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Congress of the United States
House of Representatives
CHAIRMAN'S
RESPONSE UNIT
Washington, DC 20515

October 12, 2007

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
Washington, DC 20549

COMMITTEE ON THE JUDICIARY
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ADMINISTRATIVE LAW
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COMMITTEE ON OVERSIGHT AND
GOVERNMENT REFORM
SUBCOMMITTEE ON DOMESTIC POLICY
SUBCOMMITTEE ON INFORMATION POLICY

WESTERN CAUCUS
CHAIRMAN

Dear Chairman Cox:

I write to follow-up on a letter I sent to you together with Congressman Bishop and Senator Hatch on September 19, 2006. Once again I urge the Securities and Exchange Commission to strengthen Regulation SHO in order to end the manipulative practice of naked short selling, a practice that distorts the market and harms businesses and their investors. Specifically, I reiterate the requests in the September 19, 2006 letter that the Commission revise expeditiously Regulation SHO to (1) require a firm location of shares to be borrowed before a short sale can be executed, and (2) enable transparency in this area by mandating timely disclosure of the volume of failures-to-deliver shares of companies on the Regulation SHO threshold list.

I appreciate your recent comments and the Commission's actions addressing naked short selling; however, I am concerned that the abuses of naked short selling continue. The Commission's actions to tighten Regulation SHO by eliminating the grandfather provision and proposing to eliminate the options market maker exception are excellent first steps. The options market maker exception has been a well known tool of manipulation and must be eliminated promptly to ensure a level playing field for public companies and shareholders. I strongly encourage the Commission to take the steps necessary to eliminate the options market maker exception before the end of the year. I reiterate, however, that while I am convinced eliminating the grandfather provision and the options market maker exception will significantly strengthen Regulation SHO; these changes alone will not solve the problem that results in continued naked short selling and failures-to-deliver. In my opinion, only the imposition in Regulation SHO of a firm locate requirement and more transparency on failures-to-deliver – in addition to the Commission's recent repeal of the Regulation SHO grandfather provision and prompt adoption of the proposed repeal of the options market maker exception – will end the abuses associated with naked short selling.

Thank you for your serious attention to these concerns and recommendations. I look forward to the Commission issuing and completing promptly a notice of proposed rulemaking to implement these two critical components of effective Regulation SHO reform. These are among the changes to Regulation SHO that the U.S. Chamber of Commerce urged the Commission to consider in comments dated September 13, 2006 and January 23, 2007. Other notable commentators also have requested these amendments. I would appreciate learning by October 31st (?) the Commission's (a) position on the firm locate and transparency amendments we have proposed and (b) specific timetable for proceeding with its proposal for the elimination of the options market maker exception.

Sincerely,

Chris Cannon

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