New Orchard Road
Armonk, NY 10504

June 19, 2009

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

Re: Amendments to Regulation SHO
File Number S7-08-09

Dear Ms. Murphy:

International Business Machines Corporation appreciates the opportunity to respond to the proposed Regulation SHO amendments that would reinstate price test restrictions on short selling. The Company applauds the SEC for thoughtfully considering alternatives for implementing a short sale price test in the equity markets. We view introduction of any of the SEC's proposed alternatives to be a positive step towards the restoration of stability and confidence in the equity markets.

The events that led towards the financial crisis of 2008 are instructive of the interconnectedness of the global financial systems and their dependence on investor confidence. The crisis exposed the market's fragility as runs on several large banking institutions drove them into insolvency. This ultimately resulted in a market-wide flight-to-quality that contributed to the global economic downturn.

In the new environment, investment dollars will flow back into the equity markets as confidence is rebuilt. It is imperative that the SEC work to restore this confidence by putting in place regulations that prohibit manipulative trading tactics and foster a stable marketplace trading on fundamentals.

IBM is committed to supporting stable equity markets trading on true and transparent valuation principles, meaning:

- Appropriate levels of liquidity are necessary for an efficient marketplace,
- Price discovery must be substantiated by the underlying fundamentals of the trading asset,
- Adequate and consistent disclosure of all market positions is a requisite for transparency, and
- Appropriate capital costs must apply to all long and short positions.

IBM believes that an appropriately regulated short selling mechanism benefits the market, in the form of liquidity and price discovery. In stable markets trading on fundamentals, short interest

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typically comprises less than 5% of the market float, adding valuable liquidity while not significantly disrupting the supply-demand balance. But, in considering regulatory policy, it needs to be recognized that the markets do not always trade on sound fundamentals.

In volatile markets, sharp investor reaction and emotion can often prevail. It is in these environments where manipulative short sales tactics can have the greatest impact. Through a coordinated effort that includes aggressive expansion of short supply, manipulation of CDS spreads and the proliferation of false rumors, it is currently too easy to manufacture a bear raid for profit. These raids rapidly gain momentum as long institutions are forced to limit their losses by selling shares, as dictated by their performance mandates.

A decline in share prices below fundamental valuation—as the result of manipulative short selling tactics—hurts companies that utilize the equity markets to raise capital, and damages the perception of the health of the affected companies, their industries, the markets in which they trade and, ultimately, the economy.

This harm to investors and issuers has more immediacy than the risks of a security trading above its appropriate valuation. Equities trading above what is justified by sound fundamentals will ultimately harm investors, generally through asset "bubble bursts" like the two we have experienced this decade. These risks are born out only after prolonged periods of price accretion. Alternatively, a decline in price has an immediate impact on shareholder value and on companies utilizing the equity markets to raise capital.

IBM supports reinstatement of a short sales price test that will help instill confidence in the stability of our markets by inhibiting a traders' ability to manipulate a security's price. Furthermore, IBM considers it important that any regulation emphasize a robust "policies and procedures" construct that eliminates abuse, in conjunction with a prohibition framework that maximizes the SEC's authority to enforce any violations.

We suggest the Commission consider a comprehensive regulatory framework for short sales that would improve market stability and restore investor confidence, including:

- A permanent price test based on best national bid (i.e., "Modified Uptick Rule") during stable trading conditions for a security that would introduce minimal disruption while inhibiting manipulative short trades from gaining traction;

- In addition, should the security undergo a prescribed decline in value over a certain timeframe, a circuit breaker in which the price test becomes more restrictive by adding "n cents" to the minimum short price over the best national bid; and,

- Public disclosure of short positions held by institutional investment managers with equal rigor to Form 13F requirements for long positions.

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Additionally, we remain concerned about the impact derivatives markets, particularly the CDS market, can have on equities, and the effectiveness a coordinated effort across these markets can have in manufacturing a bear raid. Restrictions on "naked" CDS positions should be considered given the proliferation of the credit default insurance market in size and influence over the last several years. The question as to whether or not it is appropriate for firms to purchase credit default insurance in excess of the underlying credit exposure they have to that company should be explored.

Ultimately, we believe in the sound judgment of the SEC, working with the equity exchanges, to devise the specific rules construct that will inhibit short trade manipulation while protecting the liquidity and efficiency of the marketplace. Ensuring the future sustainability of the U.S. equity markets, and their cornerstone role as a source of capital, necessitates a comprehensive regulatory policy in order to restore investor confidence. We believe the strong public support for the reinstatement of an equity market price test is rooted in this principle.

Sincerely,

Jesse J. Greene, Jr.

Jesse J. Greene, Jr.
Vice President, IBM Financial Management and Chief Financial Risk Officer