

May 25, 2016

**VIA ELECTRONIC MAIL**

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1300 I Street NW, Suite 1000  
Washington, DC 20005

**RE: Request for Comment on Draft Amendments to MSRB Rule G-15(f) on Minimum Denominations (Notice: 2016-13)**

Dear Mr. Smith:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit these comments regarding MSRB Regulatory Notice 2016-13, draft amendments to MSRB Rule G-15(f) on minimum denominations (“draft amendments”). The BDA is the only DC-based group representing the interests of middle-market securities dealers and banks focused on the U.S. fixed-income markets and we welcome this opportunity to present our comments.

The BDA appreciates MSRB’s intention to strike a balance between restrictions on buying and selling positions in bonds lower than the minimum denomination, against modifications meant to assist managing these positions generally. We believe that the industry needs a fair rule that protects investors, while also providing dealers with solutions when dealing with customers who own positions in below the minimum denominations. We believe the amendments proposed by the MSRB may result in improved liquidity and could help to alleviate some of the regulatory burdens dealers face in managing compliance with purchases and sales of certain securities below the minimum denomination. Below, we outline our general support for the draft amendments and request additional modifications to clarify some complexities in the market to further mitigate dealer struggles with minimum denominations.

***The MSRB Should Permit Dealer Flexibility in Certain Instances***

Below minimum-denomination bond positions are often created in the marketplace and the rule needs to provide dealers with flexibility to manage these situations since a below minimum-denomination quantity of bonds is a hard-to-sell position with limited liquidity. Often, money managers will buy a block of bonds above the minimum denomination level and then subsequently allocate below minimum-denomination quantities to separately managed accounts. These separately managed accounts may be transferred to a broker-dealer who may be called upon by the customer to liquidate a below-minimum denomination quantity of bonds. Similar instances arise when estate planners split up a block of bonds into two accounts leaving a position that is extremely difficult for the dealer to liquidate. Often those divisions result in customers holding below-minimum denomination quantities of bonds, which realize few, if any, bids for the position. While there may have been multiple bids for the original position, that is not the case for the remaining smaller-position, resulting in a depreciated value if a dealer is able to find a buyer for that below minimum-denomination position. The BDA would therefore

ask the MSRB to consider including language providing flexibility for certain circumstances, beyond the dealer's control, which created the below-minimum position.

The MSRB should not force liquidation of certain positions, given appropriate disclosures. BDA dealer firms sometimes are forced to sell amounts of bonds below the minimum-denomination for a variety of reasons including the need to liquidate and divide estates. Often those divisions result in customers holding below-minimum positions resulting in few, if any, bids for the position. While there may have been multiple bids for the original position, that is not the case for the remaining smaller-position, resulting in a depreciated value if a dealer is able to find a buyer for that below minimum-denomination position. For example, if a customer holds \$9,000 par value of a 5 bond x 5-bond piece in their account, they should be able to sell 5 bonds (the minimum denomination value) and continue to hold 4 bonds. As things stand, firms would be required to sell the entire position, likely resulting in insufficient demand or no bids at all in these situations. The BDA would therefore request that the MSRB consider including language in the draft amendments to avoid the full liquidation of a bond position if that sale would result in a customer's account holding a below-minimum increment as long as appropriate disclosures are made.

***The MSRB Should Permit Sales to Customers of a Below-Minimum Increment if the Customer Already Owns a Full Position in the Security***

The BDA would like to request that the MSRB permit sales to customers of any below-minimum position as long as that customer already owns a position at or above the minimum denomination amount in that same security. For example, if a customer owns \$5,000 par value of a 5-bond minimum-denomination position and the customer would like to continue building on that position it should be permissible for the customer to buy bonds in below minimum-denomination increments. The customer should be allowed to buy an additional 2 bonds to add to the 5-bond minimum-denomination position. BDA believes customers should be permitted to buy the 2 as an add-on to the full position already held by the customer since that customer already owns a position at the minimum-denomination level. We believe the MSRB should permit this activity to occur as long as the customer is building on its position, which already meets the original minimum denomination value.

***The MSRB Should Consider Permitting Additions to Below Minimum Positions to Any Customer as long as that Customer Continues to Build in its Below-Minimum Position***

The BDA would like to request the MSRB further modify the amendments by eliminating the requirement in (f)(iv) which prohibits a dealer from effecting a sale to a customer in an amount below the minimum denomination, unless that dealer brings at least one customer's position at or above the minimum denomination. While the BDA recognizes it is the MSRB's desire to reduce as many below minimum positions as possible in the market, we believe that it should not be a requirement of a dealer to have to "top-off" any one customer first. Instead, the BDA would ask that the MSRB consider permitting a sale to any customer who has any below-minimum position of any amount in the same position, even if that sale does not result in bringing that customer to a position at or above the minimum denomination. From a customer-relations standpoint, it could be a challenge for firms who would have to choose one customer over another, especially if both customers could be interested in the same below minimum position. In addition, a customer may choose to add to their below-minimum position in hopes of someday reaching the minimum through multiple purchases. Thus we believe the draft amendments should be adjusted to permit add-on sales to any customer in any amount as long as they already own a position in the security.

### ***Interdealer Trades Should be Addressed Under the Draft Amendments***

Below minimum-denomination bond positions are often offered in the market and the bidding dealer does not immediately know the end customer. This could result in traders being reluctant to bid on the below-minimum amounts since they may ultimately be penalized if they cannot prove that a counterparty is liquidating its entire below-minimum denomination quantity. Thus, when a firm is bidding on a below-minimum denomination position, it should be the burden of the selling dealer to ensure its responsibilities to liquidate an entire position under the rule is met, avoiding punishing the bidding dealer purchasing the below-minimum position into inventory.

Furthermore, interdealer trades can sometimes prevent a dealer from knowing who the end customer of its counterparty is. Thus, BDA believes that for interdealer transactions, dealers should be relieved from the requirement to send a disclosure letter to its counterparty. BDA believes that dealers should only have to send a disclosure letter to a customer in instances when the customer is “known”. The rule should not require dealers to “look through” to ascertain the account-level information and identity of the customer of its counterparty.

### ***SMMPs Should be Exempt from the Rule***

As the BDA has stated in recent letters to the MSRB, we believe that sophisticated municipal market participants (SMMPs) should be excluded from the protections of this rule. MSRB guidance provides that for a customer to be an SMMP, the dealer must have a reasonable basis to believe it is capable of evaluating market risks and market value independently in evaluating the recommendations of the dealer. We believe that for this rule, it is fair to say that those market participants who are truly retail customers should be notified of the potential for illiquidity should they buy a below minimum position into their account. However, SMMPs who have met the requirements to be given such SMMP status have demonstrated that they are able to independently evaluate investment risk and market value and thus should not require the protections this rule is aiming to provide, and should therefore be exempt.

### ***The MSRB Should Permit Firms to Rescind Sales in Certain Instances***

The BDA acknowledges that the MSRB is working to make amendments to the minimum denomination rules as a result of activities that they and other regulators have seen in the marketplace which result in limitations that occur naturally from things like division of estate holdings, often creating below-minimum amounts in various customer accounts. While acknowledging that BDA firms will update and follow their policies and procedures to meet the new standards of the draft amendments when finalized, we would still request a safe harbor for firms to be able to rescind and correct the transaction as long as the firm makes an effort within a reasonable timeframe.

BDA members would welcome the opportunity to continue to productively engage with the MSRB to ensure that the compliance expectations of regulators and market participants are as clear as possible. We would also be pleased to discuss the unique role of the middle-market dealer in the U.S. fixed income market and the potential unintended consequences that a broad interpretation of this rule could have. Please do not hesitate to contact us to solicit the views and feedback of middle-market dealers.

Sincerely,

A handwritten signature in blue ink, appearing to read "Nicholas".

Mike Nicholas  
Chief Executive Officer