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September 18, 2006

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

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Dear Chairman Cox:

I hope this letter finds you well. The last time I saw you (the first time as well) my wife and I came to your D.C. Congressional office bearing greetings from Tim Clemente, now Special Agent Clemente. Tim spoke very highly of you and proudly showed me the picture of the desk he made for you to accommodate your back. I was not only very happy for you when I heard you received this position, but also pleased that the country would benefit from the work of a man of your convictions and stature. I only hope you do not miss Southern California too badly.

Today I write to you in my capacity as a Missouri State Senator. The issue with which I am concerned is the impact that abusive naked short selling has on our capital markets, public companies, and innocent shareholders. While I commend the SEC's proposals to amend Regulation SHO by repealing the grandfather provision and narrowing the options market maker exception, I do not believe that these proposals go far enough to stop the persistent settlement failures and other associated abuses. Thus, I welcome this opportunity to provide further ideas for modifications to Regulation SHO.

I suggest that the SEC make two additional modifications to Regulation SHO:

1. Transparency – Disclose the Volume of Fails. The SEC should amend Regulation SHO so that the aggregate volume of failures to deliver is reported daily for each threshold security. I completely agree with Commissioner Atkins' statement that aggregate fail data should be disclosed. Sunshine is the great disinfectant and more transparency will lead to the elimination of abuses and to more investor confidence and security. Without this full disclosure, it is difficult to know the level of "naked shorting" and its risk to the capital markets. I agree with Commissioner Atkins' statement that aggregate fail data should be disclosed.

2. Ownership – Require a Pre-Borrow for All Short Sales. The SEC should require that before any seller can short sell a stock, that seller must either have the stock in his possession (and have the right to sell it) or have entered into a bona fide contract to borrow the stock in advance of the

sale. This step alone should prevent the majority of purposeful and strategic fails to deliver. The current rules that allow the stock to be located (but not borrowed) allow for one share to be "located" multiple times without it actually ever being borrowed. These loose rules allow abusive short-sellers to frequently never deliver stocks they sell, but rather postpone trade closures indefinitely.

I am sure you agree that the SEC must continue to protect innocent investors and public companies by minimizing the manipulation of our capital markets. To that end, I believe the interests of abusive short-selling hedge funds must not be placed ahead of investors and employees who often depend on these companies for their livelihood and retirement.

Sincerely,

A handwritten signature in black ink, appearing to read "John Loudon". The signature is written in a cursive, slightly slanted style.

John Loudon
District 7

FAX TRANSMITTAL FORM



To: *FEC*
Organization Name/Dept: *The Honorable, Christopher Cox*

Phone number:

Fax number: *202-772-9200*

From: Senator John Loudon

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