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March 3, 2026

The Honorable French Hill (R-AR)
Chairman
U.S. House Committee on Financial Services
Washington, DC 20515

The Honorable Maxine Waters (D-CA)
Ranking Member
U.S. House Committee on Financial Services
Washington, DC 20515

RE: NASAA Urges NO Votes on the Small Entrepreneurs' Empowerment and Development Act, as Amended, and the Restoring the Secondary Trading Market Act, as Amended

Dear Chairman Hill and Ranking Member Waters:

On behalf of the U.S. members of the North American Securities Administrators Association, Inc. ("NASAA"),[1] I respectfully urge NO votes on the H.R. 4171, the Small Entrepreneurs' Empowerment and Development Act (the "SEED Act"), as amended,[2] and H.R. 7127, the Restoring the Secondary Trading Market Act, as amended[3]. While NASAA strongly supports capital formation policies that enhance investor confidence and market integrity, these proposals would weaken longstanding issuer and investor protections and services, without providing comparable safeguards.

I. NASAA Opposes the SEED Act and the Proposed Amendment Thereto

NASAA has long opposed the SEED Act. The proposed amendment would further exacerbate the significant concerns we have already raised.[4]

A. The SEED Act, as Amended, Would Weaken Investor Protections and Undermine Critical State Services

This legislation would substantially weaken investor protections in offerings involving small issuers and retail investors, while simultaneously scaling back the essential services state securities regulators provide to entrepreneurs, small business owners, and local lawyers.

[1] NASAA's membership includes state securities and commodities regulators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Guam, as well as regulators from Canada and México.
[2] *See* U.S. House Committee on Financial Services ("HFSC"), Amendment in the Nature of a Substitute to H.R. 4171 (accessed Mar. 3, 2026).
[3] *See* HFSC, Amendment in the Nature of a Substitute to H.R. 7127 (accessed Mar. 3, 2026).
[4] *See* NASAA, NASAA Opposes the Small Entrepreneurs' Empowerment and Development Act and the Secondary Trading Market Act (Jan. 20, 2026).

State regulators provide accessibility and responsiveness to local small business issuers and investors. In addition to responding to inquiries from local investors questioning the legitimacy of offerings, state regulators regularly field calls and correspondence from entrepreneurs, small business owners, and local counsel seeking guidance on capital-raising options. Regulators are readily accessible and often field questions that span the full lifecycle of a business. This interaction can help small businesses ensure that they understand their legal requirements when taking money from investors, including avoiding potentially misleading statements or omitting material information—a legal obligation that applies whether any securities filings are required by state or federal law and for which failure subjects small businesses and their individual owners to financial liability.

Preserving the role of the state regulators in this space is vital to maintaining investor confidence and supporting responsible capital formation. That need does not diminish based on the size of the exemption—whether the cap is $250,000 as originally proposed or $500,000 as contemplated in the amendment. The risks to retail investors remain significant at either threshold, and the role of state regulators remains indispensable.

B. The SEED Act, as Amended, Would Weaken Meaningful Bad Actor Disqualification Protections

Should the HFSC advance the SEED Act, NASAA believes it is critical that meaningful bad actor disqualification provisions remain firmly embedded in the legislation. We believe there is broad bipartisan agreement within the HFSC on the importance of preventing bad actors from accessing any exempt offering pathways, including a new micro-offering pathway. Nevertheless, the proposed amendment would undermine that shared objective by weakening the statutory certainty that state regulatory orders remain disqualifying events.

As introduced in recent Congresses, the SEED Act would direct the U.S. Securities and Exchange Commission ("SEC") to adopt disqualification provisions modeled on SEC Regulation D, Rule 506(d),[5] and expressly incorporate state regulatory orders into the SEC's disqualification framework. The proposed amendment would remove this covered regulator approach from the bill and replace it with an alternative bad actor prohibition.[6] Under this approach, a person would be prohibited from relying on the micro-offering exemption if disqualified by (i) an event that would trigger disqualification under SEC Rule 506(d),[7] *or any successor regulation*, or (ii) an event or conduct resulting in a statutory disqualification under Section 3(a) of the Securities Exchange Act of 1934.[8]

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[5] Section 926 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") directed the SEC to adopt bad actor disqualification rules that deny exemption eligibility where issuers or covered persons are subject to final orders of state regulators. Consistent with that directive, SEC Rule 506(d) treats qualifying state regulatory orders as disqualifying events. *See* Dodd-Frank Act, Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010) at § 926.

[6] *See* HFSC, Amendment in the Nature of a Substitute to H.R. 4171 (accessed Mar. 3, 2026), at 2.

[7] *See* 17 C.F.R. § 230.506(d) (accessed Mar. 3, 2026).

[8] *See* Cornell Legal Information Institute, 15 U.S.C. § 78c (accessed Mar. 3, 2026).

The inclusion of the phrase "or any successor regulation" presents a significant concern. Section 926 of the Dodd-Frank Act directed the SEC to adopt bad actor disqualification rules that deny exemption eligibility where issuers or covered persons are subject to final orders of state regulators. Consistent with that directive, SEC Rule 506(d) treats qualifying state regulatory orders as disqualifying events.

By deferring entirely to whatever rule the SEC designates as a "successor," the amendment would remove Congress's direct statutory assurance that state regulatory orders remain disqualifying events. Future rulemaking could omit state orders from the framework, particularly in light of persistent advocacy seeking their removal as well as the expansion of exemptive pathways for raising capital. In that circumstance, individuals barred or sanctioned by state regulators could nonetheless rely on the micro-offering exemption or perhaps other exempt pathways yet to be implemented.

The continued inclusion of state regulatory orders is critical as a practical matter. State securities regulators are the primary enforcers in the micro-offering market,[9] where the SEC historically brings relatively few enforcement actions. If state orders are not clearly included in the disqualification framework, the practical effect of state enforcement would be diminished, creating a pathway for previously sanctioned actors to reenter the retail marketplace and exposing investors, especially Main Street investors, to unnecessary risk.

II. NASAA Opposes the Restoring the Secondary Trading Market Act and the Proposed Amendment Thereto

NASAA has long opposed the Restoring the Secondary Trading Market Act because it would preempt state oversight of certain off-exchange secondary trading transactions involving issuers that merely make "current information publicly available" under federal law.[10] The proposed amendment would significantly intensify these concerns and deprive issuers and investors of the protections highlighted in Part I above.

As drafted, the amendment would prohibit any state from "directly or indirectly" prohibiting, limiting, or imposing conditions on off-exchange secondary trading in securities of an issuer that makes specified information publicly available, including under SEC Rule 257(b) or SEC Rule 15c2-11. That formulation is extraordinarily broad. It is not confined to a defined class of covered securities, a specific statutory exemption, or a narrowly tailored category of transactions. Instead, if enacted, some will argue that it effectively preempts state authority over virtually all off-exchange secondary trading—as defined by the SEC—so long as minimal federal information requirements are satisfied.

This approach departs from the longstanding structure of Section 18, which embodies the cooperative federalism framework established in the Securities Act of 1933 (the "Securities Act"). Section 18(b) defines "covered securities" and certain transactions in which securities are

[9] *See* NASAA, 2025 Enforcement Report (Oct. 2025). (U.S. NASAA members received 163 referrals from the SEC regarding potential securities laws violations in 2024).

[10] *See* NASAA, NASAA Opposes the Small Entrepreneurs' Empowerment and Development Act and the Secondary Trading Market Act (Jan. 20, 2026).

deemed "covered securities" and specifies the limited circumstances in which federal law preempts state registration requirements. Section 18(a), by contrast, preserves state authority except where Congress has clearly and specifically displaced it. For decades, this architecture has provided clarity by tethering federal preemption of securities registration to the defined concept of covered securities and delineated transactions.

These concerns are not theoretical. The historical experience of abuses by bad actors in offerings on the "Pink Sheets" illustrates the risks inherent in thinly traded, opaque secondary markets. While legitimate issuers participate in these markets, the markets have also long been associated with limited transparency, promotional manipulation, and pump-and-dump schemes. State securities regulators have played—and continue to play—a critical frontline role in policing misconduct in these markets, frequently bringing enforcement actions where federal resources are limited or delayed. Fortunately, the shift to Securities Act Section 18(a) would not call into question the states' continued ability to seek notice filings and fees and to exercise state anti-fraud authorities.

In closing, NASAA looks forward to continued engagement with Congress on these issues. At this time, however, NASAA respectfully recommends a NO vote on H.R. 4171, as amended, and H.R. 7127, as amended. Should you have any questions, please do not hesitate to contact me or Kristen Hutchens, NASAA's Director of Policy and Government Affairs, and Policy Counsel, at khutchens@nasaa.org.

Sincerely,

Marni Rock Gibson
NASAA President