June 9, 2009

Mrs. Elizabeth Murphy
Secretary, Securities and Exchange Commission
100 F Street, NE
Washington DC, 20549-1090

Ref. File No: S7-08-09

Dear Mrs. Murphy,

With the decline in the equity markets in 2008, it is tempting to blame the fall on past deregulations. It certainly fits the media narrative that Bush/Republican deregulation caused the market decline, and that re-regulation would make it go back up. In addition, many respected commentators, such as Bob Brinkley (of Moneytalk), as well as popular commentators, such as Jim Cramer, advocate bringing back bid-test rules. I respect the reforms that commentators such as Brinkley have advocated in the past, but this time, I feel that their reform ideas are misguided.

Bid tests did not prevent the market crash of 1987 nor 2000. Poor policy, as well improper evaluations, caused the sudden crash. The market recovered thanks to good policy (such as marginal tax cuts), not with re-regulation.

In mid-2008, when the price of oil reached its peak, regulators were asked to consider restrictions on oil trading. Many in the media concluded that the sharp increase in the price of oil was caused by oil traders, and not economic conditions (the global economy was still strong and had yet to crash) as well as congressional actions (Senate Majority leader Harry Reid proposed limiting domestic drilling, banning most oil imports from Alberta, Canada, and restricting speculation on the price of oil- commodity speculation causes the price of the commodity to smooth out over time, not getting too high or too low). However, Congress and regulators ultimately did not take action additional action on oil drilling or trading, and the price headed back down on its own.

There is simply no compelling evidence that deregulation in stock trading caused the market decline of 2008. I understand that regulators are under intense pressure to prevent the markets from crashing again. However, the lessons of the stock market post- 1987 and 2000, as well as the oil market post- 2008, show that the best action that good policy, not new regulations (or re-regulation), is the best way to return to smooth and orderly markets. Regulators correctly resisted media pressure for unnecessary action in the past, and I hope regulators will do the same in the present and future.

Sincerely,

Ted Siegel