

Petition for Rulemaking to the Securities and Exchange Commission (SEC)

Subject: Proposal for the Creation of a FINRA Clearing and Execution Firm for Micro Cap, Small Cap, and OTC Issuers' Securities



Submitted by: Jake P. Noch, Managing Director
Jake P. Noch Family Office, LLC.
July 31, 2024

Introduction:

The undersigned, Jake P. Noch, Managing Director of Jake P. Noch Family Office, LLC, hereby petitions the Securities and Exchange Commission (SEC) to require the Financial Industry Regulatory Authority (FINRA) to establish a clearing and execution firm dedicated to the deposits and executions of securities for micro cap, small cap, and Over-The-Counter (OTC) issuers for the general public. This proposal aims to address the significant challenges faced by investors and issuers in these markets due to the exit of numerous dealers and market makers.

Background and Rationale:

Over the past few years, there has been a substantial reduction in the number of dealers and market makers willing to operate in the micro cap, small cap, and OTC securities space. This trend has been primarily driven by increased enforcement actions and the perceived high-risk nature of these markets, leading to a near-exodus of broker-dealers and clearing firms. Consequently, many investors are left unable to clear or deposit their securities, resulting in significant barriers to investment and liquidity in these markets.

The lack of access to proper clearing and execution services has led to several adverse outcomes:

1. **Predatory Arrangements:** Investors often face exorbitant commission rates, sometimes as high as 9.99%, for clearing services.
2. **Inability to Clear Securities:** Investors are frequently unable to deposit their shares for no legitimate reason other than the absence of willing clearing firms.
3. **Hindered Investments:** The difficulty in clearing and depositing securities deters potential investments in micro cap and small cap issuers, undermining the growth and development of these businesses, which are vital to the United States economy.

Proposed Amendments:

To address these issues, the petitioner requests the following amendments to existing SEC rules and the creation of new requirements for FINRA:

1. **Amendment to Rule 15c3-3 (Customer Protection - Reserves and Custody of Securities):**

- Amend Rule 15c3-3 to include provisions that mandate FINRA to establish a dedicated clearing and execution firm for micro cap, small cap, and OTC securities. This firm would be responsible for ensuring the availability of clearing services for these securities to the general public.
2. **Amendment to Rule 17a-23 (Recordkeeping and Reporting Requirements for Members, Brokers, and Dealers):**
- Amend Rule 17a-23 to include additional reporting requirements for the newly established clearing firm. These reports should focus on the volume of micro cap, small cap, and OTC securities cleared and any issues encountered in the clearing process.
3. **Creation of a New Rule under Section 15 of the Securities Exchange Act of 1934:**
- Introduce a new rule that requires FINRA to oversee the establishment and operation of a clearing and execution firm dedicated to micro cap, small cap, and OTC securities. This rule should outline the responsibilities of the firm, including the provision of fair and reasonable commission rates and the obligation to accept deposits and execute trades for all eligible securities in these categories.

Statement of Interest:

The Jake P. Noch Family Office, LLC, has a vested interest in the efficient functioning and liquidity of the micro cap, small cap, and OTC markets. As an active investor in these markets, the firm has firsthand experience with the challenges currently faced by investors and issuers due to the lack of adequate clearing and execution services. The proposed changes are crucial for ensuring fair access to these markets and fostering a more robust and equitable investment environment.

Conclusion:

The petitioner respectfully requests that the SEC take immediate action to require FINRA to establish a clearing and execution firm for micro cap, small cap, and OTC securities. By implementing the proposed amendments and new rule, the SEC can significantly enhance the accessibility and fairness of these markets, benefiting investors, issuers, and the broader economy.

Submitted by:



Jake P. Noch

Managing Director

Jake P. Noch Family Office, LLC.