July 14, 2011

Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: RELEASE NO. 33-9211, FILE NO. S7-21-11
DISQUALIFICATION OF FELONS AND OTHER “BAD ACTORS” FROM RULE 506 OFFERINGS

Dear Ms. Murphy,

We thank you for the opportunity to publicly comment on the Proposed Rules to implement Section 926 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). We agree with the need to protect investors from the type of fraudulent conduct that was undertaken in the Madoff and Stanford matters. However, it is our hope that the new rules are promulgated and administered in such a way that the objective of investor protection is accomplished, but that there is an apparatus in place to ensure that there is fairness and concern for the economic well-being of the securities market.

For ease of use, our comments will be grouped by the numerical system used in the aforementioned Release.
Q5. Inasmuch as Rule 405 provides general definitions for terms generally applicable and in use before these rules were promulgated, we agree that Rule 405 should be a guide for the new Rule 506. As we will note, however, there are new concepts being introduced by Dodd-Frank that will require clarification so that issuers may rely on their meaning going forward from the date the new rules are implemented.

Q6. We agree with your proposal regarding providing an exception to disqualification for events that transpired before an affiliation arose. Indeed, this proposal, and others like it, should be used to build a culture of equity and fairness as it pertains to the implementation of the will of Congress in the post-Dodd-Frank environment. Special concern should be given to making certain that, after implementation, there is still a vibrant, viable market, particularly where it concerns entrepreneurs and small businesses participating in the securities market. When promulgating the new rules, the SEC should endeavor to issue regulations that allow as many people as possible to avail themselves of the oft-used Rule 506.

Q20-21. The rules should clarify what constitutes a “bar.” While we agree that nomenclature may not be of paramount importance in this context, we feel that the practical consequence of the order should be the dominant consideration when determining the definition of a “bar” under the new rules.

Consider the following situation: a state securities board and an issuer enter into a consented cease and desist order and the state securities board orders only that the issuer cease and desist from engaging in fraud in connection with the offer for sale of securities. However, the state securities board does not order that the issuer is thereafter prohibited from the sale of securities within its jurisdiction. In very real effect,
the state securities board has not ordered that the issuer refrain from engaging in any specific act. Instead, the state securities board has ordered the issuer to do something that is the general obligation of every issuer operating within its jurisdiction.

Telling an issuer merely to follow the law, even if said by a state securities board, should not qualify as a “bar” in this context because there is no practical consequence to its pronouncement. Indeed, due to the “permanent” nature of our collective duty to follow the law, it would be unfair to consider such an order a permanent (or even temporary) disqualifying event.

Also, as we will discuss below, whether such an order was entered into by consent before knowledge of the forthcoming rules should be given great weight. The reason for this is twofold: first, many issuers would have undoubtedly changed their stance concerning a consented order had they known what the ramifications would have been and, second, there should be a greater amount of regulatory flexibility given to an issuer who has not required the state securities board to utilize more of the taxpayers’ resources by pursuing a contested hearing of the issues.

Alternatively, we suggest that a case-by-case review of final orders by state regulators be undertaken to ensure a maximum degree of fairness. This should involve a panel of duly-appointed and disinterested parties who are obligated by regulation to hear argument of the disqualified issuer as well as argument on behalf of the SEC. A ruling that an issuer is disqualified from using an exemption implicates very serious rights, and due process should be available at every step of any proceeding before the SEC.

Q22-Q28. The rules should clarify what constitutes a “final order” as well. This definition should not be based on the FINRA definition because, as time increases, there is a growing perception among many issuers that they are not a disinterested party.
Instead, they are an entity that can determine their own membership and their own policies for dealing with their members. While it is true that the SEC may not be a disinterested party if the SEC finds it necessary to begin an enforcement action against an issuer, the SEC carries the imprimatur of the United States and all its attendant duties. They are compelled by the social contract that the government has entered into with its citizenry to adhere to a process that is equitable to all concerned. FINRA is not similarly constrained.

There should be relatively little, if any, input from the state authorities in informing the SEC’s decision concerning a final order. If an issuer engages in selling securities in more than one state, it is conceivable, if not probable, that each state could have a different opinion of what constitutes a final order under the Rules. This would invariably lead to confusion among issuers and undue hardship in attaining compliance, because an issuer could not possibly divine how many different interpretations would be made. The costs of trying to anticipate multiple jurisdictions’ position on this issue would prove stifling to the business environment in terms of legal advice and/or man-hours devoted to “planning around” fifty different legal constructs.

Furthermore, matters that are under appeal or matters where all appellate remedies have not been fully exhausted should not, under any circumstances, be considered a final order under the rules. While we are cognizant of Congress’ mandate of investor protection, such a mandate cannot deprive an issuer of the due process available to them. If the new rules are to have a meaning that is anywhere close to traditional notions of justice in the United States, due process must be observed over any other consideration.

**Q29-Q32.** The SEC, and the SEC alone, for the reasons discussed immediately above, should give their guidance as to what constitutes “fraudulent, manipulative or deceptive conduct.”
Q47-Q48. The rules should not cover suspension from an SRO. This is because there are issuers who avail themselves of the Rule 506 exemption that are not required to be a member of such a self-regulatory organization. If an issuer reaches a point in the conducting of their business where they believe they no longer be affiliated with an SRO, they should be able to withdraw their membership without fear that the SRO will take action against them in the future.

Q63-65. The SEC should not take into account orders of state securities boards that were entered into by consent of the parties. As previously mentioned, many issuers would not have entered into such an order had they known that it could be a disqualifying event that would preclude them from using the Rule 506 exemption for any appreciable amount of time. Also, orders by consent save considerable resources for the taxpayers of our nation. Given the current state of our economy, the SEC should not penalize those who decided on a settlement that proved less costly than a full hearing of the issues.

Thank you again for the opportunity to comment on such an important issue. If you have any questions or concerns, please do not hesitate to contact us.

Sincerely,

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