Thomas Vallarino

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE : Amendments to REG SHO's Market Maker Exemption
Release No. 34-56213; File No. S7-19-07

September 27, 2007

Ladies and Gentlemen:

I would like to request that the Commission ignore any comment letters, that are received past the deadline of September 13, 2007 for the purpose of considering the elimination the option market maker exemption contained in REG SHO.

As per the Administrative Procedures Act, the SEC can ignore letters received past the deadline and archive them for future reference instead. The SEC can ignore these letters for this rule amendment and has no obligation to give them any weight.

Letters by SIFMA, Bracewell&Guliani and letters by the various Exchanges and Clearing firms have all been received past the deadline. They have failed to deliver their comment letters on time. Since they are so cavalier or incompetent that they can't even meet a deadline and have offered no excuse for failing to deliver the clearly posted deadline everyone else was able to meet, please ignore their letters.

Should the Commission choose to use those letters any way, I ask the commission to consider the following:

The comment letters in question representing industry contain no new empirical evidence, so there is no excuse for their failure to deliver them on time. The only new data supplied is a cost estimate by SIFMA, without naming its source, for SIFMA members to comply with the rule change. They say the cost would be greater than the Commission has estimated. So?

However, this issue is not about what it will cost SIFMA members, but about how equity securities investors are being harmed and how to protect them.

With the securities lending industry now so large and only getting more sophisticated with more money to be made, is all the more reason to keep all participants on the level. Broker-Dealers already have a huge freebie and free resource with which to make money, enjoyed only by them, as per their own admission in the SIFMA letter:

> *Generally, upon signing a margin account agreement, a customer authorizes his or her broker-dealer to re-pledge or rehypothecate securities with a market value equal to 140% of the net debit in the customer's margin account. Broker-dealers rely on this authorization to use customer securities in the ordinary course of business, such as to satisfy delivery obligations of other customers or the firm's proprietary sales, to fund customers' margin debit balances, or to lend to other market participants. Broker-dealers' use of customer margin securities represents an important source of funding and securities market liquidity. Should there not be an exception for the situation where the customer is long in his account with the broker-dealer, including for rehypothecated securities, this could not only impact the ability of broker-dealers to fund their clients' positions, but also result in decreased liquidity in the stock loan market and the market as a whole. Decreased liquidity in the stock loan market could actually lead to a situation where there are a greater number of overall fails-to-deliver in the market, due to the inability of broker-dealers to lend securities to other market participants to cover such fails. Interestingly, such a result would seem to be directly in contrast to the SEC's motivations behind the proposed documentation requirement, i.e., reducing fails in connection with long sales. (Emphasis Added)*

Broker-Dealers do not pay a dime to the actual owners of the securities that can be negatively impacted by short selling them, yet they make Billions for their own accounts by borrowing them for free. These borrow fees are almost risk free for the broker-dealers.

According to the Vodia Group, an average of $717 Billion worth of securities are lent out at any one time in the U.S. Markets with $8 - $10 Billion being generated in lending fees.

So even if the options market maker exemption is removed, the money being made through this borrowing-of-client-securities-for-free is enormous.

The enormous short selling activity, at the NYSE alone in the recent month the figure is 11.8 Billion shares held short and the enormous amount of profit generated off the backs of the owners of these securities who are not compensated and the ever increasing aspect of short sales in the markets means that the SEC must get this right. The stakes are just too high and this is already unraveling.

Even broker-dealers, such as UBS in its comment letter, are complaining of a failure in the system and use that failure as an argument to be permitted to deliberately fail to deliver in order to smooth things over. Unfortunately, this only makes matters worse:

> *"Hypothecation of margin securities may also cause significant issues at retail custody firms. If the securities are re-hypothecated by the firm, the customer may believe it is long for sales purposes even though the securities are not immediately available for delivery. "*

The owners of the accounts and securities that supposedly own them, do not know that their securities are lent out and not actually available to them. So when they "sell" their "securities", delivery failures ensue, unless immediate steps are taken to recall those shares or buy them in through the market.

Oh, but wait, what if these buy-ins receive FTDs instead of real registered securities? Then the problem gets bigger and the dominos keep falling down the line - endlessly. So are even more FTDs the solution? I think not. Cleaning up all FTDs and prohibiting them from occurring is the only solution.

Any activity that produces FTDs must be prohibited by SEC rules, as it is by the Securities Acts. The fragile financial tower, full of leveraged derivatives, misrepresented to investors and markets as real registered securities is crumbling. This is a crisis in confidence. The SEC must not permit this tower from collapsing for the short term sake of a quick buck. When things start going bad, nobody will know where all the bodies are buried nor be able to fully figure things out, as seen by the recent melt down in leveraged debt securities.

With all the FTDs produced and trade advantages enjoyed by broker-dealers over equity investors, a crisis in confidence is building, which is the precursor to something much larger.

With the lending industry so large, the temptation to produce more "borrows" than exist by producing delivery failures is extremely tempting. Indeed, Morgan Stanley, Goldman Sachs Group Inc. and 11 other securities firms have been accused in a lawsuit of conspiring to rig the fees charged to short sellers, for securities that were never delivered.

So the SEC must go much further than just eliminate the option market maker exemption, rather, it must clean up the markets that are chock full of leveraged unregistered securities that are misrepresented located in almost every corner of the market.

The SEC must not permit this instability from getting any worse, but instead start to lower the temperature by slowly imposing more stability, transparence, veracity and accurate information dissemination into the market process and to investors. Eliminating the option market maker exemption is just one step in that direction.

Sincerely submitted,

Thomas Vallarino