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Nancy M. Morris,
Secretary
Securities & Exchange Commission
100 F Street, N.E.
Washington, DC
USA 20549-1090

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My congratulations to Chairman Cox for attempting to eradicate the market manipulation and abuses of naked short selling. During the past four years I have witnessed lawlessness akin to the Wild West with the sheriff acting as S.E.C. and the citizens as investors cowering in front of the bullies as the prime brokers and hedge funds who pillage at will. With new leadership now at the S.E.C. perhaps the abuses related to short selling can be eliminated. Notice the word ***eliminate*** is used not ***further reduce*** which is contained within your proposal.

There is a danger that the sheriff will be so concerned about disruption of the markets that he in fact protects the bullies from the wrath of the market place. There appears to be much concern about the volatility which could result from short squeezes; surely these are the result of illegal and unsuccessful bear raids which incorporate many illegal practices. Meanwhile the prime brokers are reporting quarterly profits in the hundreds of millions or even billions of dollars.

Wall Street is host to some of the shrewdest minds and richly rewarded people in America. If there is any way that ***loopholes*** to the proposed legislation can be exploited, they will be discovered and utilized. Therefore, rules that are simple, clear and effective without exceptions are the only way to avoid the exploitation and manipulation currently being encountered by the fraud artists at play.

On January 7, 2005 there were seventy-three (73) securities which were listed as threshold. By Chairiman Cox's own admission. There are now two hundred and ninety-eight (298) securities that are classed as threshold. How can this increase in a year and a half be regarded as a success? Certainly eliminating the grandfather clause is an excellent first step.

The phase-in period of thirty-five days seems reasonable. However, upon further reflection and when you realize that the industry was put on notice on July 14, 2006, comments will be received until September 19, 2006 with a probable final date for the final amendments of October 30, 2006: this time period becomes 109 calendar days.

When you add for 35 trading days which become 49 calendar days then the total is 158 for 43% of a year. When such a long notice period was given for the first version of regulation SHO the industry piled on the naked short positions before the new regulations came into effect. What nefarious activities will the industry enact this time in this generous time period?

Every factor that can be used to eliminate abuses, manipulation and fraud by the primary brokers and their clients must be put into play
Namely,

1) Fines of biblical proportions resulting from violating S.E.C. short selling rules plus any other attempts to defraud the investing public.

2) Eliminate grandfather clauses plus short selling in any stock declared a threshold security

3) Tighten up fail-to deliver time period to three (3) trading days and introduce a buy-in system.

4) Trading errors which are almost always found within six or seven trading days must be closed immediately

5) Imposition of mandatory pre-borrows conditions before a stock can be sold short. Once a stock has been loaned, it must be segregated to avoid the abuse of multiple short selling on a common locate.

6) Full disclosure of fail to deliver on an individual stock, plus the name of the delinquent broker. No bully operates well under a spotlight. Disseminate this information of a separate listing on the S.E.C. homepage.

7) Borrowing to close out a fail position is not a problem since previously borrowed stock is segregated. This avoids kiting of stock certificates. Currently, huge trades or crosses take place on other stock exchanges such as Chicago, Philadelphia or even overseas, Berlin as an example, to delay or pass on the responsibility of a fail.

8) Rule 203A is a total failure since the S.E.C. refuses to back up such rules with prodigious fines. The New York Stock Exchange recently assessed total fines of 1.25 million dollars for multiple short selling abuses by multiple member firms. This is petty cash for these companies and hardly acts as a deterrent.

SHO's option market maker exception is subject to huge abuses. As a minimum the market maker should be forbidden to write options on a threshold security. Other abuses may relate to writing out of the money calls against a short sale. A review of the activities of market makers over the last nineteen months should determine what other abuses, if any, are being practiced.

In summary, the abuses, manipulation and fraud currently practised on Wall Street against thousands of investors are out of control. The last time such abuses occurred was in 1998 when prime brokers extended too much credit to Long Term Capital firms. This time it will much worse since many more hedge funds are involved. Roger Lowenstein profiled this abuse in his excellent book When Genius Failed. Prior to 1998, the Trusts in the 1920's led to massive naked short selling which culminated in the crash of 1929 and the Great Depression.

Listening to the investing public is a major step toward eliminating these problems. Keep up the good work!

Regards,

Percy Harcourt
Hamilton, Ontario, Canada