Insight

The Accredited Investor Definition: a Primer

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Executive Summary

- Private investments are investment opportunities offered to investors with limited public disclosure of financial and business details; the Securities and Exchange Commissions' accredited investor definition limits the availability of these more opaque investments to investors who satisfy either a wealth, income, or professional qualifications standard.
- While created with the intention of protecting unsophisticated investors from potentially risky investments, critics argue that the accredited investor definition is outdated, unreasonably equates financial resources to financial sophistication, and unfairly restricts access to potentially higher-returning private investments.
- Policymakers have signaled increased interest in updating the accredited investor definition – for example, the House of Representatives recently passed the Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act of 2025 on a bipartisan basis to, among other provisions, reform the accredited investor definition; this primer reviews the accredited investor definition and recently proposed reforms to this definition

Introduction

Investment opportunities in the United States are separated into public and private investments. Public investments are required to include detailed public financial disclosures and are available to all investors. Private investments, by contrast, face no such detailed disclosure mandate and are restricted by the Securities and Exchange Commission (SEC) to investors who satisfy the accredited investor definition by having either (1) net worth excluding primary residence of at least $1 million; (2) annual income of $200,000 (or

$300,000 for a couple) for the previous two years that the individual expects will continue; or (3) professional financial certification through employment in the financial industry.

This accredited investor definition was created with the goal of protecting investors who might be less able to understand the risks of private investments that lack detailed financial disclosures. The definition is also meant to ensure that private investments are limited to investors who have enough financial resources to sustain any losses from more opaque private investments. Yet critics argue that by equating financial resources to financial sophistication, the accredited investor definition unfairly restricts less affluent, yet still sophisticated, investors from potentially higher returning private investments. Critics also emphasize that the wealth and income thresholds used in the accredited investor definition are outdated, having not been updated since 1982.

In response to these criticisms, policymakers and regulators have recently shown renewed interest in reforming the accredited investor definition. The House of Representatives, for example, has passed the Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act of 2025 on a bipartisan basis to, among other capital markets-related provisions, update the accredited investor definition. While the future of the INVEST Act is uncertain, as the Senate Banking Committee reportedly intends to introduce its own capital markets reform legislation, momentum toward reform of the accredited investor definition is building. This primer reviews the accredited investor definition and these recently proposed reforms.

Capital Markets and the SEC

To understand the accredited investor definition and the potential for it to be reformed, it is necessary to first understand the broader capital markets and regulation of which the accredited investor definition is a part. Capital markets are financial markets where investment opportunities are issued and traded. Companies can raise funds through capital markets by issuing equity (shares of ownership that entitle the holder to a portion of a firm's profits) and/or debt (borrowing money from investors with the promise to repay that debt with interest in the future). While capital markets are just one of many methods through which companies can raise money, they are by far the largest, with about 80 percent of all funding for non-financial U.S. companies being raised through capital markets as of 2026. Capital markets in the United States also include other investment opportunities such as mutual funds.

Capital markets in the United States are primarily regulated by the Securities and Exchange Commission. Created in 1934, the SEC's mission is "protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation." A central means through which the SEC accomplishes these goals is its disclosure regime, which requires investment issuers to register publicly offered investments with the SEC and provide the public with regular financial disclosures. By requiring such registration and disclosure, the SEC can ensure that investors have enough information to properly gauge the risk-return tradeoff in their investments. (A more detailed summary of capital markets regulation can be found here.)

Not all investments, however, are subject to this strict disclosure regime. Indeed, only offerings that are made available to all investors are subject to it. Examples of such publicly available investments include stocks listed by the New York Stock Exchange or the NASDAQ. Private investment offerings, by contrast, require only limited financial disclosures. Examples of private investments include private credit, private equity, hedge funds, and venture capital. (For a more detailed discussion of private credit, see this insight from the American Action Forum's Fred Ashton.) Although these private offerings are not uniform in the specifics of their legal requirements, as there are multiple legal exemptions through which private investments can be offered with reduced disclosures, all private offerings face limitations on who can invest in them.

These public and private offerings are often grouped together into public and private capital markets. Historically, public markets dominated in the United States. In the past few decades, however, public markets have contracted, while private markets have grown. The number of public companies in the United States has roughly halved since the 1990s. The annual number of initial-public offerings (IPOs) in 2020 was only about one-quarter of the annual IPOs in the late 1990s. In 2017, by contrast, new private capital raises by companies totaled $3 trillion while companies' new public capital totaled only $1.5 trillion.

Even though private capital markets have been growing, there are still tradeoffs to private investments relative to public ones. For those offering investment opportunities, the attraction of private offerings is that they reduce compliance costs by eliminating disclosures and freeing management from the pressure of responding to shareholder expectations and activism. Yet the downside is that capital access is limited because of the regulatory restrictions on who can invest in private offerings.

For investors, private investments can offer additional ways to diversify their portfolio. Because of their opacity, however, these private investments can often be hard to sell at short notice, meaning that investors may be forced to take a loss if they need to urgently sell them. Investors in private investment funds (hedge funds, for example) may additionally be subject to fees that erode their total returns and/or redemption restrictions that limit their ability to cash out investments at any given moment.

The most relevant trade-off between private and public offerings is their relative risk-reward ratios. While it is still unclear whether private investments perform better on average than public ones, private investments can offer investors the potential for higher returns. But to do so, these investments often come with more risk than publicly available investment opportunities.

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It is this potentially elevated risk, together with the limited disclosure requirements for private investments, that has led policymakers to restrict access to private offerings to accredited investors considered by the government to be "financially sophisticated and have the wherewithal to sustain financial losses." This restriction, originally codified in 1982 and updated in 2010 and 2020, limits private investments to investors who meet at least one of three qualifications: (1) net worth of at least $1 million excluding one's primary residence; (2) income of $200,000 (or $300,000 for a couple) for the prior two years with expectation of that continuing; or (3) professional qualifications in the financial industry (such as a Financial Industry Regulatory Authority Series 7 license).

Proponents of the accredited investor definition argue that, because private offerings are more opaque and potentially more risky, it is incumbent on the government to protect average investors from these harms by restricting public access to private investments. Another potential benefit of the accredited investor definition is that it reaffirms the importance of disclosures in capital markets regulation by restricting capital access for those who wish to circumvent disclosure requirements.

Critics of the accredited investor definition, however, argue that the definition is outdated and unfair. Indeed, opponents note that since it was first codified in 1982, the accredited investor definition's income and wealth thresholds have not been meaningfully updated, with the only change having been the exclusion of an investors' primary residence from their net worth added in 2010. Because of these stagnant thresholds, the percent of households satisfying the accredited investor definition has risen from 1.8 percent in 1982 to almost 20 percent today. For critics focused on investor protection, this increase in qualifying households suggests that too many unsophisticated and financially unprepared investors are being exposed to the risks of private investments.

Other critics argue that the accredited investor definition unreasonably equates financial resources with financial knowledge. Thus, they argue, the definition unfairly restricts less affluent investors from benefiting from potentially higher returns, while allowing wealthier investors – regardless of their financial sophistication – to invest in private investments and potentially fall prey to their risks. As Andrew Ross Sorkin explains, the consequence of this is that "the richest households…[are given] privileged entry into private markets. They can buy into companies like Facebook or Uber years before the public ever has the chance, capturing the overwhelming share of the gains. By the time the average investor can purchase shares on a stock exchange, much of the upside has already been taken."

Recent and Proposed Reforms to the Accredited Investor Definition

There is growing interest among policymakers and regulators in reforming the accredited investor definition. One proposed reform has already been completed, with the SEC under Chair Paul Atkins announcing in late 2025 that closed-end funds (a type of investment company) that invest at least 15 percent of their funds into private funds (a certain type of private investment) would no longer need to restrict access to investors who meet the accredited investor status.

Moreover, the House passed the Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act of 2025, which includes reforms to the accredited investor definition, in December 2025 on a bipartisan basis. The INVEST Act would require the SEC to both index the accredited investor wealth and income thresholds to inflation and establish a free national exam that would automatically qualify any investor who passes the exam as sophisticated enough to be considered an accredited investor. The INVEST Act would also add the accredited investor definition's professional qualification stipulation to statute, as it is currently only found in SEC issued regulations.

Although the INVEST Act garnered bipartisan support in the House, its future is uncertain, as the Chamber of Commerce reports that the Senate Banking Committee's Republican Majority is planning to introduce its own capital markets legislation. While the details of this new legislation are currently unknown, they are likely to hew closely to those of the Empowering Main Street in America Act (EMSAA), a capital markets reform bill introduced in the previous Congress by then ranking member (now chair) of the Banking Committee Tim Scott (R-SC). With respect to the accredited investor definition, the EMSAA would, like the INVEST Act, have required the SEC to develop an examination for accredited investor status. The EMSAA would have also added a new method of qualification to the accredited investor definition: having at least $500,000 worth of investments. The EMSAA would have further expanded access to private markets by allowing non-accredited investors to invest a limited portion of their money in private investments. Any non-accredited investment would have been limited to being no "greater than the highest amount of either (1) "10 percent of the total investments of the person;" (2) "10 percent of the annual income of the person or 10 percent of the annual combined income with that person's spouse;" or (3) "10 percent of the net worth of the person excluding the value of the person's principal place of residence." If such legislation is officially introduced, it will be noteworthy to see how the new capital markets bill compares to Chairman Scott's previous proposal.

Conclusion

Bridging the gap between the INVEST Act and the Senate's likely-to-be proposed capital markets bill will not be a quick or easy task. The 2026 midterms may prove to be an additional hurdle to any legislative progress. Nonetheless, both chambers' pursuit of reforms to capital markets and the accredited investor definition highlight how capital formation and investor access to private markets is a salient issue that policymakers should continue to monitor.