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April 9, 2015

VIA ELECTRONIC MAIL

Marcia E. Asquith
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006-1506

RE: FINRA Regulatory Notice 15-04: FINRA Requests Comment on a Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products

Dear Ms. Asquith:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to the Financial Industry Regulatory Authority’s (“FINRA”) Regulatory Notice 15-04 (the “Notice”), requesting comment on a proposal to expand dissemination of TRACE data to include additional Securitized Products, specifically collateralized mortgage obligations (CMOs), commercial mortgage-backed securities (CMBSs), and collateralized debt obligations (CDOs). BDA is the only Washington, DC based group representing the interests of middle-market securities dealers and banks focused on the United States fixed income markets and we welcome this opportunity to present our comments on this Notice.

BDA supports initiatives to increase market transparency, but has concerns with how this proposal would impact market liquidity and quality and the small-to-medium sized dealers who facilitate transactions in these specialized securities. From an operational perspective, BDA is concerned with the proposal’s 15-minute reporting requirement time frame as it relates to these specific fixed-income securities. The securitized products that are the focus of the Notice are, as FINRA notes, more complex than other fixed-income securities. This is especially true from an operational perspective. Additionally, BDA believes that the current regulatory environment is creating uneven burdens across firms of different sizes. Regulatory actions that demand greater investment in technology or compliance personnel have a disproportionate impact on smaller market participants relative to larger market participants. BDA believes that these disproportionate burdens negatively impact market competition and degrade overall market liquidity and quality.

BDA is extremely concerned with the impact of regulatory actions on competition especially related to the ability of smaller dealers to compete.

BDA is concerned with how regulatory transparency initiatives will include requirements that will place disproportionate regulatory burdens on the smaller dealers that are active in these markets. Any action taken to increase market transparency that does not strike the right balance between the impact of greater transparency on liquidity and competition could harm market quality and ultimately investor pricing. This concern is especially acute in relation to the smaller trade sizes that are most frequently traded for the benefit of retail investors by smaller dealers.

The securitized products that are the focus of the Notice typically trade in “odd lot” sizes. Rarely do trades take place in clean, round whole-number quantities. Small-to-medium size dealers have been the traditional liquidity providers in the smaller quantity odd-lot market. Due to the irregular trade quantities, these securities present some unique operational challenges. Specifically, dealers in this market make de minimis trade edits with greater frequency post-execution. Currently, smaller dealers operating in this market spend significant time and resources to ensure accurate trade reporting—in relation to the current, end-of-day TRACE trade reporting requirement. To these liquidity providers, the 15-minute trade-reporting requirement will present significant challenges.

BDA is concerned that the proposal’s 15-minute post-execution reporting requirement does not acknowledge the operational challenges small-to-medium sized dealers currently face specifically with CMO, CMBS, and CDO securities.

The proposal’s 15-minute reporting requirement will increase operational, compliance, and regulatory complexity for a group of securities that are inherently more complicated than most other fixed-income securities from an operational standpoint. While the Notice states there will be “no anticipated operational impact,” BDA is concerned that an unnecessarily tight post-execution reporting time requirement will increase the frequency of small, de minimis trade corrections—made after the expiration of the 15-minute reporting window. This would cause an increase in fines amongst dealers, especially small-to-medium sized dealers with less operational personnel, who make every reasonable effort to comply with the letter and spirit of the trade-reporting requirements.

When the reporting time frame is ultimately reduced to 15 minutes, smaller dealers will face significant challenges consistently reporting trades accurately. This could lead to an unnecessary increase in regulatory fines for late-trade reporting for smaller dealers. Furthermore, dealers may be required to hire additional operational staff to verify odd-lot trade details within the 15-minute window. This may not be economically feasible for certain smaller dealers currently providing liquidity to this market.

BDA urges FINRA to be cognizant of the trade offs between the benefits of increasing transparency relative to the liquidity impacts of creating a bifurcated market with a disproportionate regulatory burden on smaller dealers who are the primary liquidity providers to the retail-focused portion of the market. BDA urges FINRA to provide a market-based rationale for why the 15-minute reporting requirement, as opposed to a longer length-reporting requirement, is the proper requirement for these specific, more complex and operationally-intensive securities.

BDA appreciates the fact that FINRA is proposing a phased-in approach that will reduce the timeframe from 45 minutes to 15 minutes after execution. But, the shift from end of day reporting to the 15 minutes after execution time frame is the reduced reporting timeframe that demands greater study. BDA urges FINRA to move cautiously and consider the value of a longer post-execution reporting timeframe that acknowledges the unique operational challenges that exist in this marketplace, especially for smaller dealers.

BDA requests that FINRA provide a market-based rationale for why the \$1 million transaction-based threshold for real-time reporting represents the optimal balance between any purported benefits from increased transparency and the potential for negative liquidity and pricing issues for retail investors in smaller trade sizes.

In the Notice, FINRA acknowledges—by choosing not to require any dissemination for additional Securitized Products that trade five times or less over a given period—that less transparency is appropriate for transactions of \$1 million or greater in less frequently traded securities. Based on FINRA’s 2013 observation period the criteria outlined in the Notice would not have provided transparency for 21 percent of trades. FINRA notes that this decision is appropriate based on concerns with disclosing trading strategies “given the bespoke nature of these products.”

BDA agrees with FINRA’s description of these securities as “bespoke” and believes that FINRA should provide greater attention to the potential negative market pricing and liquidity impacts that real-time disclosure will have on smaller trade sizes. Real-time reporting for trades of less than \$1 million will impact market pricing and liquidity and impact trading strategies, as dealers will need to be more cognizant of the impact of real-time reporting information impacting the market prices of securities held in inventory. BDA requests that FINRA provide a rationale—as it has done with the choice to constitute the proposal in order to prevent information leakage in less frequently traded securities—for why the \$1 million trade size limit balances market liquidity and retail pricing concerns with the desire to create greater transparency.

BDA believes this proposal could result in increased trading in securitized products by financial institutions that are not required to comply with TRACE reporting requirements.

BDA notes that some participants in these markets are banking institutions that do not have to comply with TRACE reporting requirements. This difference in regulatory

reporting requirements already places dealers at a competitive disadvantage because greater regulatory costs apply to dealers who must report to TRACE.

BDA urges FINRA to contemplate the impact of creating a transparency rule—with an overly burdensome reporting requirement—that would cause non-dealer financial institutions to attain greater market share at the expense of dealers, especially smaller dealers, strictly because dealers are required to report trades. BDA believes a shift in trading to non-reporting institutions would degrade the value of TRACE information dissemination to the marketplace and create a playing field that would illogically favor banking institutions.

BDA believes that the proposed amendments to FINRA Rule 6730 are improvements and would make it easier for smaller dealers to operate in the CMO market.

BDA is supportive of the proposed amendments to FINRA Rule 6730 to change the reporting time frame for pre-issuance CMO transactions. BDA recommends FINRA reduce the reporting timeframe further. BDA believes that a further reduction, to settlement minus one day would provide additional benefits to the market. On settlement minus one day, the CUSIP associated the CMO will be widely known by CMO market participants.

Thank you again for the opportunity to submit these comments.

Sincerely,

A handwritten signature in blue ink that reads "Michael Nicholas". The signature is written in a cursive, flowing style.

Michael Nicholas
Chief Executive Officer