



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY

INVESTOR ALERT

Advertising for Unregistered Securities Offerings

The SEC's Office of Investor Education and Advocacy is issuing this Investor Alert to educate individual investors about advertisements and announcements for investment opportunities in certain securities offerings. General advertising is permitted in certain offerings as a result of rules adopted by the SEC as required by the Jumpstart Our Business Startups (JOBS) Act.

You may begin to see advertising and announcements for opportunities to invest in certain securities offerings, sometimes called *private placements*. These offerings may be for shares in a company or interests in a private fund, such as a [hedge fund](#) or venture capital fund. The advertising may be through a number of different means, including the Internet, social media, seminars, print, or radio or television broadcast. ***The rules permitting this general advertising take effect on September 23, 2013.***

What is a private placement?

A securities offering exempt from registration with the SEC is sometimes referred to as a *private placement*. Under the federal securities laws, a company or private fund may not offer or sell securities unless the offering has been

registered with the SEC or an exemption is available. Private and public companies engage in private placements to raise funds from investors. Private funds, such as hedge funds, also raise investment capital through private placements.

Private placements are not subject to some of the laws and regulations that are designed to protect investors, such as disclosure requirements that apply to registered offerings.

As noted above, the SEC recently adopted [rules](#) to permit general solicitation or advertising for certain securities offerings that are exempt from registration. As described below, these offerings, referred to here as *Rule 506(c) offerings*, must comply with a number of requirements.

Am I qualified to invest in a Rule 506(c) offering?

Only accredited investors may invest in a Rule 506(c) offering. This limitation exists because these offerings do not have the same investor protections as, and have unique risks when compared to, offerings that are registered with the SEC.

An *accredited investor*, in the context of an individual investor, is a person who:

- had income in excess of \$200,000 (or \$300,000 with a spouse) in each of the prior two years, and reasonably expects the same for the current year, **OR**
- has a net worth over \$1 million, either alone or with a spouse (excluding the value of the person's primary residence or any loans secured by the residence (up to the value of the residence)).

How will the company or private fund know whether I am an accredited investor?

In a Rule 506(c) offering, the company or private fund is required to take reasonable steps to verify your accredited investor status, which could include reviewing documentation, such as W-2s, tax returns, bank and brokerage statements, credit reports and the like. Depending on the circumstances, the company or private fund may rely on a written confirmation from a third party to verify your accredited investor status. The SEC does not require any specific verification method or process for companies or private funds for these offerings.

Third-party verification. If the company or private fund accepts a written confirmation from a third party to verify whether you are an accredited investor, the third party may be a registered broker-dealer, SEC-registered investment adviser, licensed attorney or certified public accountant. The third party could be engaged by the company or private fund, or could be retained by you (*e.g.*, your personal broker-dealer, investment adviser, attorney or certified public accountant). You can obtain information about a registered broker by visiting FINRA's [BrokerCheck](#) website. You can obtain information about an investment adviser by visiting the SEC's [Investment Adviser Public Disclosure \(IAPD\)](#) website. You can obtain information about a licensed attorney or certified public accountant by contacting the appropriate state bar or board of accountancy.

You do not have to provide any information if you do not feel comfortable doing so. If you do not provide all of the requested information, you should not be able to invest in the particular offering if the company or private fund is unable to verify that you are an accredited investor.

If the company or private fund offering the securities does not take steps to verify your accredited investor status or allows you to participate in the offering even though you do not meet the income or net worth criteria discussed above, this may be a warning sign that the company or private fund is not complying with the federal securities laws and is something to consider before investing in the offering.

What should I consider when investing in private placements?

- Investing in securities, including through private placements, involves risk. ***You can lose your entire investment.***
- You will not be able to sell the securities you invest in as easily as you would a publicly traded stock. ***You may have to hold your investment indefinitely.***
- You will likely be provided with less information about your investment than would be required to be disclosed to you if the securities were sold to you in an offering registered with the SEC. Companies and private funds engaging in private placements have more discretion in what information to disclose to you.
- If the company or private fund does not regularly file reports with the SEC, there will likely be less information available about your investment on an ongoing basis.

You should read and understand all the information that is provided to you regarding the investment, including any *offering memorandum* or *private placement memorandum* that describes the investment. ***Pay particular attention to any risk factors that are described to you. In addition, you should carefully consider the terms of any subscription agreement or other agreements you have to enter into for the investment.***

Companies and private funds engaging in a private placement generally must file a notice of sales with the SEC for each new offering by making a notice filing on what is called a Form D. These filings are required no later than 15 calendar days after the first sale of securities in the offering and contain some basic information about the company or private fund and the securities offering. Forms D are publicly available through the SEC's [EDGAR](https://www.sec.gov/edgar/searchedgar/webusers.htm) database at [sec.gov/edgar/searchedgar/webusers.htm](https://www.sec.gov/edgar/searchedgar/webusers.htm).

Where can I go for help?

If you have a question or concern about an investment, or you think you have encountered fraud, please contact the SEC, FINRA or your state securities regulator to report the fraud and to get assistance.

[U.S. Securities and Exchange Commission](https://www.sec.gov)

Office of Investor Education and Advocacy
100 F Street, NE
Washington, D.C. 20549-0213
(800) 732-0330

[sec.gov](https://www.sec.gov)

[investor.gov](https://www.investor.gov)

[Financial Industry Regulatory Authority \(FINRA\)](https://www.finra.org)

FINRA Complaints and Tips
9509 Key West Avenue
Rockville, Maryland 20850
(301) 590-6500

[finra.org/Investors/](https://www.finra.org/Investors/)

[North American Securities Administrators Association \(NASAA\)](https://www.nasaa.org)

750 First Street, NE
Suite 1140
Washington, D.C. 20002
(202) 737-0900

[nasaa.org](https://www.nasaa.org)

Additional Information

For our [Investor Bulletin](#) about hedge funds, visit sec.gov/investor/alerts/ib_hedgefunds.pdf.

For the SEC's recent [rules](#) providing for general advertising in certain unregistered securities offerings, visit sec.gov/rules/final/2013/33-9415.pdf.

For our [Investor Bulletin](#) about accredited investors visit sec.gov/investor/alerts/ib_accreditedinvestors.pdf.

For FINRA's [BrokerCheck](#) resource, visit www.finra.org/Investors/ToolsCalculators/BrokerCheck/.

For our [Investment Adviser Public Disclosure \(IAPD\)](#) website, visit www.adviserinfo.sec.gov.

For our [Investor Alert](#) about private oil and gas offerings, visit sec.gov/investor/alerts/ia_oilgas.pdf.

For a NASAA [investor alert](#) regarding private placements, visit www.nasaa.org/22284/informed-investor-alert-private-placement-offerings/.

For more information about certain exemptions for private placements, visit sec.gov/answers/regd.htm.

For “Using EDGAR - Researching Public Companies,” visit investor.gov/researching-managing-investments/researching-investments/using-edgar-researching-public-companies.

For additional investor educational information, see the SEC's website for individual investors, investor.gov.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

