



*The Commonwealth of Massachusetts*

*Secretary of the Commonwealth  
State House, Boston, Massachusetts 02133*

*William Francis Galvin  
Secretary of the Commonwealth*

December 30, 2019

**By E-mail to: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)**

Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

**Re: File No. S7-14-19: Comment Letter on Proposed Amendments to SEC Rule 15c2-11, Publication or Submission of Quotes Without Specified Information**

Dear Ms. Countryman:

I write in my capacity as the chief securities regulator for Massachusetts. The Office of the Secretary of the Commonwealth administers and enforces the Massachusetts Uniform Securities Act, M.G.L. c.110A, through the Massachusetts Securities Division. We welcome this opportunity to comment on the Securities and Exchange Commission's (the "SEC" or the "Commission") rule proposal and concept release (Release No. 34-87115) on proposed changes to SEC Rule 15c2-11 and the "piggyback exception" to that rule. We support the Commission's rule proposal and urge its adoption.

Under the existing Rule 15c2-11, broker-dealers who wish to publish a quote on a non-listed security must review and maintain certain information about the security and the issuer. Before broker-dealers can publish quotes on the security, they are required to have a reasonable basis to believe that this information is accurate in all material respects and was obtained from reliable sources. This requirement is subject to several exceptions.

The piggyback exception under Rule 15c2-11 allows broker-dealers to publish quotations for a security without meeting the rule's information requirements if any broker-dealer has published regular and frequent quotations for that security. Under the exception, a broker-dealer can "piggyback" on either its own or another broker-dealer's

prior quotations. Also, under the exception, broker-dealers are not required to review the information collected and reviewed by other broker-dealers before they publish a quote.<sup>1</sup>

Broker-dealers have no obligation under the existing piggyback exception to confirm that the information they relied on when they first published a quotation is still valid, no matter how old the initial quotation is. As a result, the exception fundamentally undermines the information and verification requirements of the rule, allowing broker-dealers to publish quotations without any valid information to support the quotes.

Rule 15c2-11's problems have long been recognized. For instance, in 1998, the Commission acknowledged that microcap fraud was driven, in part, by broker-dealers' routine failure to review any issuer information before publishing quotations.<sup>2</sup>

Retail investors, who are by far the largest purchasers of non-listed securities, are at greatest risk in non-listed markets, like the OTC stock markets. The SEC's 2016 white paper on *Outcomes of Investing in OTC Stocks* provides clear evidence that "the typical OTC investment return is severely negative"<sup>3</sup> and that "[d]emographic analysis reveals that older, retired, low-income, and less educated investors experience significantly poorer outcomes in OTC stock markets."<sup>4</sup>

We support the Commission's proposal to strengthen Rule 15c2-11, including the requirement that the documents and information that broker-dealers are required to obtain and review be current and publicly available. We also support the proposed changes to the piggyback exception, including that issuer information must be current and publicly available; that broker-dealers must publish two-sided quotes; and the elimination of the exception for shell companies. In response to the Commission's questions, we strongly urge that the information on issuers and securities be readily available to retail investors at no charge through a publicly accessible website.

If rule proposal is adopted, we strongly urge the Commission to monitor its effectiveness in promoting the distribution of current information about non-listed securities and protecting retail investors in the non-listed markets. We also ask the Commission to consider further steps to reform these markets. For instance, barring public shell companies from registration under the Securities Exchange Act of 1934 would curtail abuses relating to shells and shell mergers.

We appreciate the Commission's consideration of these comments on the proposal and concept release. If you have questions about this letter, please contact me or

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<sup>1</sup> Regarding the piggyback exception's detrimental impact on retail investors, see Luis A. Aguilar, *The Need for Greater Secondary Market Liquidity for Small Businesses* (Mar. 4, 2015), <https://www.sec.gov/news/statement/need-for-greater-secondary-market-liquidity-for-small-businesses.html>.

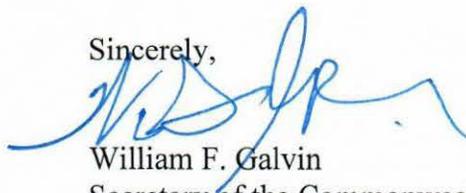
<sup>2</sup> Id., citing Publication or Submission of Quotations Without Specified Information, SEC Release No. 34-39670, available at <http://www.sec.gov/rules/proposed/34-39670.txt>.

<sup>3</sup> Joshua T. White, "Outcomes of Investing in OTC Stocks," SEC DERA White Paper, Dec. 16, 2016, [https://www.sec.gov/files/White\\_OutcomesOTCinvesting.pdf](https://www.sec.gov/files/White_OutcomesOTCinvesting.pdf).

<sup>4</sup> Id.

Diane Young-Spitzer, Acting Director of the Massachusetts Securities Division, at  
[REDACTED] or [REDACTED].

Sincerely,



William F. Galvin  
Secretary of the Commonwealth  
Commonwealth of Massachusetts