

October 24, 2019

Hester M. Peirce, Commissioner
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Comments on S7-14-19

Ms. Peirce:

The proposed rule is again fishing with dynamite, hoping to catch a desired target by demolishing everything in the vicinity -- namely the hundreds of legitimate, profitable non-SEC-reporting issuers that publish audited financials only annually.

Mr. Clayton hopes this will stamp out “tens of millions of dollars in investor harm.” But S7-14-19 will likely trigger immediate losses of 10 to 100 times that — hundreds of millions to billions of dollars — to investors in legitimate, profitable OTC firms. The net effect is to harm mainly small retail investors, exactly those the SEC is charged to protect.

Why such losses? Because hundreds of legitimate, profitable OTC-traded companies either cannot or will not comply with the proposed rule, and their shares will instead become stranded assets, nearly impossible to trade. Here are some reasons to expect this:

1. Insiders at profitable firms often *want* their stock to be illiquid, so that they can buy it in cheaply. S7-14-19 gives insiders cover to halt trading and buy at a discount.
2. Certain profitable OTC firms, such as royalty trusts, have decades of profits and cash yields, but no operations, and thus no staff to manage the public distribution of financials e.g. through a website. Any resources they devote to this would come directly at the expense of the cash yield to investors.
3. Hundreds of profitable but tiny (earning below \$10m/yr) community banks trade OTC. Many sold shares to their own depositors. To suddenly require yet another quarterly reporting layer at the holding-company level (in addition to the bank-level reporting they already do, at great expense, for bank regulators) will, I fear, lead many to decide they cannot afford to trade at all.

All legitimate OTC firms already report annually to shareholders. This satisfies state and federal law. The 1934 Act defines such firms as non-reporting companies, explicitly exempt from federal reporting regulations. **To *de facto* demand quarterly reporting from non-reporting companies would appear to violate the 1934 Act.**

While I applaud the effort to stamp out fraud, this proposal's costs far outweigh its benefits. I hope the Commission will reconsider.

Regards,

William E. Mitchell