

# Reg A Pre-IPO Disclosure

## What is Regulation A?

Regulation A allows companies to offer and sell securities to the public, but with more limited disclosure requirements than what is required for publicly reporting companies. In comparison to [registered](#) offerings, smaller companies in earlier stages of development may be able to use this rule to more cost-effectively raise money.

### How does Regulation A affect me?

Regulation A may provide an opportunity for you to invest in early stage and smaller companies and businesses. ***Before investing, you should be fully aware that your investment will involve risk.*** Following are some general risks to keep in mind:

- **Speculative.** Investments in startups and early-stage ventures are speculative and the businesses may fail. Unlike an investment in a mature business where there is a track record of revenue and income, a startup often relies on the development of a new business, product or service that may or may not find a market. ***The SEC does not pass upon the merits or give its approval to any securities offered.***
- **Illiquidity.** ***Even though there is no resale restriction, you may need to hold your investment for an indefinite period of time.*** If the securities are not, and if there are no plans for the securities to be, listed on an exchange where you can quickly and easily trade the securities, you will have to locate an interested buyer when you do seek to resell your investment.

### If I want to invest, what do I need to know?

All investors must be provided with, or given information to access, an offering circular. You should review the *offering circular* before making your investment decision. The offering circular will contain important information such as information about the offering and the securities offered, risks of the investment, use of proceeds, any *selling shareholders*, the company's business, management, performance, plans and financial statements. There may be additional materials that you receive in addition to the offering circular.

***Selling shareholders.*** The offering may include shares held by existing shareholders. You may be purchasing resale shares and the proceeds from these resale shares will not be used to fund the company's development and plans. ***The offering circular will disclose whether any shares are being offered by an existing shareholder.***

Regulation A allows companies to raise money under two different tiers. ***It is very important for you to know which tier the offering is being conducted under.*** Companies are required to indicate the tier under which the offering is being conducted on the cover of the offering circular.

## Tier 1

Under Tier 1, a company can raise up to \$20 million in any 12-month period. For Tier 1 offerings, the offering circular must be filed with, and is subject to review and *qualification* by, the staff at the SEC and is generally subject to review and qualification by the securities regulator in the states where the offering is being conducted. The financial statements disclosed in a Tier 1 offering do not have to be audited.

***Qualification.*** For both tiers under Regulation A, a company can only accept payment for the sale of its securities once its offering materials have been qualified by the staff at the SEC.

***It is therefore important to know whether an offering has been qualified. Investors, however, should understand that the SEC's qualification of an offering statement does not mean that the SEC has assessed or approved the accuracy of the offering statement or the merits of the securities offered.***

***Be aware that [fraudsters](#) have in the past characterized certain SEC filings and actions, such as qualifications, as formal approvals in order to mislead investors.***

## Tier 2

Under Tier 2, a company can offer up to \$75 million in any 12-month period. For Tier 2 offerings, the offering circular is subject to review and qualification by the staff at the SEC, but is not subject to review or *qualification* by state securities regulators. Financial statements disclosed in a Tier 2 offering must be audited by an independent accountant.

If not already listed, securities offered under Tier 2 may be listed on a national exchange to the extent that the company applies for listing and meets the listing requirements for that particular exchange. The company would then be required to comply with the more extensive ongoing reporting requirements of public companies.

### **Am I limited in whether and how much I can invest?**

There are no limitations on whether you can invest, or how much you can invest, if you are investing *in an offering relying on Tier 1*.

If, however, you are offered an opportunity to invest:

- in a *Tier 2 offering*; and
- you are *not an [accredited investor](#)*; and
- the *securities are not going to be listed on a national securities exchange* upon qualification;

there are some *investment limitations* of which you should be aware. In such circumstances, individual investors are limited in how much they can invest to no more than 10% of the greater of the person's, alone or together with a spouse, annual income or net worth (excluding the value

of the person’s primary residence and any loans secured by the residence (up to the value of the residence)).

### How do I stay informed about my investment?

Companies must disclose information with the SEC using [EDGAR](#) but the type and frequency of this information may differ from the information that you may be familiar with when investing in companies listed on a stock exchange, for example.

Companies relying on Tier 1 do not have ongoing reporting obligations other than a final report on the status of the offering. Companies relying on Tier 2 do have ongoing reporting obligations. Following are descriptions of the Regulation A disclosure forms:

Form	Description	Tier 1	Tier 2
1-A	The offering statement which includes the offering circular and other disclosure about the offering.	■	■
1-Z	The exit report that details the termination or completion of an offering. Companies relying on Tier 2 can instead disclose this on Form 1-K.	■	■
1-K	The annual report to be filed within 120 days after the end of the fiscal year that includes audited financial statements for the year, a discussion of the company’s financial results for the year and information about the company’s business and management, related-party transactions and share ownership.	□	■
1-SA	The semiannual report to be filed within 90 days after the end of the semiannual period that includes unaudited interim financial statements and a discussion of the company’s financial results for the period.	□	■
1-U	The current report to be filed within four business days of certain events including a fundamental change, bankruptcy, change in accountant, non-reliance on prior financial statements or audit report, change in control and departure of officers.	□	■

**Already publicly reporting.** Companies that are already publicly reporting, such as companies that are listed on a stock exchange, generally will be deemed to meet their Regulation A ongoing disclosure obligations by remaining current in their public reporting obligations.

### Additional Resources

To learn more about Regulation A, see this [website](#).

For information on how to search for company documents, such as an offering statement on Form 1-A, in the SEC’s EDGAR database, see [Using EDGAR to Research Investments](#).

For additional investor educational information, see the SEC’s website for individual investors, [Investor.gov](#).

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