

September 6, 2006

Securities and Exchange Commission
100 F Street, NE
Washington, DC
USA 20549-1090

Attention: Nancy M. Morris, Secretary

Dear Ms. Morris:

Re: Proposed Amendments to Regulation SHO

Research Capital Corporation (“RCC”) and Research Capital USA Inc. (“RECA”) have reviewed both the existing regulation and the proposed amendments and we have the following submission regarding the proposed changes to Regulation SHO and the problems created by naked short sales.

RCC is a Canadian Investment Dealer that is registered with the Investment Dealers Association of Canada (“IDA”). RCC is a full service brokerage firm that provides self-clearing for both RCC and RECA. RECA is a U.S. Broker Dealer registered with the NASD. Both organizations are headquartered in Toronto, Canada.

RCC and RECA are in support of any regulatory change which will cause market participants to deliver securities on a timely basis to ensure settlement. We support the removal of the “grandfathering provision” and narrowing of the “options market maker provisions” and we also believe that further measures and rigorous enforcement are necessary.

It should be fundamental to the securities industry and its regulators that the rights of investors who have purchased and paid for securities in good faith be protected. Currently, because of failed deliveries by sellers who knowingly sell securities which they will not be able to deliver, there are countless shareholders who do not receive disclosure documents required by law or the right to vote at shareholder meetings. These shortcomings cannot be remedied by compensating payments as are dividends or other financial benefits of share ownership.

Illustration of the Problem

RCC has been victim of many failed deliveries from the U.S. for a security known as Overstock.com Inc. The first of such fails occurred on February 24, 2006 when stock was not received to satisfy purchases by our clients. To this date, we still have not been able to obtain the shares.

RCC has attempted the buy-in process on 39 separate occasions, through the new DTC Smart System since it became operational on March 6, 2006, but these have been unsuccessful. In each case, the failed delivery has simply been replaced with another delivery commitment which also fails. Further, our clients have requested proxies which we are not receiving. RCC is now deficient under Canadian securities regulations which require us to segregate those assets that are fully owned by the clients.

We note that National Securities Clearing Corporation (“NSCC”) has indicated that only 1% (by dollar value) of all trades settling through the NSCC fail to settle on time. It would be more meaningful to report the statistics for failed trades involving declared short sales. Also, it would be more meaningful to see how often failed positions have recurred following buy-ins. It would be unfathomable to believe that other dealers and investors have not been affected by the inability of the NSCC to settle repeated buy-ins.

In response to the SEC’s request for comment on a number of specific issues, RCC’s views are set out below.

Comments on Specific Issues

Phase-in and notice period for removal of grandfathering

We recommend that 60 calendar days notice be given that the grandfathering provision will end on a certain date after which normal mandatory settlement will apply. On the 61st day, a position which was 13 settlement days old would have to be closed out. This approach will minimize surveillance issues because normal settlement rules will apply immediately on the effective date of the change.

We believe the 60 calendar day notice period is sufficient for short sellers to buy in naked shorts in an orderly manner.

Regarding manipulation and the potential for manipulative short squeezes

We believe that it should be considered manipulative and deceptive conduct to knowingly sell shares that cannot be delivered to rightful buyers within a reasonable time frame. If short sellers have properly borrowed stock, short squeezes should not occur. While a short squeeze could be caused by a lender who calls in his loan, this will self-correct quickly because borrowers will stop dealing with lenders who consistently engage in such tactics.

Should there be an acceptable level of fails to provide for market making?

We believe that the rules should require a prior borrowing commitment (not just a “locate”) but that bonafide market makers be exempt from this requirement up to an aggregate de minimis threshold of 5% of the public float. Market makers should still be required to close out their failed positions within 13 days.

Regarding options market makers

Our review of the options and stock trading in certain securities leads us to conclude that certain option market makers have abused the existing option market makers exception to Regulation SHO. Specifically, we believe that options market makers have written massive option contracts to hedge funds to create “synthetic” short positions while putting the actual short positions on their own books. This has been done for the sole purpose of allowing the hedge funds to engage in activities which Regulation SHO was supposed to prevent. We believe options market makers should be subject to the same market making rules with a de minimis threshold as described above. Option market makers risks can be mitigated through offsetting options contracts rather than naked short selling.

Close-out periods

We believe that the most effective changes to Regulation SHO will address the requirements to confirm a dedicated stock borrow in all but a limited number of circumstances. If short positions are established in a security and bonafide owners of the security are not willing to sell, the length of the close-out period will only accelerate the speed at which one dealer’s fail is replaced by another. We believe the 13 day close-out period is appropriate.

Exceptions to close-out requirements

We concur with the suggestion that ETFs be excepted. ETFs, and many other structured products for which the obligations may be fully disclosed through an exchange of money do not cause the problems that failed deliveries cause.

Bonafide trading errors should be reported to market regulators and corrected promptly. It is unlikely that trading errors will have a significant impact on failed deliveries.

Summary

RCC supports and encourages the removal of the grandfathering provision and substantial narrowing of the option market maker provisions. In addition, we recommend that:

1. Further steps be taken to eliminate the problem of “replacement fails”, in which a failed delivery is closed out by a trade which also fails. Consider reviewing the buy-in rules of other countries, including those used in Canada.
2. NSCC should adopt a better system to avoid multiple uses of a single “locate”.
3. The SHO regulations be vigorously enforced and charges laid in circumstances where dealers display unbecoming conduct by intentionally abusing the rules.

Very truly yours,

Research Capital Corporation

and

Research Capital USA, Inc.

Geoffrey G. Whitlam
President

Vanessa M. Gardiner
VP and Chief Compliance Officer