The Accredited Investor Definition: Let's Not Index it to Inflation

The first bill out of the new Congress next year might set the accredited investor definition to adjust with inflation. As the bill is currently drafted, every 5 years the financial thresholds would go up based on inflation.

The bill is called the Financial Choice Act. You can find it here.

I think this is a bad idea for the following reasons:

- The inflation adjustments will slowly disqualify angels who meet the current standards, reducing the number of angel investors available to invest in early stage startup companies.
- If inflation adjustments had been in place when the current financial thresholds had been adopted, we would have 1/3rd fewer angel investors than we do today.
- Already, outside of Silicon Valley, finding angel investors to invest in companies is extremely difficult.
- This automatic inflation adjustment will hurt middle America worse. It is harder to meet the income tests in middle America. In middle America, we ought to adjust the thresholds down to take into account regional variations in income.
- Along the lines of the last point, check out ***this great article*** by Leslie Jump. She makes what I think is a great point. We need to facilitate getting angel and venture capital investment dollars into areas that have been traditionally under-served by those sources of capital.
- As stated in the Comprehensive Summary of the Financial Choice Act:

  "Private placement offerings are a key source of equity capital for many small and emerging companies that generate a disproportionate share of the new jobs in our economy. Because such offerings are generally available only to accredited and other sophisticated investors, it is essential that the SEC not overly restrict the pool of accredited investors."

Oddly enough, the Comprehensive Summary of the bill doesn't mention indexing.

- Even though inflation has been relatively tame, it might ramp up at any time. The President-elect's big infrastructure plans could heat up inflation, for example.

If you can think of any other reasons why you think indexing these standards to inflation is a bad idea, please share them. Let's press this case. I think the early stage ecosystem will be harmed by indexing. Thank you.