Dear SEC Commissioners and Staff,

I am an individual investor, and short sale reporting and economically equivalent assets require more exposure, frequency, and access than they currently possess. A significant proportion of all trades occur in Over The Counter exchanges, to the extent that lit exchanges where corporations list their stocks may actually be minority competitors. Price discovery is being harmed daily, and asset valuations are likely being depressed. It is my opinion that Reg SHO is insufficient, as it allows certain market participants to short sell assets in the name of liquidity—a violation of the SEC’s charter to protect investors through the destruction of their assets. This proposed rule is about increasing reporting by Managers of short sales, and for that goal I have full-throated support, and I find some of these proposals to be in the right direction, but insufficiently stringent.

By all means, make the process of reporting this data easy through .xml files. Allow Managers to only report a sale through a single point-of-contact in order to ease their efficiency and accuracy burdens.

Be more frequent and comprehensive in you require the submission of data and report it.

Demand integrity and enforce the consequences you do not lay out here. Add teeth to this proposal.

The investing public needs the protection you can provide.

Sincerely,
Aaron Franz

Q1: EDGAR: Managers that meet a Reporting Threshold should be required to report prescribed short sale related data on the Proposed Form SHO through EDGAR. The EDGAR system reports public information. This form and forum are ideal for reporting purposes. Further, since the Form SHO is proposed to be published in XML format it should be easy for Managers to automate the process of filling and filing the Form SHO. I believe that anything that lubricates the process of reporting for Managers is an advantage to public disclosure.

Q2: Managers: I believe that aggregate short sale data for each security is sufficient for public information. Since the Proposed Form SHO and the 13-f2 are both XML fillable there is no reason that the Proposed Form SHO and 13-f2 cannot both be filed on a daily basis. Allowing Managers to only file the Proposed Form SHO daily and the 13-f2 on monthly basis up to 14 days after the end of the month denies retail investors the ability to understand the influence of short sales on their positions. Reporting of the 13-f2 should be performed daily, and the data should immediately be reported to the public. Short sales might not even properly be considered investment in a security, but the degradation of the security to the investors’ detriment. Short sellers of securities should not be considered investors, and they should be outside of the scope of protection under the mandate of the SEC. I’m uncertain that Managers should be required to obtain an LEI. Registration or renewal of an LEI is not monetarily costless. The same information can be submitted by Managers without a tracking number with a cost. I am ambivalent about the Threshold requirements, but they should not be loosened.
Q3: *Hedging Information:* Managers should know whether a position is fully or partially hedged or entirely unhedged. If they have a position that is short, they should also be able to report that information to the SEC. I think that proportions of positions fully or partially hedged by security should be reported publicly. This information would assist in interpreting gross short positions and their potential impact on investors in each security.

Q5: *Reporting Thresholds:* I think the proposed Reporting Thresholds are not inappropriate. They seem to me to have a substantial proportion of short positions by most securities encompassed within their rubric. I’m not convinced that Managers would try to avoid triggering thresholds. It would be substantially costly for them to do so unless they were attempting to use economically equivalent assets to perform activities that depress prices or perform the same sorts of exposure as short sales. I understand that Managers already seek to not report their short sales accurately, perhaps through mechanisms such as mis-reporting a short sale as a long sale, but I don’t think that Managers would attempt to evade these requirements specifically using such methods.

This brings us to economically equivalent assets: derivatives can be used to provide similar exposure to short positions—either through purchasing put options, selling call options, or asset swaps. By neglecting requiring Managers from reporting their exposure in derivatives, the SEC is proposing that Managers be allowed to depress prices through the use of complicated assets that many retail investors do not have access to. This would be allowing Managers a way to not report their positions at all. In general, these positions are reported on the 13-F, but that form is only required quarterly from Managers. It might be complicated for the SEC to report these assets as shorts, but the SEC could report on options spreads. This could be costly, as it would require the SEC to develop comprehensive data that it does not currently report, but such data would be valuable to all investors.

Q6: *Securities Covered:* I am finding Reg SHO reporting a bitter pill to swallow. Under Reg SHO Designated Market Makers are provided the opportunity to not invest by the same rules as other investors or market participants. Designated Market Makers do not have to report their short sales, and they are allowed to short assets without locating the assets they short beforehand in the name of providing liquidity to the markets. This is extraordinarily dangerous, as it allows them to essentially be unaccountable for their actions. Market Making functions could be entirely replaced by matching software that isn’t associated with a non-Exchange company. Additionally, short sales made through dark pools, or Over The Counter Exchanges are not required to be reported currently through any mechanism.

The attached are two tables that compare Reg SHO data from NYSE, NASDAQ and FINRA reported OTC to Yahoo Finance volume data for two tickers: GME and XRT.
These files show that many transactions occur on the OTC exchanges that are not reported through FINRA. Further, they likely under-report short sales data, as some short sale data is reported erroneously as long sale data. In fact, with XRT, an ETF, sometimes being reported as having been short sold more than the historical data accounts for, ETFs may be used to implicitly depress the prices of underlying assets composing the ETFs.

All short sales from all Managers meeting the meeting the threshold criteria should be reported to the SEC on a daily basis. Not simply Reg SHO data.

Fixed income securities should be included in this process. The owners of fixed income assets may be being harmed by money managers, as their assets may be being short sold as an attempt to get interest from the loan of assets. It would also be highly problematic if fixed income beneficiaries were to suddenly find their assets worth a potentially infinitely negative balance if Managers would load the fixed income portfolios with short sale assets.

As above, derivatives that take an economically equivalent position to a short sale should also be reported.

Q11: Frequency of Reporting: Monthly reporting by Managers is grossly insufficient. For accurate and timely information to be available to all market participants reporting should be daily. Managing short positions is an extreme risk, and not requiring reporting of these positions places the entire financial system at risk, because each and every short position carries with it a potentially infinite downside. Managers should be required to reconcile data submitted on a monthly basis, but they must submit that data daily, and it should be reported to the public daily. If this change is not made under logical outgrowth of the proposal then the SEC may be negligent in their duty to protect investors. Short selling an asset is not investment in the market or the compositional assets, but destruction of them. Some assets are fraudulent, in which case I have few problems with short sellers making money off of exposing that fraud, but where there are real underlying assets short selling is deeply destructive behavior to investors.

Q12: Multiple Managers with Investment Discretion: By all means, make the reporting process easy and efficient for Managers.

Q13: Amendments to Proposed Form SHO: Accuracy of data is paramount, and for that reason, I am in favor of the requirement to correct errors in a timely fashion. Managers should notify the Commission of any errors, regardless of size, on a minimum of a monthly basis. Managers should be allowed to only re-file the data that is being corrected. Integrity is the basis for all trust. Therefore, the Commission staff should notify Managers that there may be a continuing issue with that Manager’s filings if there are a number of consecutive months of Amendments and Restatements, or if there is a high percentage of Amendments and Restatements over a given 12-month period.