

SECURITIES AND EXCHANGE COMMISSION

17 CFR PART 242

[Release No. 34-55520; File No. S7-12-06]

RIN 3235-AJ57

Amendments to Regulation SHO

AGENCY: Securities and Exchange Commission.

ACTION: Notice of re-opening of comment period.

SUMMARY: The Securities and Exchange Commission is re-opening the comment period on the “Amendments to Regulation SHO” it proposed in Securities Exchange Act Release No. 54154 (July 14, 2006), 71 FR 41710 (July 21, 2006) (the “Proposal”). In view of the continuing public interest in the Proposal, as well as to reflect concerns raised by commenters, we believe that it is appropriate to re-open the comment period before we take action on the Proposal.

DATES: Comments should be received on or before [insert date 30 days after publication in the Federal Register].

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission’s Internet comment form (<http://www.sec.gov/rules/proposed.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number S7-12-06 on the subject line; or
- Use the Federal eRulemaking Portal (<http://www.regulations.gov>). Follow the instructions for submitting comments.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number S7-12-06. This file number should be included on the subject line if e-mail is used. To help us process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/proposed.shtml>). Comments are also available for public inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549-1090. All comments received will be posted without change; we do not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

FOR FURTHER INFORMATION CONTACT: James A. Brigagliano, Associate Director, Josephine J. Tao, Branch Chief, Joan M. Collopy, Special Counsel, Lillian S. Hagen, Special Counsel, Elizabeth A. Sandoe, Special Counsel, Victoria L. Crane, Special Counsel, Office of Trading Practices and Processing, Division of Market Regulation, at (202) 551-5720, at the Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

SUPPLEMENTARY INFORMATION: The Commission is requesting additional public comment on proposed amendments to Rule 203 of Regulation SHO [17 CFR 242.200 and 242.203] under the Exchange Act. In Release No. 54154 (July 14, 2006), 71 FR 41710 (July 21, 2006), the Commission proposed amendments to Regulation SHO under the Securities Exchange Act of 1934 (the "Exchange Act") intended to further

reduce the number of persistent fails to deliver in certain equity securities by eliminating the grandfather provision and narrowing the options market maker exception.¹ The Commission is re-opening the comment period, which ended on September 19, 2006, to provide additional information with respect to the Proposal to the public.

Commenters have urged the Commission to provide additional data related to the Proposal before it determines whether additional rulemaking is necessary.² In formulating the Proposal, the Commission relied primarily on data collected by the National Association of Securities Dealers, Inc. (“NASD”). NASD collected this data through confidential queries and examinations of member firms. As a result, the Commission did not provide the data underlying the examinations and discussions because it was concerned that the data contained confidential, company-specific examination findings and discussions. However, in response to commenters’ requests for data, the NASD submitted a comment letter on March 12, 2007 that provides the NASD’s findings in summary form with confidential, company-specific information removed.³

Accordingly, the Commission is re-opening the comment period to highlight the fact that additional data has become available and to provide the public with an

¹ The Commission also proposed amendments to update the market decline limitation referenced in Regulation SHO.

² See e.g., Comments of Keith F. Higgins, Chair, Committee on Federal Regulation of Securities, American Bar Association (September 27, 2006) (stating that “without the benefit of knowing the information relied upon by the Commission in analyzing the cause or causes of the current fails to deliver and the likelihood that the proposed changes will reduce those fails to deliver, commenters are deprived of the opportunity to opine on the significance of the examination results or the Commission’s interpretation of such information”); comments of Alan Schwartz, Novato, California (September 19, 2006) (requesting “strong empirical data for the existence of problems. . .”); comments of Margaret Wiermanski, Chief Operations Officer, and Matthew Abraham, Compliance Officer, CTC LLC (September 28, 2006) (stating, “What is not clear in the current Proposing Amendments is any research that would evidence the anticipated levels of additional improvements in eliminating fails to deliver.”)

³ See File No. S7-12-06, Comments of the National Association of Securities Dealers, Inc. (March 12, 2007).

opportunity to comment on this data. In addition, in re-opening the comment period, the Commission also directs the public's attention to additional data that may be of interest to commenters seeking information on the reasons why fails may be persisting since the adoption of Regulation SHO:⁴

- Prior to the Commission's Proposal, the New York Stock Exchange LLC (the "NYSE") informed the Commission that it conducted a review of five securities with substantial aged fail positions from July 1, 2005 through September 23, 2005. The NYSE found that the aged fail positions in these five securities were attributable to one broker-dealer. This broker-dealer informed the NYSE that the fail positions were not being closed out because it was relying on the options market maker exception.
- Prior to the Commission's Proposal, the Commission's Office of Compliance and Inspections ("OCIE") conducted some examinations for Regulation SHO compliance and found that some broker-dealers were still carrying a significant amount of fails to deliver in securities that they were not closing out because they were relying on the grandfather provision. One broker-dealer indicated that it had not closed out several persistent fails in threshold securities because it was relying on the options market maker exception.

⁴ See Securities Exchange Act Release No. 50103 (July 28, 2004), 69 FR 48008 (August 6, 2004).

Therefore, the Commission is re-opening the comment period for Exchange Act Release No. 54154 from the date of this release through [insert date 30 days after publication in the Federal Register].

By the Commission.

Nancy M. Morris
Secretary

Dated: March 26, 2007