

April 30, 2008

Firstly, thank you for your continued attention to the issue of naked short selling, I trust that the penalties and your ability to track and enforce them will be sufficient to discourage the behavior.

Furthermore, I agree with a number of prior comments in that short sellers should be required to report their short positions in addition to their long positions in order to provide a full picture of their net exposure across all asset types (i.e. equities, futures, options, convertible debt, etc. all grouped by issuer). Although I am not of the mind that short selling is inherently "evil" or should be made illegal as some comments have suggested, it would seem logical that there should be symmetric regulation on both long and short investors/portfolios/positions. Similar to the required filings for long holdings, are there filing requirements for an investor that has shorted more than a certain percentage of the total outstanding shares of a given security? Are there more rules and requirements for long portfolios that should be adapted for short portfolios?

On a related note, I would expect to receive the benefit of my shares which are loaned out if there is a negative rebate or even a below market rebate. Regardless of the fact that they are held in "Street Name", I believe custodians should be mandated to pass the profits from stock loans back to the actual owners of the security. To take this one step further, I would expect that I should have the option to loan my shares on a security by security basis and dictate what rebate level I would be willing to accept so that I can help set the rebate level on securities that are technically my asset (or the asset of the clients for which we act in a fiduciary duty). Finally, forcing custodians to pass the financial incentives of stock loan back to the actual owners of the securities would remove a conflict of interest and place them in a better position to police the issue of naked short selling since they would no longer profit from the activity.

Grant Brown, CFA
Chinook Capital Management
Principal, Portfolio Manager & Equity Analyst