118TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
118–310

HELPING ANGELS LEAD OUR STARTUPS ACT OF 2023

DECEMBER 12, 2023.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MCHENRY, from the Committee on Financial Services, submitted the following

R E P O R T

[To accompany H.R. 1553]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 1553) to require the Securities and Exchange Commission to revise rules relating to general solicitation or general advertising to allow for presentations or other communication made by or on behalf of an issuer at certain events, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Helping Angels Lead Our Startups Act of 2023" or the "HALOS Act of 2023".

SEC. 2. CLARIFICATION OF GENERAL SOLICITATION.

(a) DEFINITIONS.—For purposes of this Act and the revision of rules required under this Act:

(1) ANGEL INVESTOR GROUP.—The term "angel investor group" means any group that—

(A) is composed of accredited investors interested in investing personal capital in early-stage companies;

(B) holds regular meetings and has defined processes and procedures for making investment decisions, either individually or among the membership of the group as a whole; and

(C) is neither associated nor affiliated with brokers, dealers, or investment advisers.

(2) ISSUER.—The term "issuer" means an issuer that is a business, is not in bankruptcy or receivership, is not an investment company, and is not a blank check, blind pool, or shell company.

(b) IN GENERAL.—Not later than 6 months after the date of enactment of this Act, the Securities and Exchange Commission shall revise Regulation D (17 CFR 230.500 et seq.) to require that in carrying out the prohibition against general solicitation or general advertising contained in section 230.502(c) of title 17, Code of Federal Regulations, the prohibition shall not apply to a presentation or other communication made by or on behalf of an issuer which is made at an event—

(1) sponsored by—

(A) the United States or any territory thereof, the District of Columbia, any State, a political subdivision of any State or territory, or any agency or public instrumentality of any of the foregoing;

(B) a college, university, or other institution of higher education;

(C) a nonprofit organization;

(D) an angel investor group;

(E) a venture forum, venture capital association, or trade association; or

(F) any other group, person, or entity as the Securities and Exchange Commission may determine by rule;

(2) where any advertising for the event does not reference any specific offering of securities by the issuer;

(3) the sponsor of which—

(A) does not make investment recommendations or provide investment advice to event attendees;

(B) does not engage in an active role in any investment negotiations between the issuer and investors attending the event;

(C) does not charge event attendees any fees other than reasonable administrative fees;

(D) does not receive any compensation for making introductions between investors attending the event and issuers, or for investment negotiations between such parties;

(E) makes readily available to attendees a disclosure not longer than one page in length, as prescribed by the Securities and Exchange Commission, describing the nature of the event and the risks of investing in the issuers presenting at the event; and

(F) does not receive any compensation with respect to such event that would require registration of the sponsor as a broker or a dealer under the Securities Exchange Act of 1934, or as an investment advisor under the Investment Advisers Act of 1940; and

(4) where no specific information regarding an offering of securities by the issuer is communicated or distributed by or on behalf of the issuer, other than—

(A) that the issuer is in the process of offering securities or planning to offer securities;

(B) the type and amount of securities being offered;

(C) the amount of securities being offered that have already been subscribed for; and

(D) the intended use of proceeds of the offering.

(c) RULE OF CONSTRUCTION.—Subsection (b) may only be construed as requiring the Securities and Exchange Commission to amend the requirements of Regulation D with respect to presentations and communications, and not with respect to purchases or sales.

(d) NO PRE-EXISTING SUBSTANTIVE RELATIONSHIP BY REASON OF EVENT.—Attendance at an event described under subsection (b) shall not qualify, by itself, as establishing a pre-existing substantive relationship between an issuer and a purchaser, for purposes of Rule 506(b).

PURPOSE AND SUMMARY

Introduced on March 10, 2023, by Representative Michael Lawler, H.R. 1553, the *Helping Angels Lead Our Startups (HALOS) Act*, would define an angel investor for purposes of the federal securities laws. It would also clarify the definition of general solicitation included in the Securities Act of 1933. This will ensure that startups can discuss their products and business plans at certain events, known as "demo days," without such discussions being considered an investment offering.

BACKGROUND AND NEED FOR LEGISLATION

Depending on the regulatory pathway a company chooses to raise capital, the company may be limited in how it can connect with potential investors. For example, the most commonly used offering exemption under the federal securities laws—Rule 506(b) of Regulation D—prohibits the use of “general solicitation” to market securities. A solicitation that conditions the market for an offering of securities is viewed as a general solicitation. Examples of activities that amount to a general solicitation include newspaper and magazine advertisements, unrestricted public websites, and TV and radio broadcasts.

In implementing the JOBS Act, the SEC classified “demo day” communications (i.e., communications made in connection with an event sponsored by a group or entity that invites issuers to present their businesses to potential investors with the aim of securing investment) as a general solicitation. However, the SEC reversed course when it finalized Rule 148. Under the new rule, an issuer will not be deemed to have engaged in general solicitation if the communications are made in connection with an event sponsored by a college, university, or other institution of higher education, a state or local government or instrumentality thereof, a nonprofit organization, or an angel investor group, incubator, or accelerator, provided certain conditions are satisfied. These conditions include limitations on the sponsor’s activities, a requirement that the advertising for the event not reference any specific offering of securities by the issuer, and limits on the information conveyed at the event regarding the offering of securities by or on behalf of the issuer. The HALOS Act, among other things, codifies this position to ensure issuers may continue to conduct demo days without violating the securities laws.

HEARING

Pursuant to clause 3(c)(6) of rule XIII, the following hearing was used to develop H.R. 1553: The Subcommittee on Capital Markets of the Committee on Financial Services held a hearing on February 8, 2023, titled “Empowering Entrepreneurs: Removing Barriers to Capital Access for Small Businesses.”

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on May 24, 2023, and ordered H.R. 1553 to be reported favorably to the House as amended by a recorded vote of 35 ayes to 12 nays (Record vote no. FC–70), a quorum being present. Before the question was called to order the bill favorably reported, the Committee adopted an amendment in the nature of a substitute offered by Mr. Lawler by voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the order to report legislation and amendments thereto. H.R. 1553 was ordered reported favorably to the House as amended by a recorded vote of 35 ayes to 12 nays (Record vote no. FC–70), a quorum being present.

Record vote no. FC- 70

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. McHenry	X	___	___	Ms. Waters	___	X	___
Mr. Hill	X	___	___	Mrs. Velázquez	___	X	___
Mr. Lucas	X	___	___	Mr. Sherman	___	X	___
Mr. Sessions	X	___	___	Mr. Meeks	X	___	___
Mr. Posey	X	___	___	Mr. Scott	X	___	___
Mr. Luetkemeyer	X	___	___	Mr. Lynch	___	X	___
Mr. Huizenga	X	___	___	Mr. Green	___	X	___
Mrs. Wagner	X	___	___	Mr. Cleaver	___	X	___
Mr. Barr	X	___	___	Mr. Himes	___	___	___
Mr. Williams (TX)	X	___	___	Mr. Foster	X	___	___
Mr. Emmer	___	___	___	Mrs. Beatty	___	X	___
Mr. Loudermilk	X	___	___	Mr. Vargas	___	___	___
Mr. Mooney	___	___	___	Mr. Gottheimer	X	___	___
Mr. Davidson	X	___	___	Mr. Gonzalez	X	___	___
Mr. Rose	X	___	___	Mr. Casten	X	___	___
Mr. Steil	X	___	___	Ms. Pressley	___	X	___
Mr. Timmons	X	___	___	Mr. Horsford	___	X	___
Mr. Norman	X	___	___	Ms. Tlaib	___	X	___
Mr. Meuser	X	___	___	Mr. Torres	X	___	___
Mr. Fitzgerald	X	___	___	Ms. Garcia	___	X	___
Mr. Garbarino	X	___	___	Ms. Williams (GA)	___	X	___
Mrs. Kim	X	___	___	Mr. Nickel	X	___	___
Mr. Donalds	X	___	___	Ms. Pettersen	X	___	___
Mr. Flood	X	___	___				
Mr. Lawler	X	___	___				
Mr. Nunn	X	___	___				
Ms. De La Cruz	X	___	___				
Mrs. Houchin	X	___	___				
Mr. Ogles	___	___	___				

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the goal of H.R. 1553 is to provide a definition for an angel investor for purposes of the federal securities laws.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

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As ordered reported by the House Committee on Financial Services on May 24, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	0	*	not estimated

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	No
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	Yes, Under Threshold

* = between -$500,000 and $500,000.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1973.

FEDERAL MANDATES STATEMENT

Pursuant to section 423 of the Unfunded Mandates Reform Act, the Committee adopts as its own the estimate of the Federal mandates prepared by the Director of the Congressional Budget Office.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

Pursuant to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of the bill establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, including any program that was included in a report to Congress pursuant to section 21 of the Public Law 111–139 or the most recent Catalog of Federal Domestic Assistance.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This section cites H.R. 1553 as the “Helping Angels Lead Our Startups Act of 2023” or the “HALOS Act of 2023”.

Section 2. Clarification of general solicitation

This section defines an angel investor group as any group that is composed of accredited investors interested in investing personal capital in early-stage companies that hold regular meetings and have defined processes and procedures for making investment decisions and who are neither associated nor affiliated with brokers, dealers, or investment advisors. This section also defines an issuer as a business that is not in bankruptcy or receivership, is not an investment company, and is not a blank check, blind pool, or shell company.

In addition, this section directs the SEC to revise Regulation D of its rules to require that in carrying out the prohibition against general solicitation or general advertising that the prohibition shall not apply to a presentation or other communication made by or on behalf of an issuer which is made at an event sponsored by: (1) the U.S. or any territory thereof, (2) a college, university, or other institution of higher education, (3) a nonprofit organization, (4) an angel investor group, (5) a venture forum, venture capital association, or trade association, or (6) any other group, person, or entity as the SEC may determine by rule. This section also notes that the prohibition shall not apply where any advertising for the event does not reference any specific offering by the issuer or where the sponsor of which does not make an investment recommendation or provide investment advice, does not engage in an active role in investment negotiation, does not charge event attendees any fees other than reasonable administrative fees, does not receive any compensation for making introductions between investors and issuers, does not receive any compensation with respect to such event, and makes readily available to attendees a disclosure not longer than one page describing the nature of the event and the risks of investing in the issuers presenting at the event. Moreover, this section clarifies that the prohibition shall not apply where no specific information regarding an offering of securities by the issuer is communicated or distributed by or on behalf of the issuer, other than the issuer being in the process of offering securities or planning to offer securities, the type and amount of securities being offered, the amount of securities being offered that have already been subscribed for, and the intended use of proceeds of the offering.

Section 3. Restrictions on new filing requirements in connection with a general solicitation

This section clarifies that with respect to any offer or sale of a security under Regulation D that is exempt from the prohibition against general solicitation or general advertising, the SEC may not issue any rule that would apply additional filing requirements that were not in effect on the date of enactment of this Act.

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