

# **Dodd-Frank Financial Reform Changes Definition of “Accredited Investor”**

September 22, 2010 by [Brad Hamilton](#)

This is the first in a series that will analyze important changes to capital markets and corporate finance laws, enacted by the [Dodd-Frank Wall Street Reform and Consumer Protection Act](#).

Most U.S. based companies seeking to raise money from investors do so through a “private placement” authorized under [Regulation D](#) of the Securities and Exchange Commission. Reg D provides several exemptions from SEC registration of a securities offering, the most popular of which (Rule 506) allows unlimited investment and participation by “accredited investors”. If the offering includes non-accredited investors, the issuer must meet required disclosure obligations by providing information of the same kind that would be provided in a registration statement for a public offering. If only accredited investors participate in the offering, there are no specific disclosure requirements mandated by Reg D (although thorough disclosure is still recommended as a risk management practice). Therefore, many issuers chose to limit their offerings only to “accredited investors”.

With the enactment of Dodd-Frank, effective July 21, 2010, and for at least the next four years, the definition of “accredited investor” has changed. The net worth part of the accredited investor test, which specifies that a natural person is an accredited investor if his or her net worth is at least \$1 million, now excludes the value of that person’s primary residence. Before July 21, the net worth test included the investor’s primary residence.

There was no transition period or future effective date, so that issuers conducting private placements on July 21, 2010 had to amend and re-document their private placements in process to comply with the change. Fortunately, the other portions of the accredited investor definition, including the net income tests for natural persons, remain unchanged for now.

The Comptroller General is required to study the appropriate criteria for accredited investor status and report back to Congress within three years. On July 20, 2014 and every four years thereafter the SEC must review the definition of accredited investor as it applies to natural persons and make adjustments in the rules if appropriate.