

## By Email

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### **Re: Release No. 34-94313; File No. S7-08-22 Short Position and Short Activity Reporting by Institutional Investment Managers**

Ms. Countryman:

Thank you for the opportunity to comment on the U.S. Securities and Exchange Commission's (the "SEC" or "Commission") release on proposed Rule 13f-2 ("Proposal") under the Securities Exchange Act of 1934.

I am a retail investor, and I'd like to take this opportunity to tell you why short position reporting for institutional investment managers is important and necessary. Most of the comments you are receiving are very detailed and potentially confusing to the average retail investor. I'd like to provide a comment that explains the importance of this rule in a way that's easy to understand for everyone. The purpose of my comment isn't necessarily to tell you why you should demand short position reporting, but to warn you and everyone else what can, and will happen if you don't.

All investments have a certain amount of risk. Risk is usually offset with an equally proportionate financial gain. The more risk an investment has, the higher the return will be if the investment works out. The less risk an investment has, the lower the return will be if the investment works out. This is how most investing works and most people (whether representing just themselves or large institutions) are familiar with this concept and understand how it works.

What most retail investors don't know, however, is that there are some investments where the risk of loss is unlimited. It's sort of an advanced concept, but most people don't fully grasp that an individual or institution can lose MORE than ALL of their investment. Let me say that again, there are investments where the risk of loss can go to infinity. This doesn't just mean that all the money invested can be lost, it means that someone else's money can be lost as well. Once the first person or institution runs out of money, the loss is passed up to the next party whether the assuming party was aware of the risk or not. When an investment is made that carries the potential for unlimited loss, bad things can happen to a LOT of people. The unfortunate part of all this is that bad things can happen to people that were exposed to risk they weren't aware of. That's where reporting comes in. Reporting short positions is the communication tool that's necessary for informing investment participants regarding their risk exposure.

Now the one thing some people working for institutions like about these infinitely risky investments is that there is the potential for much larger gains (if it works out). If a person representing an institution is very risk tolerant and wants to make the most money the fastest way possible, they may naturally gravitate toward these infinitely risky investments. Big risk, big reward, amiright? The unfair part about this concept is that when things go well, the institution keeps all the gains, but when things go bad, the institution only assumes part of the loss. Let me say that again, when things go well, the institution keeps all the money. When things go bad they lose their investment, walk away, and some other entity gets stuck with the potentially unlimited burden.

So, which investments have the potential for carrying unlimited risk? I'm glad you asked. The answer is: short positions. Now, why the heck would there be lack of reporting on an investment that has the potential for unlimited risk? There are a few answers to that question, and it depends on who you ask regarding which answer you will receive. Institutions might tell you that these positions "need" to be hidden to some extent to "level the playing field" with their "opponents". What they will tell you is that if those positions are exposed, it would be like showing an opposing coach which plays you're about to call before you run the play. I get that, but why then do long positions need to be reported? That's like saying "we'll tell you our offensive plays, but we need to keep our defensive plays hidden". It doesn't make sense logically, except for the one reason which I'm about to share below.

The reason short positions are not currently reported with the same scrutiny as long positions is because that's where a LOT of money can be made, especially if the positions remain hidden and maximize leverage. Short positions don't have an expiration date, AND business is an "endless game". This means that as long as short positions aren't closed, they'll eventually become profitable (or hidden) as long as the shorted company continues to decline, and as long as an "opponent" doesn't realize how massively over leveraged the short positions are. This would allow an "opponent" to attack them from the opposing side which is kind of ironic because technically that would actually "level the playing field". Let me say that again more clearly. Institutions want to keep short positions hidden and non-transparent so that they can make a massive amount of money while taking on infinite risk using a lot of leverage.

Now, why in the world do I, as a retailer, care if a hedge fund or institution were to assume unlimited risk? So what if they go bankrupt. Who cares, it's part of business, amiright? Well, that's the problem. "Unlimited" means not just limited to them. Hypothetically, a hedge fund can take on unlimited risk with something like a teacher's pensions plan. Say what? Yes, you got that right. In the quest to make the most money possible, a teacher's pension plan that was funded by government money may not only go to zero, but it may assume unlimited loss. Who pays public teachers salaries? The answer is: the US taxpayers which is you and me. Yes, that's right. Hedge funds are currently allowed to use money that was funded by taxpayers and assume an unlimited amount of risk, and in a non-transparent way. So, I'm going to ask you why? Why should a hedge fund or institution be allowed to destroy a teacher's pension plan due to taking on unlimited risk all without having to report it? The answer is because the rules are written by those who are required to follow them. The rules are set up so that institutions can maximize gains without disclosing the risk. Up until a few years ago people like me weren't

aware that writing a letter like this was necessary or could make a difference. That has all changed and that's why I'm here right now writing this comment letter.

Do you want to make a difference? I do. I took time away from my family to write this comment. Why, because this rule matters. Reporting short positions matters. Do you want to limit the financial risk to those that are directly responsible for assuming it? Morally and ethically there is only one answer. Yes. Short positions need to be disclosed by institutions to limit the financial exposure to taxpayers like you and me. Investments with the potential for having unlimited losses should not be allowed to remain hidden any longer.

Sincerely,

A Concerned Retail Investor