

Congress of the United States
House of Representatives
Washington, DC 20515-4605

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CHAIRMAN'S
CORRESPONDENCE UNIT

September 13, 2006

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Cox,

I write to share my concern about the impact of naked short selling on capital markets, individual companies, and shareholders. I commend the Commission for its proposal to amend Regulation SHO by repealing the grandfather provision and narrowing the options market maker exception; however, these changes are only the first steps toward reducing persistent fails to deliver and other associated abuses.

I suggest two additional modifications to Regulation SHO. First, I agree with Commission Atkins' recent statement that aggregate fail to deliver data should be disclosed. Without full disclosure, it is difficult to know the level of "naked shorting" and its risk to the capital markets. More transparency will lead to the elimination of abuses and to more investor confidence and security. I suggest that the Commission consider amending Regulation SHO so that the volume of failures to deliver is reported daily to each threshold security.

Second, to further curb the potential for market manipulation and protect investors, if a stock is sold, that stock should either be in the seller's possession or the seller should have entered into a bona fide contract to borrow the stock in advance of the sale.

Current rules allowing the stock to be located but not borrowed allows that stock to be located multiple times without it actually being borrowed. Under current rules, as an alternative to the "bona fide agreement" to borrow the stock, a broker need only have "reasonable grounds to believe that the security can be borrowed." In practice, this phrase results in a serious loophole in the regulatory scheme. Using this loose standard, abusive short-sellers can avoid ever delivering the stocks they are selling and, instead, postpone trade closures indefinitely.

Recently, a number of hedge funds filed a class action lawsuit against the major prime brokers alleging that the prime brokers told the hedge funds clients they had stock, allowed these hedge fund clients to short the stock, then did not deliver the stock as

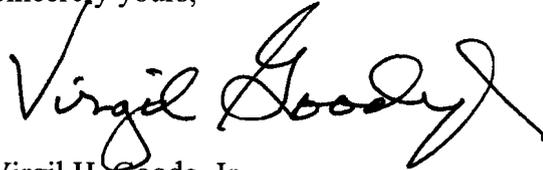
promised, leading to a failure to deliver and a naked short position. IN the meantime, the hedge funds paid the brokers lending fee for stock the brokers did not lend or even had to lend.

If a provision were added to Regulation SHO requiring a bona fide contract to borrow stock before selling it, and eliminating the "reasonable grounds to believe" loophole, this problem would diminish.

The interests of short-sellers must not be placed ahead of the protection of small investors and employees who often depend on these companies for their livelihood and retirement. Therefore, we must protect investors and public companies from any manipulation of the capital markets.

Thank you for your consideration.

Sincerely yours,

A handwritten signature in black ink that reads "Virgil Goode, Jr." with a stylized flourish at the end.

Virgil H. Goode, Jr.

VHG/sjr