



A N B E C
P A R T N E R S

October 23, 2019

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F. Street, NE Washington, D.C. 20549

Re: Release No. 34-87115; File No. S7-14-19

Dear Chairman Clayton:

I write to you to express my concerns related to the financial destruction that proposed amendments to rule 17 CFR 240.15c2-11 stand to inflict upon current shareholders of non-reporting over-the-counter companies. These shareholders are the very investors the Commission is charged to protect.

I commend the Commission's efforts to increase protections for retail investors, increase transparency in our capital markets, and prevent fraud. However, preventing quotations for legitimate non-reporting companies whose financial information is accessible to shareholders by mail or upon request, will cause harm many magnitudes larger in absolute dollar value than the benefits the Commission envisions.

From my professional experience, many of the holders of non-reporting companies are thoughtful long-term oriented investors who appropriately conduct due diligence before committing personal or investor capital. If the SEC eliminates quotations in these securities, investors will see the value of their holdings (in some cases, a material portion of their life savings) destroyed as liquidity evaporates.

Companies legally go dark for manifold reasons. To expect every legitimate company to suddenly start publicly releasing their information to maintain trading in their stock is naïve. Some of the more shareholder-friendly companies may comply with the rule to benefit their shareholders. Inevitably, many others will not.

Companies with self-seeking management teams will seize this opportunity to operate further in the abyss. Effectively entrenching themselves and ensuring their continued employment, free from any shareholder oversight. Intentional noncompliance and the subsequent cessation of quotations may end up the prelude to an SEC-sanctioned "take under." In this situation, under the guise of offering liquidity to desperate minority shareholders, insiders can take advantage of price deterioration to take the company private at an unethically low valuation.

Fractional ownership shares of legitimate non-reporting over-the-counter companies can be immensely valuable to the patient and thoughtful investor, but stock that cannot even be put on offer is ostensibly worthless.

Concerned members of the public have proffered several reasonable alternative solutions in prior comment letters. I reiterate and add to some below.

I suggest that the SEC leave the existing rule as is. The proposed rule puts a devastating financial burden upon existing shareholders in legitimate non-reporting OTC companies. The price is much too high to be borne by a single group relative to the estimated public good.

If there must be changes, I suggest that the SEC “grandfather in” companies who have been trading under the existing rule, with prospective restrictions (ideally a lower-cost option) on new companies seeking to go dark. Grandfathering in these companies will protect investors in newly delisted entities while avoiding the crushing blow to current shareholders. It may also dissuade companies from going dark, and instead encourage them to explore other more transparent and less costly reporting options.

Alternatively, the SEC could require by law that companies provide financial information to shareholders and create lower-cost SEC reporting options for small companies based on fundamentals such as annual revenues and levy onerous penalties for boards and management teams who fail to comply. A low-cost compliance option could be as inexpensive as putting a link up on their website containing audited yearly financials. Such a low-cost alternative would prevent the devastating harm of ceasing quotations in legitimate entities while increasing overall transparency and maintaining price discovery.

Finally, as stated in many comments from others, amend the “shareholders of record” to include all beneficial holders. It should not cost shareholders \$500 to have a share sent out to them to participate in the governance of companies in which they have an ownership stake.

Solutions along these lines begin to address the issues at hand while preventing the unthinkable harm caused by ceasing quotations in all non-reporting dark companies.

Thank you for your time and consideration.

Best regards,

Steven Erickson, CFA

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