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May 7th, 2009

The Honourable Mary Shapiro, Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

United States of America

Dear Chairman Shapiro,

Thank you for the opportunity to comment on the proposed changes to the SEC rules on short selling. I am a US citizen who has been active in the financial services industry for nearly forty years. Currently I am a management consultant based in London, advising international institutions in the field of securities lending.

I wish to comment on two changes to the present SEC rules affecting short selling.

1) I support reinstating the original short sale Uptick Rule, the original SEC Rule 10a-1(a)(1). This would probably also involve removal of Rule 201 Regulation SHO that replaced the original Uptick Rule in 2007/2008.

2) I support instituting a **limit-down** rule. This would entail a total ban on all short selling of any stock during the trading session that **falls** a certain percentage (e.g. 10%, 12½%, 15%, etc.) of the previous day's closing price on an exchange. This would follow the practice of the commodity trading limits that halt trading if a commodity falls by the particular percentage limit imposed on a specific commodity on an exchange under the rules and regulations of that exchange. However, this ban would not mean a total halt on all trading in that particular stock. Only the short selling of the stock would be halted. Stocks can continue to trade and likewise fall further during the trading session, but their fall would no longer be accompanied by short sales after the designated percentage was reached. Other means, (options, contract for differences, for example) could still be sued to achieve the same effect as short selling, but the "flow" of short selling would be interrupted.

After a designated period of time and only after an order-book rebalance has been confirmed, the limit halt could be removed by the exchange and short sales resumed, although still subject to the percentage stop level.

Rationale: Two separate processes operate when short selling becomes an issue. First, there is the mechanical function of a short sale. It has become clear in the last several months that short selling does not "cause" a stock to fall. A stock falls because traders and fund managers perceive that a company is worth less than the current value of its stock would suggest. So they sell the stock. (If they do not hold the shares, they borrow the stock to complete their delivery.) Short selling may (or may not) accompany this process, but it does not CAUSE the stock to fall. The recent failure of world-wide short selling bans (in Germany, the United Kingdom, Australia, Italy, etc.) to prevent precipitous drops in the value of stocks that were shorted previous to the ban surely has put paid to that mistaken view.

However, when a stock drops in value on the market, and short sellers enter into the market shorting the stock, the short sales accompany the decline of the value of the stock. This decline may appear to investors, observers, and journalists to be exacerbated by the rumours, news reports, and indeed short selling data, which also accompany that decline. Because the decline of the value of a stock can be very steep and very fast indeed, the ensuing "feeding frenzy" can seem alarming, and therefore destabilising, and thus should be addressed by regulators. Slowing the cascade of short selling would create both the fact and the appearance of regulatory control without serious impediment to the prerogative of investors to sell short if and when they find that particular strategy appropriate.

Of course, no one complains when a similar "feeding frenzy" accompanies an **increase** in the value of a stock. Only short sellers lose when the price of a stock goes up, and their theoretical losses last only until a subsequent appropriate decline takes place in the stock's price. It is the precipitous price **decline** that frightens investors and destabilises the market, not a price increase. That is why dealing with price decline and concomitant short selling has become a pressing regulatory issue.

Maintaining a stable, smoothly functioning market through the means I have suggested will go some way to restoring investor confidence by eliminating wide swings and precipitous declines in the market. And the regulatory changes that are made by the SEC will accompany their goals without grave peril to the function of price discovery of which short selling forms an important part.

Thank you,

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John J. Piccitto
Managing Director