ONE HAT RESEARCH LLC

<u>VIA EMAIL</u>

March 30, 2023

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090
rule-comments@sec.gov

Re: Equity Market Structure Proposals (File Numbers S7-29-22, S7-30-22, S7-31-22, and S7-32-22)

Dear Ms. Countryman:

I am writing to express my concerns regarding Proposed Rule 615, which addresses the practice of payment for order flow (PFOF) in equity market structure. I believe that the Securities and Exchange Commission (SEC) has not adequately considered the impact of the proposed rule on competition in the market, as required by the Securities Exchange Act.

The SEC's analysis of the economic effects of Proposed Rule 615 is speculative and insufficient. The Commission cites potential benefits to individual and institutional investors from enhanced order execution quality and improved price discovery. However, it also acknowledges that these benefits may be over- or understated and that it cannot predict how market participants would adjust their practices in response to the rule, undermining its ability to assess the rule's impact on competition. This uncertainty suggests that the SEC has not fulfilled its statutory obligation to consider the rule's impact on competition and to justify any burdens as necessary and appropriate.

The SEC also has not sufficiently addressed the potential consequences of Rule 615 on market structure. A possible outcome of implementing Rule 615 is the monopolization of retail trade execution by a single firm, such as Citadel Securities, due to its technological advantages. This firm's affiliation with a major hedge fund amplifies the concerns surrounding the current affiliation and raises new, more serious issues.

Given the risk of unintended centralization of retail trading within a *de facto* super-exchange owned and operated by a hedge fund manager, it is crucial for the SEC to conduct a more comprehensive analysis of the dynamics and implications of the proposed rule. Thorough examination of the potential consequences will ensure that the regulation promotes market competition and protects the interests of all market participants.

Proposed Rule 615 appears to be driven by politics rather than economics. Individual investor participation in U.S. public securities markets is at an all-time high, with retail traders enjoying near-instantaneous trade execution at zero commission. Ironically, the majority of fees retail traders pay are the SEC fees on each transaction, which offset the costs of SEC regulation. When *The Wall Street Journal* reported on the proposed rules, many reader comments expressed opposition to Proposed Rule 615 and reminisced about the days of high stock commissions.

This success is largely due to the current PFOF system, which has not prompted significant complaints from market participants. The concerns surrounding PFOF seem to have emerged primarily in response to the meme-stock craze of early 2021. While it is true that the low trading costs enabled by PFOF may have facilitated increased retail trading activity, the SEC should focus on addressing more pressing issues, such as the role of online platforms like Reddit in shaping group behavior and its potential illegality.

Thank you for your attention to this matter. I look forward to the SEC's careful evaluation of the concerns raised in this letter and others the SEC has received.

Sincerely,

J.B. Heaton, J.D., M.B.A., Ph.D.
Managing Member
One Hat Research LLC