



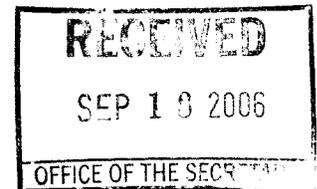
# Utah State Legislature

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September 14, 2006



The Honorable Christopher Cox, Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Nancy M. Morris, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: Comments on Amendments to Regulation SHO, File No. S7-12-06

Dear Chairman Cox and Ms. Morris,

We write to you to express our concern with the impact that abusive naked short selling has on capital markets, public companies, and innocent shareholders. In May 2006 our respective bodies, the Utah Senate and the Utah House of Representatives, passed legislation (SB 3004) that required more transparency in the system.

SB 3004 was to have been enforced as of October 1, 2006; however, given a lawsuit filed by the Securities Industry Association seeking to enjoin Utah's enforcement of the new law and the SEC proposed amendments to Regulation SHO, Utah agreed to postpone enforcement of SB 3004 until June 1, 2007. However, Utah fully intends to enforce SB 3004 if the SEC does find adequate solutions to the problem of naked short selling.

We commend the SEC for its two proposed amendments of Regulation SHO (e.g., repeal of the grandfather provision and narrowing of the options market maker exception). However, these proposals do not do enough to stop the persistent fails to deliver and other associated abuses. Thus, we strongly urge the SEC to make two additional modifications to Regulation SHO:

1. Transparency – Disclose the Volume of Fails. The SEC should amend Regulation SHO so the aggregate volume of failures to deliver is reported daily for each threshold security. We

completely agree with Commissioner Atkins' statement that aggregate fail data should be disclosed – that is why we supported and passed SB 3004 in Utah. Sunshine is the great disinfectant and we believe that more transparency will lead to the elimination of abuses and to more investor confidence and security. Without this full disclosure, it is difficult to know the level of “naked shorting” and its risk to capital markets.

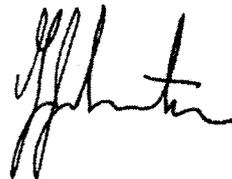
2. Ownership – Require a Pre-Borrow for All Short Sales. The SEC should require that before any seller can short sell a stock, that seller must either have the stock in his possession (and have the right to sell it) or have entered into a bona fide contract to borrow the stock in advance of the sale. This step alone should prevent the majority of purposeful and strategic fails to deliver. The current rules that allow the stock to be located (but not borrowed) allow for one share to be “located” multiple times without it actually ever being borrowed. These loose rules allow abusive short-sellers to never deliver stocks they sell, but rather postpone trade closures indefinitely.

The SEC must continue to protect innocent investors and public companies by minimizing the manipulation of our capital markets. If not, Utah will be forced to find adequate means to protect its citizen investors and public companies. We expect other states will follow suit. The interests of abusive short-selling hedge funds must not be placed ahead of investors and employees who often depend on these companies for their livelihood and retirement.

Sincerely,



John L. Valentine  
President  
Utah State Senate



Greg J. Curtis  
Speaker of the House  
Utah State House of Representatives