

[DISCUSSION DRAFT]

119TH CONGRESS
1ST SESSION

H. R. _____

To amend the Securities Act of 1933 to expand the ability of individuals
to become accredited investors, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M____ introduced the following bill; which was referred to the
Committee on _____

A BILL

To amend the Securities Act of 1933 to expand the ability
of individuals to become accredited investors, and for
other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. ACCREDITED INVESTOR DEFINITION REFORMS.**

4 (a) ACCREDITED INVESTOR EXAMINATION.—

5 (1) IN GENERAL.—Section 2 of the Securities
6 Act of 1933 (15 U.S.C. 77b) is amended—

7 (A) in subsection (a)(15)—

1 (i) in clause (i), by striking “or” at
2 the end;

3 (ii) by adding at the end the fol-
4 lowing:

5 “(iii) any individual who passes an accredit
6 investor examination described under subsection
7 (c);”; and

8 (B) by adding at the end the following:

9 “(c) ACCREDITED INVESTOR EXAMINATION.—

10 “(1) IN GENERAL.—The Commission shall, by
11 rule, establish an accredited investor examination
12 that tests the understanding of individuals of the as-
13 pects of investing in unregistered securities, private
14 companies, or private funds.

15 “(2) REQUIRED ELEMENTS.—In establishing
16 the examination under paragraph (1), the Commis-
17 sion shall include elements that test a thorough un-
18 derstanding of risks associated with investing in un-
19 registered securities, private companies, or private
20 funds and techniques to mitigate such risks, includ-
21 ing—

22 “(A) illiquid aspects of unregistered securi-
23 ties, securities issued by private companies, or
24 investments into private funds, including risks
25 associated with—

- 1 “(i) limited liquidity;
2 “(ii) price volatility;
3 “(iii) lack of disclosures;
4 “(iv) difficulty in valuing the invest-
5 ment;
6 “(v) wider bid-ask spreads;
7 “(vi) information asymmetry;
8 “(vii) managers’ risks;
9 “(viii) leverage risks;
10 “(ix) counterparty risk;
11 “(x) regulatory risk;
12 “(xi) operational risk;
13 “(xii) concentration risk; and
14 “(xiii) longer investment horizons; and
15 “(B) conflicts of interest, when the inter-
16 ests of financial professionals and their clients
17 are misaligned or when financial professionals’
18 professional responsibilities are compromised by
19 personal or financial motivations, including con-
20 flicts of interest risk stemming from practices
21 related to—
22 “(i) commissions and fees;
23 “(ii) proprietary products;
24 “(iii) sales targets and bonuses;
25 “(iv) revenue sharing arrangements;

1 “(v) gifts and entertainment;

2 “(vi) affiliated companies;

3 “(vii) personal investments;

4 “(viii) churning; and

5 “(ix) soft dollar arrangements.

6 “(3) TERMS AND CONDITIONS.—In establishing
7 the examination under paragraph (1), the Commis-
8 sion may set any terms and conditions to protect in-
9 vestors while enabling willing and able individuals to
10 pass the examination.”.

11 (2) IMPLEMENTATION DEADLINE.—Not later
12 than the end of the 24-month period beginning on
13 the date of enactment of this Act, the Securities and
14 Exchange Commission shall establish the accredited
15 investor examination required under the amend-
16 ments made by subsection (a) and being admin-
17 istering such examination.

18 (b) SECURITIES INDUSTRY ESSENTIALS EXAMINA-
19 TION.—Section 2(a)(15) of the Securities Act of 1933 (15
20 U.S.C. 77b(a)(15)), as amended by subsection (a), is fur-
21 ther amended by adding at the end the following:

22 “(iv) an individual that has, within the
23 past 15-years, passed the Securities Industry
24 Essentials examination offered by FINRA, a
25 successor examination, or any similar examina-

tion (as determined by the Commission) offered
by another national securities association;”.

(c) INDIVIDUAL NET WORTH AND INCOME LIMITS.—

(1) IN GENERAL.—The Securities Exchange
Commission shall revise section 230.501(a) of title
17, Code of Federal Regulations, to exclude retire-
ment assets and retirement income assets in any cal-
culation of a natural person’s—

(A) net worth;

(B) joint net worth with that person’s
spouse or spousal equivalent;

(C) income; or

(D) joint income with that person’s spouse
spousal equivalent.

(2) DEFINITIONS.—In this subsection:

(A) RETIREMENT ASSET.—The term “re-
tirement asset”—

(i) means any asset in any retirement
plan, including—

(I) any qualified retirement plan
subject to the Employee Retirement
Income Security Act of 1974;

(II) an individual retirement ac-
count, as defined under section 408 of
the Internal Revenue Code of 1986;

1 (III) a governmental plan, as de-
2 fined under section 414 of the Inter-
3 nal Revenue Code of 1986;

4 (IV) a multiemployer plan, as de-
5 fined under section 414 of the Inter-
6 nal Revenue Code of 1986;

7 (V) annuities, life insurance con-
8 tracts, and endowments;

9 (VI) any plan, investment com-
10 pany or other collective investment ve-
11 hicle that imposes an exit, withdrawal,
12 or contingent deferred sales fee; and

13 (VII) such other retirement plan
14 as the Commission may determine ap-
15 propriate; and

16 (ii) includes any proceeds, assets, or
17 other distributions from retirement plans
18 (including the proceeds from the sale of
19 any such assets) during the 12-month pe-
20 riod preceding the date of any sale of the
21 assets.

22 (B) RETIREMENT INCOME.—The term “re-
23 tirement income”—

24 (i) means—

1 (I) any pension, funds, or other
2 benefits paid as a result of past serv-
3 ices or individual retirements, includ-
4 ing those paid by any government
5 agency;

6 (II) any proceeds or other bene-
7 fits paid as a result of past services,
8 including those paid by any govern-
9 ment agency;

10 (III) any proceeds, assets, or
11 other distributions from a retirement
12 asset; and

13 (IV) such other categories as the
14 Commission may determine appro-
15 priate; and

16 (ii) includes any proceeds generated
17 from the sale of any asset distributed or
18 withdrawn from a retirement asset during
19 the 12-month period preceding the date of
20 any sale of the asset.

21 (3) REVISING INDIVIDUAL NET WORTH AND IN-
22 COME LIMITS FOR INFLATION.—Not later than the
23 end of the 6-month period beginning on the date of
24 enactment of this Act, and every 5 years thereafter,
25 the Commission shall revise the net worth and in-

1 come thresholds under section 230.501 of title 17,
2 Code of Federal Regulations, to account for inflation
3 since the last time the Commission revised such
4 thresholds.