March 24, 2023

By Email

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission 100 F Street, N.E.
Washington, D.C. 205499–1090 rule-comments@sec.gov

Re: File No. S7-01-23 Prohibition Against Conflicts of Interest in Certain Securitizations

Ms. Countryman:

The market maker exemption allows market makers to engage in certain activities that would otherwise be prohibited under the regulations. For example, market makers are allowed to engage in hedging activities related to the securitized assets, which create conflicts of interest if done by other market participants.

One concern is that market makers use their exemption to engage in activities that create conflicts of interest, such as hedging against the performance of the securitized assets.

Another concern is that market makers use their exemption to gain an unfair advantage over other market participants. For example, a market maker can use its exemption to accumulate a large position in a particular securitization, which could give it significant influence over the pricing of the securitized assets.

These concerns are not hypothetical. There have been instances in the past where market makers have used their exemption to engage in activities that were not in the best interests of investors. For example, in the case of the Abacus 2007-AC1 securitization, a market maker helped to structure the transaction in a way that would benefit a hedge fund client at the expense of other investors.

After a thorough review of the proposed rule File Number # S7-01-23, I believe that it will negatively impact individual investors and leave room for manipulative hedge funds to do as they please.

Creating exceptions for risk-mitigating hedging activities, bona fide market making, liquidity commitments distorts the market in favor of hedge funds and market makers with histories of violations and raises the financial instability of the United States which drives political instability in due course. Excepting marker makers in effect grants them sovereignty and systemic bias/ privilege against ordinary market participants cultivated by legal smoothing over. Market makers need to be bound not excepted otherwise the market is skewed in favor of a destructive form of consolidation and there is no real market making, only rigged manipulation.

The proposed rule inadequately protects household investors by reducing the information available to them. This lack of transparency makes it harder for them to make informed investment decisions, potentially leading to losses.

The proposed rule could be exploited by manipulative hedge funds. These funds have a history of manipulative behavior in the securities market, and the exemption would offer them a new opportunity to engage in such practices. By limiting the exemption to accredited investors, hedge funds could create fake accredited investor accounts to conduct manipulative behavior outside of regulatory oversight.

In conclusion I opposed adoption of any market maker exemptions in rule S7-01-23 as these will only be used to further distort and rig the financial market toward the benefit of a handful of market makers and hedge funds who already disproportionately control the market.

Erwin Korsakov

Retail Investor and Concerned Registered Voter