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Critics say Senate bill would hurt startups

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Kansas investors and entrepreneurs say a financial services reform bill largely aimed at Wall Street banks could have a detrimental impact on them.

The Restoring American Financial Stability Act has two provisions in it that could decrease the number of angel investors available to entrepreneurs and dramatically slow entrepreneurs' progress in raising private capital for their early-stage companies, they said.

"It really caught us square between the eyes," said Jeremy Jones, CEO of Nitride Solutions, an upstart Wichita company commercializing a manufacturing process for aluminum nitride. "It really has a huge impact on what we're trying to do going forward."

The provisions, contained in the 1,336-page Senate bill, would adjust the net worth requirement higher — estimates from the Angel Capital Association are that it would increase from \$1 million in net worth to \$2.3 million — for accredited investors, which could end up disqualifying many of today's angel investors from continuing to invest in promising but risky startup companies.

The ACA estimates two-thirds of angel investors would not meet the new standard and thus would not be able to legally invest in a private company.

"It's just going to drain the pool for us dramatically," Jones said.

Trish Brasted, managing member of Midwest Venture Alliance, a group of area angel investors, said the new standard would affect a "fair amount" of the group's members, but nowhere near two-thirds.

"I think more than doubling the accredited investor (net worth) is a mistake," Brasted said. "It will take out a few people who met the criteria but won't now."

The other provision in the bill that worries entrepreneurs is one that makes unclear what state and federal agencies would regulate angel investments as well as raise the possibility of a three-month waiting period for businesses to collect capital investments.

"It's a pretty difficult market environment to raise money for emerging companies as it is," said Scott Deeter, CEO of Ventria Bioscience in Junction City. "It would make it extremely difficult, if not impossible, for emerging companies to raise capital."

The ACA is lobbying to clarify or eliminate language in the bill's provisions regarding investments in startup companies and accreditation of investors.

Jones of Nitride said this week he also was writing letters to senators in the hopes of softening or eliminating the provisions.

"I'm hoping that it's a lack of understanding," Jones said.

The bill has been passed out of committee and is awaiting a vote of the full Senate.

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