

## Comments on SEC Concept Release on Harmonization of Securities Offering Exemptions

### BUSINESS LAW SECTION SECURITIES REGULATION COMMITTEE

BLS #2

October 18, 2019

Ms. Vanessa A. Countryman  
Acting Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: Concept Release on Harmonization of Securities Offering Exemptions File  
No. S7-08-19

Dear Ms. Countryman:

The Committee on Securities Regulation (the “Committee”) of the Business Law Section of the New York State Bar Association appreciates the opportunity to comment on the above-referenced concept release soliciting comment on various exemptions from the registration requirements under the Securities Act of 1933 (the “Securities Act”) (the “Concept Release”).

The Committee is composed of members of the New York bar, a principal part of whose practice is securities regulation. The Committee includes lawyers in private practice and in corporation law departments. A draft of this letter was reviewed by certain members of the Committee, and the views expressed in this letter are generally consistent with those of the majority of members who reviewed and commented on the letter in draft form. The views set forth in this letter, however, are those of the Committee and do not necessarily reflect the views of the organizations with which its members are associated, the New York State Bar Association, or its Business Law Section.

The Committee commends the efforts of the Securities and Exchange Commission (the “Commission”) to simplify, harmonize and improve the current exempt offering framework, which has evolved over time and may benefit from a comprehensive review.

The Committee thanks the Commission for this opportunity to comment on the Concept Release. Rather than commenting on each topic raised by the Commission in the Concept Release, this letter sets forth specific comments regarding certain topics raised by the Commission in the Concept Release. This letter covers the following areas:

1. The accredited investor standard;
2. The private placement exemption and Rule 506 of Regulation D;
3. Regulation A;
4. Regulation Crowdfunding;
5. Integration; and
6. Secondary sale exemptions, including a proposal for a Venture Exchange Exemption, in response to Question 138 of the Concept Release.

### **Accredited Investor Standard**

The Committee encourages the Commission to focus on providing certainty for market participants with any revised definition of accredited investor. The current income and net worth prongs of the definition should be preserved given that these standards are well understood.

We also strongly support the reasonable belief element of the definition of accredited investor, to include a person who meets one of the listed qualification methods, or who an issuer *reasonably believes* meets one of the qualification methods at the time of the sale of the securities to the person.

Investment limitations. We do not support establishing investment limits based on a percentage of income or net worth. We believe that investment limits would result in greater complexity and uncertainty for issuers, placement agents and investors.

Prospective indexing of financial thresholds in the definition for inflation. We support indexing financial thresholds included in the definition to inflation and having these adjustments made on a regular, announced basis on the timetable provided by Section 413(b)(2)(A) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, so that market participants can prepare to address the updates.

Spousal equivalents. Spousal equivalents should be permitted to pool their finances in the same manner as married spouses for the purpose of qualifying as accredited investors.

Entities and other persons with investments in excess of \$5 million. Regardless of organizational form, an entity, trust or other unincorporated person (excluding individuals) that has assets and investments of \$5 million should qualify as an accredited investor.

Other measures of financial sophistication. The Committee supports revising the accredited investor definition to allow individuals to qualify as accredited investors based on other objective measures of sophistication, such as securities licenses, professional accreditations, etc., as outlined in the Commission Accredited Investor Staff Report of 2015.

Knowledgeable employees. We also suggest that the Committee expand the definition to encompass employees of private funds (perhaps using the definition of “knowledgeable

employee” in Rule 3c-5 under the Investment Company Act of 1940 (“Investment Company Act”) in respect of investments in funds sponsored by their employers.

“Qualified purchaser” and “accredited investor” standards. The Concept Release solicits comment on whether the Commission should consider defining an “accredited investor” under Regulation D to specifically include a “qualified purchaser.” The Managed Funds Association and others have recommended that the Commission harmonize the existing sophisticated investor tests under the federal securities laws by including “qualified purchasers,” as defined in Section 2(a)(51) of the Investment Company Act, as “accredited investors.” Although not a practical concern in most cases for registered investment companies and business development companies, this change would simplify the analysis for certain types of investors (i.e., irrevocable trusts) that sometimes, as a result of the existing mismatch in standards for private fund investors, can be deemed “qualified purchasers” but not “accredited investors.” In addition, this change would maintain existing financial thresholds and continue to ensure that only sophisticated investors are able to invest in private funds, as qualified purchasers include individuals with at least \$5 million in investments, and institutions with at least \$25 million in investments, and qualified clients are persons who have at least \$1 million under the management of the investment adviser or have a net worth of more than \$2.1 million.

### **Private Placement Exemption and Rule 506 of Regulation D**

Offers. We suggest that the Commission consider providing additional guidance regarding the definition of the term “offer.” The perception that the Commission has historically taken a very broad view regarding the types of communications that may be deemed to constitute “offers” may restrict the type of information that is made available by issuers. The Commission has not reviewed the framework relating to offering related communications and the communications safe harbors since the 2005 Securities Offering Reform. Given that the demarcation between private placements and public offerings turns, in many respects, on the types of communications that are used, any analysis of the exempt offering framework should take into account the types of communications that are permissible.

Section 4(a)(2) and Rule 506. The Committee urges the Commission to retain separate exemptions for Rule 506(b) and Rule 506(c) and not combine these exemptions. As evidenced by the data gathered by the Commission, Rule 506(b) remains the most frequently used exemption. Practitioners appreciate the certainty associated with relying on the Rule 506(b) safe harbor, even when the statutory private placement exemption under Section 4(a)(2) would be available.

In order to promote the inclusion of non-accredited investors in Rule 506(b) offerings, the Commission should consider modifying the information requirements in Rule 502(b). The information requirements could be scaled (as the Commission has done in connection with Regulation Crowdfunding) depending on the amount sought to be raised in the offering. Alternatively, the Commission might consider eliminating the information requirements to the extent that non-accredited investors participating in the offering are

advised by a financial professional affiliated with a registered broker-dealer or employed by a registered investment adviser. In addition, the Commission might consider modifying the information requirement for early-stage issuers, just as it provides scaled disclosures for smaller reporting companies in registered offerings.

Rule 506(c) permits issuers to engage in general solicitation provided that all purchasers in the offering are accredited investors and the issuer takes reasonable steps to verify each purchaser's accredited investor status. Although Rule 506(c) provides a principles-based method for verification of accredited investor status, market participants focus on, and require compliance with, the non-exclusive list of verification methods. Compliance with the verification requirement has limited the utility of the Rule 506(c) exemption. We recommend removing the verification requirement for private placements that otherwise comply with Rule 506(c) and that involve a placement agent, investment adviser or other regulated institution that can act as a gatekeeper.

Consistent with our recommendations above relating to the need to review the communications safe harbors and provide additional guidance, it would be useful if the Commission would provide more specific guidance on the types of communication that constitute "general solicitation."

## **Regulation A**

Offering Threshold. The Commission should continue to review the offering limit and consider increasing the Tier 2 threshold to \$75 million in order to make the offering exemption more attractive to institutional investors. The Regulation A market would benefit from the participation of additional institutional investors and many institutional investors do not want to participate in smaller offerings where their holdings will constitute a disproportionately large percentage of the outstanding securities.

Eligible Issuers. We suggest that the Commission amend Regulation A in order to allow issuers from countries other than the United States and Canada to rely on the exemption. In addition, we believe that Regulation A should be made available to "business development companies," or BDCs, as defined in Section 2(a)(48) of the Investment Company Act. This would be another way for retail investors, who are regular investors in BDCs, to access investment opportunities within a framework that is subject to the Investment Company Act protections.

At the Market Offerings. Many issuers using Regulation A have an interest in undertaking at-the-market offerings as defined in Rule 251(d)(3)(ii), in order to sell over a period of time. The Committee believes that this would not raise investor protection concerns but would instead allow for additional flexibility.

Periodic Review of Regulation A. The Commission should consider in connection with a periodic review of Regulation A whether the exemption remains available for evolving financings and financial instruments.

## **Regulation Crowdfunding**

The Concept Release asks whether it would be useful to permit companies to offer their securities through a special purpose vehicle under Regulation Crowdfunding, as recommended by various commenters. The Committee believes this would be useful to help retail investors obtain diversification and make pooled investments in an offering that is subject to Regulation Crowdfunding.

## **Integration**

We urge the Commission to re-consider its approach to integration to take into account increasing reliance on technology, the rapidly expanding financial services landscape and greater availability of recently adopted exemptions. As noted below, there are some key principles related to integration that we believe merit updating and revision.

Modernize the five-factor test for integration of public and private offerings. The Committee urges the Commission to update the five-factors test with additional guidance about its appropriate use.

There are times when an issuer may need to offer its securities in private placements -- under Rule 506(b), Rule 506(c) or Section 4(a)(2) -- taking place simultaneously, or close in time, for different purposes. For example, a company buying the securities of another company in an M&A transaction may wish to offer securities in a Rule 506(b) offering to the shareholders and key employees (possibly including non-accredited investors) at the same time that it is making an offering under Rule 506(b) to accredited investors to raise funds for the cash component of the purchase price. Similarly, a company may use its shares to purchase intellectual property rights or other assets at the same time that it is conducting an offering for capital raising or financing purposes. The five-factor test, or a variant thereof, could continue to be useful in such circumstances.

A revised alternative integration test could clarify that two or more private offerings taking place at or near the same time will not be integrated:

- if they are *not* made for the same general purpose or as part of a single plan of financing, because, for example, the securities are issued to different categories or classes of investors; or
- if each offering involves the issuance of a different class of security or the receipt of different types of consideration.

Shorten the cooling-off period, or permit a shorter cooling-off period for certain inadvertent general solicitation activity. Under Rule 502(a), issuers have comfort that if they cease offerings for at least six months, there will be no integration between their

inadvertent public offering and a subsequent private offering. The use of a six-month cooling-off period does not differentiate between intentional general solicitation activity, such as that under Rule 506(c), and inadvertent publicity. We agree with prior Commission releases that have proposed a shorter cooling off period in part to offer issuers greater flexibility.<sup>1</sup>

Coupled with the proposed modifications to the five-factor test described above, we believe that a shorter cooling off period would facilitate capital formation and enhance investor transparency. Smaller and larger issuers may have different financing needs at different times, and will need the flexibility to adjust their offerings in response to the market.

In addition to issuer flexibility, we believe that a shorter cooling-off period is also warranted in order to distinguish between inadvertent general solicitation activity and intentional general solicitation activity. The Committee urges the Commission to permit issuers to rely on a shorter cooling-off period, such as 45 days, under the following circumstances:

- statements to the media (or at investor conferences) that correct or otherwise clarify information about the issuer's business in response to, or in connection with, a news or similar publication;
- statements made by certain agents of the issuer, such as service providers, to trade publications or similar media, that were not precleared by the issuer; and
- statements made to the general public that were inadvertent (e.g., fat finger errors where an internal memorandum is instead issued as a press release).

We believe that a more flexible approach is warranted in light of the broad concept of what constitutes an "offering" under the securities laws. The current approach puts issuers in the difficult position of choosing between silence and withdrawing from the market for six months, when there was no intention to engage in a public offering.

Clarify that reliance on Rule 506(c) offerings will not violate the no "directed selling efforts" requirement under Regulation S. With the adoption of Rule 506(c), the Commission clarified that there would be no integration of a Rule 506(c) offering and a simultaneous or contemporaneous Regulation S offering. Nevertheless, the activity that would be permitted as general solicitation under Rule 506(c) is likely to be interpreted as "directed selling efforts" under Regulation S. This effectively precludes or discourages issuers from relying on Regulation S if they determine to rely on Rule 506(c). This issue is particularly acute for private fund issuers seeking to rely on contemporaneous Rule 506(c) and Regulation S offerings.

Specific Integration Clarifications. The following are specific areas where additional guidance would be helpful:

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<sup>1</sup> See e.g., *Revisions of Limited Offering Exemptions in Regulation D*, Release No. 33-8828 (Aug. 10, 2007), 72 Fed. Reg. 45116.

- Shorten the Rule 155 periods, which currently require a thirty-day waiting period, or cooling off period, when transitioning from an abandoned private placement to a registered public offering, as well as from a registered public offering to a private placement.
- Consider implementing more broadly the integration analysis that is evidenced in the more recently adopted exemptions, such as Regulation A, Regulation Crowdfunding, and Rule 147, whereby there is no integration of offerings to the extent that each exempt offering met the conditions at the time for the valid exemption.

## Secondary Sale Exemptions

Anyone who advises financial technology (“fintech”) companies, issuers of digital securities and persons who wish to create a secondary market for restricted securities, including digital securities, knows that there is significant lack of knowledge and understanding about the limitations on resales of securities and the various exemptions available for secondary transactions. At the same time, advances in technology have made it easier to maintain markets in securities that can be accessible to investors who are not securities professionals, track ownership and transfers (using blockchain technology and otherwise) and make issuer information available.

The current federal regime of secondary transaction exemptions has been put together piecemeal from different sources, serves different constituencies in disparate ways, and presents an incomplete match with state securities law exemptions. As a result, there is a lack of understanding about the secondary transaction exemptions even among sophisticated business lawyers, let alone their clients and investors who are not served by lawyers or investment advisers.

Overview of similarities and differences. Our comments focus on secondary sale exemptions for securities issued in private placements or Regulation A offerings. The Concept Release contains an excellent summary of the secondary sale exemptions, but we list four of them here, in order to highlight some differences and similarities.

- *Section 4(a)(1) and Rule 144.* Section 4(a)(1) exempts sales by a person other than an issuer, dealer or underwriter. Rule 144 provides a safe harbor exclusion from the definition of “underwriter” and includes the following features:

<b>Factor</b>	<b>Conditions</b>
<b>Persons to whom sales may be made</b>	Sales may be made to any person.
<b>Persons who may use</b>	Differential treatment of affiliates and non-affiliates.
<b>Holding period</b>	Six months or a year depending on whether the issuer has been filing reports under the Securities Exchange Act of 1934 (“Exchange Act”).

<b>Information requirements</b>	Information that must be available about the company that issued the stock depends on whether it is a reporting company under Section 13 or 15(d) of the Exchange Act or a non-reporting company. For non-reporting companies, information of the type required by Rule 15c2-11(a)(5), other than clause (xv), must be publicly available.
<b>Volume limitations</b>	limitations on amounts that affiliates may sell based on percentage of shares outstanding or average weekly reported trading volume.
<b>Notice filing requirement</b>	Form 144 notice filing for affiliates selling over a specified amount of securities during any three-month period.
<b>State preemption or exemption</b>	Covered security under Section 18(b)(4)(A) only if the issuer files reports under Section 13 or 15(d) of the Exchange Act.

- Rule 144A*. The features of this exemption for resales to qualified institutional buyers (“QIBs”) include:

<b>Factor</b>	<b>Conditions</b>
<b>Persons to whom sales may be made</b>	The securities may be offered by general solicitation, but may only be sold to QIBs -- specified categories of institutions that own and invest over \$100 million, \$25 million or \$10 million in securities of issuers with which they are not affiliated, the amount depending on the category of institution.
<b>Persons who may use</b>	Any person, including a dealer, other than the issuer of the securities if the conditions of the exemption are met. The person using the exemption is deemed not to be an underwriter.
<b>Holding period</b>	There are no required holding periods.

<b>Information requirement</b>	If the issuer is not a reporting company under Section 13 or 15(d) of the Exchange Act or certain other provisions, the prospective purchaser must have received reasonably current information about the issuer, as provided in the Rule.
<b>Volume limitations</b>	None.
<b>Notice filing requirement</b>	None.
<b>Other conditions</b>	The securities may not be, when issued, of the same class as securities listed on a national securities exchange or registered investment company shares
<b>State preemption or exemption</b>	The Rule 144A exemption is an exemption pursuant to Section 4(a)(1) of the Securities Act; <sup>2</sup> therefore, if the issuer files reports under Section 13 or 15(d), the securities are covered securities under Section 18(b)(4)(A) and have the benefit of preemption. If the issuer is not a reporting company, sales to QIBs will generally qualify for the transactional exemption under state securities laws for sales to institutional investors, although the list of qualifying institutional investors varies from state to state, so that sales to QIBs in some states may not necessarily be covered.

*Section 4(a)(7) and 4(d)*. Features include:

<b>Factor</b>	<b>Conditions</b>
<b>Persons to whom sales may be made</b>	Only to accredited investors, without the use of general solicitation.
<b>Persons who may use</b>	Any person other than the issuer or an underwriter with respect to an unsold allotment.
<b>Holding period</b>	No holding period but securities must be of a class that has been authorized and outstanding for at least 90 days.

<sup>2</sup> SEC Release No. 33-6862, text at n. 12.

<b>Information requirement</b>	If the company is not a reporting company under Section 13 or 15(d) of the Exchange Act, the seller must make available to the buyer information listed in Section 4(d) that is similar, though not identical, to the information required by Rule 15c2-11(a)(15).
<b>Volume limitations</b>	None.
<b>Notice filing requirement</b>	None.
<b>Other conditions</b>	Excludes securities of certain issuers, such as blind pools, blank check companies and companies in bankruptcy or reorganization. Bad actor disqualification applies to sellers and their brokers who are paid commissions.
<b>State preemption or exemption</b>	Securities sold in a Section 4(a)(7) transaction are covered securities pursuant to Section 18(b)(4)(G) and have the benefit of preemption of state registration, disclosure and merit review requirements.

- *Section 3(b) and Regulation A.* Regulation A offerings are exempt pursuant to Section 3(b)(2) and, under Section 3(b)(2)(C), securities sold in Regulation A offerings are not restricted. Section 18 of the Securities Act does not include securities sold pursuant to the Section 3(b) exemption in the list of covered securities for which state preemption is available. Although the Commission has defined the persons who may purchase securities in a Tier 2 offering under Regulation A as qualified purchasers for purposes of preemption under Section 18(b)(3) of the Securities Act, that preemption does not currently apply to securities sold in secondary transactions.

With that background, we have the following comments in response to the Concept Release.

Unification or Reorganization of the Exemptions. We urge the Commission to consider reorganizing the Rule 144 and 144A exemptions and the Section 4(a)(7) exemption into a single rule or series of rules, perhaps adding the Venture Exchange Exemption discussed below. The exemptions could be organized around a single set of factors which would vary according to the category of exemption. Those factors would include:

<b>Factor</b>	<b>Conditions</b>
<b>Persons who may use the exemption</b>	Whether the exemption is available for dealers, underwriters or affiliates and whether there are any restrictions on use by bad actors.
<b>Persons to whom securities may be sold</b>	QIBs, accredited investors or any person.
<b>Holding period/outstanding class requirement</b>	This would incorporate the holding period of Rule 144 and the outstanding class requirement of Section 4(d)(8).
<b>Information requirement</b>	A single set of standards for information should be used, with different standards depending on whether the company is an Exchange Act reporting company. For non-reporting companies, standards could be based on the standards in Section 4(d)(3) or Rule 15c2-11(a)(5).
<b>Volume limitations</b>	Applicable limitations would be prescribed.
<b>Notice filing requirement</b>	Applicable requirements would be provided.

Placing these secondary trading exemptions in a single rule or in a regulation encompassing a series of rules should increase their accessibility to users, especially if the rules use uniform definitions and standards, especially around holding periods and information requirements. A similar effect was achieved with Regulation D, which comprises three exemptions: offerings under Rule 504 (pursuant to the Commission's authority under Section 3(b)) and offerings under Rules 506(b) and 506(c), pursuant to Sections 4(a)(2) and 4(b).<sup>3</sup> Those exemptions share common definitions in Rule 501, certain common conditions in Rule 502 and the disqualification provisions of Rule 506(d) (with a difference in the date after which the disqualification provisions are effective for Rule 504 offerings).

A unified set of rules for secondary trading should lead to more consistent compliance, reduce the cost of compliance and, along with other changes, foster innovation in the use of technology to trade privately-issued securities in the secondary market.

Venture Exchange Exemption. In Question 138 of the Concept Release the Commission asks:

For example, should we consider permitting securities that were exempt from registration to trade on venture exchanges? If so, how should we

<sup>3</sup> A fourth exemption, under Rule 505, was rescinded in favor of the expanded Rule 504.

define a venture exchange and under what circumstances should we permit trading on the venture exchange?

Financial technology worldwide is leading toward greater secondary market access for holders of privately-issued securities, using electronic platforms and blockchain functionality to provide information, maintain ownership records and impose sales restrictions where required. However, the U.S. securities laws impose several constraints or obstacles on full use of such trading platform functionality, including the following:

- the conditions and restrictions on secondary trades imposed by Rule 144 and the other secondary sale exemptions;
- the absence of adequate uniform state law exemptions;
- the registration requirements of Section 12(g) of the Exchange Act; and
- the requirement that trading platforms be registered as brokers, alternative trading systems (“ATs”) or securities exchanges.

The final point above is problematic now because the Commission and FINRA appear to have imposed a *de facto* pause on registration of brokers and ATs that have stated an intention to effect or enable transactions in digital securities.

We request that the Commission consider creating an exemption for secondary transactions on venture exchanges, to use the Commission’s term. We provide an outline of the exemption (the “Venture Exchange Exemption”) in broad conceptual terms here, but would be pleased to provide a more detailed proposal at the request of the commission or staff.

*The Venture Exchange Platform.* The exemption would be available for secondary transactions, in restricted securities or unrestricted securities originally sold in Regulation A Tier 2 offerings, on electronic platforms operated as an ATs. The exemption would also work for a platform operated by a broker acting as agent for one or both parties to each transaction, or by an exchange, but we discuss the ATs model here.

*Features of the Securities.* The securities traded on the platform would have the following features, using blockchain or similar technology:

1. Use of a distributed ledger to maintain a registry of stock ownership. The distributed ledger would not need to be open to the public, but it should at a minimum be available to the issuer and the platform (or platforms, if trading takes place on more than one).
2. Electronic information affixed to the securities indicating, among other things, the exemption pursuant to which the securities were issued, the holding period, whether the security was issued to an affiliate and any restrictions the issuer wished to impose.

We recommend that the Commission seek additional comments on these features, particularly with regard to whether there are other ways to maintain records of stock ownership and information about restrictions on securities traded on the Venture Exchange platform.

*Persons to Whom Sales May Be Made.* Sales may be made to any person, subject to (1) limitations on amounts that may be purchased by non-accredited investors and (2) restrictions the issuer elects to impose, for example, to ensure continued availability of an exemption under Sections 3(c)(1) or 3(c)(7) of the Investment Company Act, to prevent going over the 500 non-accredited investor limit of Section 12(g) of the Exchange Act or to prevent investment by certain categories of persons, such as municipal entities. Because issuers would be able to control the number of recordholders of the class of securities traded on the Venture Exchange, including the number of non-accredited investors, they would be able to maintain those numbers below the levels that would require registration pursuant to Section 12(g) of the Exchange Act.

Sales may be made to non-accredited investors only if (1) the investor purchases through a FINRA member which has made a suitability determination and is in compliance with Regulation Best Interest following June 2020 and (2) the broker confirms that the total amount of securities of the issuer, of the same class as securities offered through the platform, held by the non-accredited investor does not exceed limits set by the rule. Those limits could be based on the limits in Rule 251(d)(2)(C) of Regulation A or Rule 100(a)(2) of Regulation Crowdfunding. We believe that the limitation should include the alternative of a dollar amount fixed by the rule, as in Rule 100(a)(2)(i), where an investor whose annual income or net worth is below \$107,000 may purchase the greater of \$2,200 or 5% of his or her annual income or net worth, although we think that the fixed amount should be higher than \$2,200.

*Persons Who May Use.* The Venture Exchange Exemption may be used by any person other than the issuer or a broker or dealer selling from an unsold allotment.

*Holding Period.* We believe that the holding period for securities traded on the Venture Exchange platform should be three months from the date of issuance, regardless of whether they have been held by affiliated persons during that period. Issuers may choose to impose longer holding periods. Because affiliates will be subject to volume limitations, the concern that issuers will conduct offerings to affiliates for resale three months later into a Venture Exchange will be reduced. Three months is also long enough that anyone purchasing for resale will bear the risk of a price break during that period, reducing the attractiveness of acting as an underwriter.

*Information Requirement.* The platform will be required to make information available to users of the platform. A good model for such information is Section 4(d)(3) of the Securities Act.

*Volume Limitations.* Affiliates should be subject to limitations on the amount of securities they may sell, similar to the limitations provided in Rule 144(e). The distributed ledger

should be able to track the amounts sold by affiliates and block sales in excess of the established limits. The distributed ledger should include the functionality to mark a holder's status as affiliate or change a holder's status to non-affiliate following the appropriate confirmation by the issuer.

*Notice Filing.* We don't believe notice filing is necessary, even for sales by affiliates. The records of the Venture Exchange will be available for review by the Commission.

*State Preemption or Exemption.* As the Concept Release notes, state exemptions for secondary transactions are not uniform or consistently available. Without preemption, there might not be exemptions available in a significant number of states for sales pursuant to the Venture Exchange exemption. We believe that this exemption will be ineffective unless the states are preempted. For that reason, we recommend that the Commission define persons who are qualified to purchase on a Venture Exchange as "qualified purchasers" for purposes of Section 18(b)(3) of the Securities Act, which will confer the benefit of preemption on sales on the Venture Exchanges.

The Committee appreciates the opportunity to comment on the Concept Release and respectfully requests that the Commission consider the recommendations set forth above. We are available to meet and discuss these matters and to respond to any questions.

Chair of the Committee: Tram Nguyen, Esq.

Drafting Committee:  
Peter W. LaVigne, Chair  
Anna T. Pinedo