



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

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February 14, 2018

The Honorable Paul Ryan
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Democratic Leader
U.S. House of Representatives
Washington, DC 20515

Re: The TRID Improvement Act (H.R. 3978)

Dear Speaker Ryan and Leader Pelosi:

On behalf of the North American Securities Administrators Association (NASAA),¹ I write to express opposition to H.R. 3978, the “TRID Improvement Act,” which is scheduled to be considered by the House of Representatives this week. This proposed legislation includes a deeply problematic provision in Title IV that would eliminate standards designed to protect investors purchasing securities on national exchanges, and alter core tenets of modern securities market regulation.

Title IV of the TRID Improvement Act would amend Section 18 of the Securities Act of 1933, the “Securities Act,” to require the SEC to recognize a security listed on a national securities exchange with any minimum listing standard as a “covered” security under Section 18(b)(1) of the Securities Act, thereby preempting currently applicable state laws.² Under existing federal law, as established by the National Securities Markets Improvement Act of 1996 (NSMIA), the benchmark for preemption of state law for securities listed on a national exchange is that an exchange must have listing standards “substantially similar” to those of the major national stock exchanges, such as the New York Stock Exchange (NYSE) and NASDAQ. The rationale for this requirement is that investors purchasing securities listed on an exchange that has rigorous listing standards do not require the added protection afforded by state review.³ Importantly, existing law does nothing to discourage the establishment of new securities exchanges or trading venues; however, it serves to ensure that securities listed on such exchanges are deemed “covered” and exempt from state-level review only provided such exchanges have appropriately stringent listing standards.

H.R. 3978 proposes to upend the balance struck in NSMIA and remove investor protections afforded by state securities laws. While NASAA appreciates that H.R. 3978 incorporates a modest

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators, Inc. was organized in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

² See: Section 18(b)(1)(A)-(B)) of the Securities Act of 1933 and Rule 146.


³ Exchanges with less stringent listing standards do not provide “covered” status (e.g., the Miami International Securities Exchange).

improvement relative to similar legislation approved by the House of Representatives last year,⁴ we remain strongly concerned with the contemplated removal of all direct references to “listing standards” from Section 18(b) of the Securities Act.⁵

Fair and rigorous listing standards are essential. Such listing standards give investors a voice when it comes to important decisions, ensure independent directors are in place to watch out for investors, provide oversight of conflicts of interest to ensure investors have a chance at earning a return. By removing the statutory references to the listing standards of “named” national securities exchanges in 18(b) of the Securities Act, H.R. 3978 threatens to undercut the distinction between different types of exchanges with potentially different types of listing standards to the detriment of investors. For the foregoing reasons, NASAA opposes the bill and urges the House of Representatives to reject it in its present form.

Thank you for your consideration of NASAA’s views. If I may be of further assistance, please don’t hesitate to contact me or Michael Canning, NASAA’s Director of Policy and Government Affairs, at (202) 737-0900.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe P. Borg". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

Joseph P. Borg
NASAA President and Alabama Securities Director

⁴ See: Section 496 of the Financial CHOICE Act of 2017 (H.R. 10).

⁵ In contrast to Section 496 of H.R. 10, Title IV of H.R. 3978 provides that a security listed on a national securities exchange may be considered a “covered” security only if listed on a national exchange that is a member of the National Market System.