

Dear Secretary:

Pursuant to Rule 192(a) of the Commission's Rules of Practice, I respectfully submit this Petition for Rulemaking requesting that the Commission amend Rule 21F under the Securities Exchange Act of 1934 to authorize whistleblower awards in cases where original information provided to the Commission materially contributes to preventing imminent investor harm before substantial losses occur.

I. Introduction

The SEC Whistleblower Program has become one of the Commission's most effective enforcement tools. By incentivizing individuals to report securities law violations, the program has helped identify major frauds, return funds to harmed investors, and strengthen market integrity.

However, the current framework contains a significant structural gap: whistleblowers who help prevent fraud before investors suffer losses may receive little or no award because the existing program is tied primarily to "monetary sanctions collected" in "covered actions."

This structure unintentionally creates a perverse incentive to delay reporting until misconduct matures into measurable investor losses capable of generating monetary recoveries.

The Commission should amend Rule 21F to align incentives with the SEC's core mission of investor protection by authorizing awards for demonstrable prevention of significant investor harm.

II. The Current Framework Creates Misaligned Incentives

Under current Rule 21F-3 and related provisions, awards are generally based upon monetary sanctions collected in actions resulting from whistleblower information. In practice, this means:

- A whistleblower who reports a mature fraud that has already harmed investors may qualify for a substantial award; while
- A whistleblower who identifies and helps stop an imminent fraud before investors lose money receive no compensation.

This distinction does not reflect the relative public value of the whistleblower's contribution. In many instances, preventing investor losses entirely provides greater public benefit than recovering a portion of losses after the fact.

The present framework can therefore discourage early reporting and unintentionally incentivize delay.

III. Proposed Amendment

Petitioner respectfully requests that the Commission adopt amendments establishing a new category of eligible enforcement outcome: “Preventive Covered Actions.”

Proposed Rule 21F-4 Definition

A “Preventive Covered Action” shall mean an enforcement action, emergency intervention, trading suspension, asset freeze, cease-and-desist proceeding, or other Commission action that:

1. Was materially assisted by original information voluntarily provided by a whistleblower;
2. Prevented likely investor harm exceeding \$1 million; and
3. Resulted in the prevention, interruption, or substantial limitation of an imminent securities law violation.

IV. Proposed Award Methodologies

The Commission could implement preventive awards using one or more administrable methods.

A. Losses Avoided Framework

The Commission may estimate likely investor losses avoided using reasonable and documented methodologies, including:

- projected investor inflows;
- prior fraud patterns;
- offering size;
- solicitation scope;
- historical comparables; and
- forensic accounting analysis.

Awards could remain within the existing statutory 10%–30% range and be subject to reasonable caps.

B. Tiered Preventive Award Structure

Alternatively, the Commission could establish fixed or tiered awards based upon:

- severity of potential investor harm;
- significance of the whistleblower's contribution;
- reliability and specificity of the information;
- degree of imminence; and
- speed of reporting.

V. Safeguards Against Abuse

To ensure administrability and protect the Investor Protection Fund, the Commission could require:

- a written staff determination of likely investor harm;
- a heightened evidentiary standard;
- a "but-for" causation showing;
- corroborating documentary evidence where feasible;
- Commission-level approval for awards above designated thresholds; and
- anti-duplication provisions coordinating with other whistleblower regimes.

These safeguards would substantially limit speculative claims while preserving incentives for high-value preventive reporting.

VI. Statutory Authority

The Commission possesses broad authority under Section 21F of the Securities Exchange Act to implement rules necessary to administer the whistleblower program and advance investor protection objectives.

To the extent the Commission concludes that additional statutory clarification is desirable regarding awards untethered to collected monetary sanctions, the Commission should recommend targeted legislative amendments to Congress authorizing preventive awards based upon demonstrable investor losses avoided.

VII. Policy Considerations

Preventive awards would materially advance the Commission's mission by:

- encouraging earlier reporting of fraud;

- reducing aggregate investor harm;
- lowering enforcement and receivership costs;
- improving market integrity;
- strengthening deterrence; and
- aligning whistleblower incentives with investor protection rather than post-loss recovery.

The present framework rewards cleanup after fraud. It should also reward successful prevention.

VIII. Conclusion

For the foregoing reasons, Petitioner respectfully requests that the Commission initiate rulemaking proceedings to establish preventive whistleblower awards for individuals whose original information materially contributes to stopping imminent securities fraud before substantial investor losses occur.

Respectfully submitted,

Paul Zindell