2765

HUDSON SECURITIES INC.

May 26, 2009

The Honorable Mary L. Schapiro
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RECEIVED
MAY 27 2009
OFFICE OF THE SECRETARY

Re: File No. S7-08-09

Dear Chairman Schapiro:

Hudson Securities, Inc. ("Hudson") welcomes the opportunity and respectfully submits the following comments with regard to the proposed REG SHO (short sale) amendments. The SEC has recently proposed three approaches in restricting short sales. Hudson would urge the commission not to consider more regulation, but smarter regulation and better enforcement of existing rules. We believe, as always, short sales must be defined as an order for special handling instructions, rather than a customary sell long order. Regulation and the industry must ensure delivery for short sales and not regulate the direction of the market.

A successful customary trade occurs when an investor buys a security at a low price, and then sells the security at a higher price, profiting the difference between the purchase price and the subsequent sale price. A successful short sale occurs when an investor borrows a security, sells it at a high price, and then buys it later at a lower price and delivers the security back to the original security lender. If the investor correctly predicts that a decrease in the price will occur, the investor profits the difference between the sale price and the subsequent purchase price (minus the cost of borrowing the security). The Securities and Exchange Commission currently does not prohibit taking a long position in a customary trade as a way to combat market manipulation that causes a stock price to rise, but is proposing to prohibit short selling as a way to combat market manipulation that causes a stock price to fall. The bid test, or tick test may possibly slow down the market on the down side, which is what a circuit breaker test will ultimately accomplish. If we are concerned with stock prices, then I believe a circuit breaker is the easiest solution for defending market prices.

In recent months we have heard the phrase "to big to fail", in reference to the financial industry. The evening news and financial networks have been reporting stories in regards to Washington's bail out plans for the financial industry. In retrospect, after learning of the financial conditions of these companies, was the short seller's analysis incorrect when they initiated a short sale in one of the financial stocks? Should short sellers be considered villains or even criminals?

111 Town Square Place
Jersey City, NJ 07310

Phone: 201-680-7361
Fax; 201-216-1105

HUDSON SECURITIES INC.

The Securities and Exchange Commission currently regulates short sales with existing rules 10b-5, 10b-21 and 204T. If a short seller tried to manipulate a security price lower by spreading false information or rumors the investor would be in violation under rule 10b-5. The SEC prohibits the circulation of false or misleading information or rumors. Rule 10b-21 specifies that it is unlawful for any person to sell a security or deceives or misrepresents to their broker/dealer that they own shares being sold. Rule 204T has strengthened the delivery requirements for all equity securities by settlement date. 204T close out requirements have significantly reduced fails in delivery of securities.

The bid test, or tick test may possibly slow down the market only on the down side, which is what a circuit breaker test will ultimately accomplish. If we are concerned with stock prices, then I believe a circuit breaker is the easiest solution for defending market prices. However, if our goal is to have an open and transparent market, then let's allow buyers and sellers to determine the markets price. Broker/Dealer's market makers and specialists currently posts transparent bids and offers, for all market participants and investors to view. The market maker and specialist are licensed professionals creating short term liquidity for each security. The market maker and specialist are currently allowed to sell short without owning the security to create liquidity for every security listed on an exchange. The market makers and specialists are regulated by FINRA and the Securities Exchange Commission. The market maker and specialist must be exempt for delivery, as the industry must be able to provide the liquidity needed to ensure an efficient market. If market makers or specialist are not in the market to create liquidity, then markets in a short period of time can become inefficient. In essence, the market maker and specialist will allow the market to bend but not break. A circuit breaker on individual securities is the same as placing price controls on the securities. To paraphrase a remark by Milton Friedman, economists may not know much, but they do know how to produce a shortage or a surplus. Price floors, which prohibit prices below a certain minimum, cause surpluses, at least for a time. The Commission should allow the regulated market maker and the specialist to help the market by creating liquidity, therefore allowing the market to bend and not break at specific prices. We should not create surplus of sell orders by placing price controls on specific securities by implementing a circuit breaker (price floor).

The liquidity provided by market makers and specialists are necessary for efficient markets. In the absence of market makers or specialists prices can fall dramatically. In contrast, when market makers and specialists are selling shares in an up market, they are providing liquidity to all buyers and providing more shares at specific prices. If there are less bids and offers in the market, then prices can dramatically go higher or lower, as the market can become more thinly traded and causing higher transaction costs to investors. As stated earlier the market makers and specialists are regulated by FINRA, their Self Regulatory Organization and also by the Securities Exchange Commission. FINRA and the Securities and Exchange Commission Regulators are able to ensure the market maker and specialist exemption are utilized to create liquidity, and not be abused. All other investors should not have the ability to sell shares unless they can deliver the shares by settlement, as required under SEC Rule 10b-21 and Rule 204T. The exemption for market makers and specialists must only be utilized to create liquidity. If investors have interest and want to act as a market maker or as a specialist, then they need to register as

111 Town Square Place
Jersey City, NJ 07310

Phone: 201-680-7361
Fax; 201-216-1105

a broker/dealer and allow FINRA and The SEC to regulate their activities. All broker dealers have capital commitments and licensed traders who have compliance departments monitoring their activities.

Now more than ever, we look to the Commission for leadership. Please do not allow political pressure or public opinion to cause the Commission to over regulate our markets. Allow the open transparent market to find its correct price without barriers placed by circuit breakers, tick or bid tests. If the regulators are able to enforce existing rules, short sales in compliance can be invaluable order type and tool in a down market for educated investors. I don't believe the industry should have a circuit breaker, bid or a tick test in the attempt to slow the markets downward volume or try to regulate the direction of security prices. The industry has regulated marker makers and specialists as the mechanism for stabilizing the market.

Sincerely,

Randy Hechler

Randy Hechler
Director of Compliance
Hudson Securities, Inc.