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# Funding with SAFEs

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## What is a SAFE?

A SAFE (Simple Agreement for Future Equity) is a financial instrument used by startups to raise capital. It allows investors to provide funds in exchange for the right to receive equity later, typically during a future financing round. SAFEs convert into shares at a predetermined valuation cap or discount. They are simpler than traditional equity financing, as they do not require immediate valuation or extensive legal documentation.

## Why would a startup want to use a SAFE instead of a priced equity round?

A startup may prefer a SAFE (Simple Agreement for Future Equity) over a priced equity round because SAFEs are simpler and faster to execute, reducing legal costs. They allow startups to delay valuation discussions until a later funding round, which can be advantageous. SAFEs convert to equity automatically during future financing events, making them attractive to investors who want a straightforward investment structure.

## Why would an investor want to use a SAFE rather than a priced equity round?

Investors may prefer a SAFE (Simple Agreement for Future Equity) because it offers simplicity and speed, avoiding lengthy negotiations typical in priced equity rounds. SAFEs allow for quick funding without determining a company's valuation upfront. They also reduce legal costs and paperwork. Additionally, SAFEs convert into equity during future financing rounds, often at a discount or with a valuation cap, providing potential upside. This flexibility can be attractive in early-stage investment

## How are SAFEs different from convertible notes?

SAFES (Simple Agreements for Future Equity) differ from convertible notes in key ways. SAFES do not accrue interest and lack a maturity date, meaning they don't require repayment. In contrast, convertible notes are debt instruments that accrue interest and must be repaid if not converted by a certain date. SAFES convert into equity during future financing rounds, while convertible notes have specific terms for conversion.

## Why the name "SAFE"? Does it have anything to do with convertible notes being dangerous?

The name "SAFE" stands for "Simple Agreement for Future Equity." It was designed to be a straightforward funding instrument for startups. Unlike convertible notes, SAFES do not accrue interest or have a maturity date, which reduces complexity and risk for both investors and founders. While convertible notes can be seen as "dangerous" due to their debt nature, SAFES aim to provide a safer, more flexible alternative for early-stage funding.

## Who invented SAFES and when?

SAFES, or Simple Agreements for Future Equity, were invented by Y Combinator in 2013. They were created to simplify early-stage fundraising for startups.

## At what stage of a startup's life are SAFES used?

SAFES (Simple Agreements for Future Equity) are typically used in the early stages of a startup's life, particularly during seed funding rounds. They allow startups to raise capital quickly without setting a valuation. SAFES are popular among early-stage investors and founders because they convert into equity

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at a later financing round, usually when the startup raises more significant funding. This mechanism helps startups secure funds while delaying complex valuation discussions.

### **What are the events in which a SAFE converts to equity?**

A SAFE (Simple Agreement for Future Equity) converts to equity during these events:

1. **Equity Financing:** When the company raises a new funding round, the SAFE converts into shares at a valuation cap or discount.
2. **Liquidity Event:** If the company is sold or goes public, the SAFE converts into shares or cash based on the terms.
3. **Dissolution:** If the company dissolves, SAFE holders may receive a payout before common shareholders, depending on the agreement.