either models 1, 2 or 3 as don't believe the government should be interfering in this sector, and my proposal in Q3b above is a much simpler and better alternative.

Q10. Yes if you agree with my suggestions above, otherwise no.

Q11. Having to read such regulations as are currently in place, or proposed in this consultation, certainly constrains business angel investment as it wastes the time of both investors and fund raisers.

Q12. Angel syndication is more inhibited by the nature of business angels and the legal complexity of putting together investor and shareholder agreements.

Q13. Regulatory constraints and the costs of hiring lawyers and accountants to deal with those issues makes for a major constraint.

Q14. There is no apparent under-provision in private sector intermediation in this area – at least relative to market demand for the services. The lack of demand is because people are unwilling to pay for advice and the costs charged by accountants and lawyers in this area are often too high. Unfortunately the latter professionals do not show much in the way of entrepreneurial spirit in the UK and are reluctant to take on new clients unless they instantly pay their way. The cost of lawyers and accountants is much higher than in the USA for example, where the abundance of lawyers makes it easier to find a cheap one, and accountants are likewise not highly valued.

Roger Lawson