

Dear Members of the Securities and Exchange Commission,

I am writing to express my concerns regarding the proposed rule S7-06-22, entitled "Modernization of Beneficial Ownership Reporting," as a household investor.

Firstly, I would like to emphasize the need for increased public review of this lengthy rule proposal. As a household investor, I believe it is crucial to facilitate greater public participation in the review process. Household investors may not always possess the same level of familiarity or expertise as financial industry commenters who often guide rule proposals to serve their own interests. Extending the comment period would be highly beneficial for household investors like myself to ensure adequate understanding and meaningful contribution to the rulemaking process.

Secondly, I fully support the proposed amendments to revise filing deadlines. Technological advancements have accelerated the dissemination of information, and shorter deadlines for disclosures can improve transparency, reduce delays, and minimize information asymmetry that may disadvantage investors. Timely and comprehensive disclosures, including those related to significant equity ownership and accumulation, are essential for the public and all market participants.

However, I am strongly opposed to the proposed amendments to Rule 13d-3, particularly the addition of new paragraph (e). As stated in the rule proposal, historically, holding derivatives that provide economic exposure to a covered class without conferring beneficial ownership has not been considered sufficient. The proposed amendment aims to deem holders of such derivative securities as beneficial owners, granting them the same rights as direct security holders. In turn, granting cheaper voting rights. This approach raises concerns regarding the potential for the tail to wag the dog.

I echo the sentiments expressed by Dr. Susanne Trimbath, who highlighted that this proposed rule could grant derivatives holders voting rights. Rule 13d-3 plays a vital role in determining beneficial ownership and voting rights. Consequently, the proposed amendments have far-reaching implications beyond what is publicly disclosed in the rule proposal itself. This lack of transparency alone should be sufficient reason to reject the proposed amendments to Rule 13d-3.

Moreover, cash-settled derivatives often result in cash payments rather than physical delivery of the underlying securities. There is no guarantee that the right to acquire the underlying security will be exercised, such as through the exercise of an option. Therefore, deeming certain derivatives holders as beneficial owners risks increasing the number of potential voting shares, diluting shareholder rights, and unnecessarily complicating an already complex voting process fraught with issues like over-voting and empty voting. The solution is simple: derivatives holders should not be deemed beneficial owners unless the derivatives directly convey voting rights and/or the power to dispose of the underlying security. If market participants desire ownership rights, they should directly own the security.

Furthermore, I oppose the proposed amendment to Rule 13d-3(e) for determining the number of equity securities a holder of a cash-settled derivative security will be deemed to beneficially own. The rule explicitly excludes short positions from being netted against long positions. By only counting long positions, this amendment allows sophisticated market participants to engage in fully hedged long and short cash-settled derivatives positions, effectively reaching a net-zero position while still being deemed beneficial owners of a significant number of equity securities. This discrepancy disadvantages household investors like myself and enables more sophisticated market participants to synthetically create unlimited voting rights at the expense of minor cash-secured derivatives transaction fees. Once again, the solution is straightforward: derivatives holders should not be deemed beneficial owners unless the derivatives directly confer voting rights and/or the power to dispose of the underlying security.

If the ultimate goal is greater transparency ("At a minimum, greater transparency could influence counterparties' risk management decisions. Proposed Rule 13d-3(e) is thus designed to make information available about any large positions in cash-settled derivative securities and, by implication, the related reference securities. Under specified conditions, if holders of cash-settled derivatives were deemed beneficial owners of the reference securities in combination with the other amendments proposed in this release, the resulting disclosures could alert issuers and the market to the possibility of rapid accumulations of, and high concentrations in, a covered class."), why not simply

propose reporting and making large long and short derivatives positions publicly available?

Why go through the extra steps of modifying Rule 13d-3 to deem certain cash-settled derivatives holders as beneficial owners in order to achieve disclosure? The beneficial owner designation appears unnecessary for transparency.

I appreciate the Commission's commitment to ensuring the integrity and fairness of the financial markets. Thank you for considering my concerns on this matter. I trust that the SEC will carefully evaluate all feedback received during the comment period and make informed decisions that promote the long-term sustainability and stability of our financial system.

Sincerely,  
Connor McCormick