

Alluvial

CAPITAL MANAGEMENT, LLC

Dear SEC Staff,

I have read with great concern the SEC's proposed changes to 17 CFR 240,15c2-11. I *urge* the SEC to reconsider the nature and scope of these changes on the grounds that the changes, as written and proposed, would have a devastating impact on holders of many legitimate non-reporting over-the-counter securities, resulting in extraordinary destruction of investors' capital.

The SEC's goals in the proposed rule changes are laudable. The integrity of American capital markets is a primary reason that American corporations enjoy a low cost of capital and why the domestic stock market has allowed generations of institutional and retail investors to grow their wealth and participate in the success of the economy. In order to safeguard this integrity and the public's faith, investors must be protected against bad-faith actors. I support the SEC's measures to prevent market manipulation and fraud.

However, the proposed changes to 17 CFR 240,15c2-11 would eliminate trading in a huge number of non-reporting OTC securities, rendering such securities all but impossible to buy or sell. There are hundreds of non-reporting yet completely legitimate enterprises that are traded OTC. These companies have at some point legally suspended their reporting obligations under Section 15(d) of the Securities Exchange Act of 1934. These companies represent a variety of industries and geographies and range in size from tiny to substantial. A brief list of examples follows.

Boston Sand & Gravel
Chatham Corp.
Merchants National Properties
Hilliard Corp.
Scope Industries
Decker Manufacturing
Northfield Precision Instruments
The Ohio Art Company

I could list page after page of additional examples. These companies tend to be well-established with long operating histories. They are often mature businesses in relatively quiet industries. Many pay dividends. These companies continue to fulfill their legal obligations to shareholders. They provide financial statements at least annually, either automatically or upon request. Simply put, these are *not* the type of stocks that are peddled to unsophisticated retail investors by unethical boiler room operations, nor are they worthless shell companies or speculative operations manipulated in pump and dump schemes.

The aggregate market value of these non-reporting companies exceeds \$1 billion. Many investors (including accounts my firm manages on the behalf of clients) have holdings in these companies worth hundreds of thousands or millions of dollars, often representing a very meaningful portion of their net worth. If brokers are no longer allowed to quote these securities, the trading market for nearly all of them will effectively disappear. Investors across the nation will be left with completely illiquid holdings in now effectively private companies, massively impairing their value. With no realistic means of achieving liquidity, the shares of many such companies may as well cease to exist in the eyes of their owners. The effect of this rule change would be hundreds of millions of dollars in investor capital destroyed by the stroke of a pen.

I urge the SEC not to cause economic devastation for holders of Boston Sand & Gravel, which provided much of the raw material for Boston's Big Dig. Or for holders of The Ohio Art Company, the company which brought the world the Etch A SketchTM. Investors in these companies and so many others continue to deserve a price discovery mechanism and the ability to sell their shares or acquire more.

If changes must be made, I ask the SEC to instead implement some form of the rule under which these companies can continue to have their stock traded by willing investors. One form of this rule might be a simple requirement that a non-reporting company sign a declaration affirming that its audited annual financial statements are available upon request to potential investors. Another form of the changed rule might effectively "grandfather" non-reporting companies that have been quoted under the existing rule but disallow future deregistering companies from continued quotation. My preference would be for no change to the existing rules whatsoever, but my primary objective is to preserve the economic value of my holdings in OTC non-reporting companies from the devastation the proposed changes would cause.

Thank you for your consideration in this matter.

Regards,

David Waters, CFA

President, Alluvial Capital Management, LLC