

December 20, 2012

Ms. Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

Re: Regulatory Notice 12-42—Debt Research (“Notice”)

Dear Ms. Asquith:

This comment letter on the rule proposal (“Proposal”) in the Notice is submitted by BMO Capital Markets GKST Inc. (“BMOGKST”), a registered broker-dealer with the SEC and the MSRB. BMOGKST was founded in 1980 as Griffin, Kubik, Stephens & Thompson, Inc. It initially specialized in the underwriting and distribution of tax-exempt municipal bonds, almost exclusively to institutional customers, most of which were small and mid-size banks. As it grew, it became involved with other types of fixed-income securities such as governments and agencies. BMOGKST has approximately 120 employees, most of whom are engaged in sales and trading activities. It has a public finance group as well as relatively small credit analytics and strategic analytics groups. It is the activities of the latter group which have prompted the writing of this comment letter.

In 2008, BMOGKST was acquired by BMO Financial Group, and it continues post-acquisition to cater to institutional customers, a large percentage of which are still small and mid-size banks and what are known as Tier II and Tier III institutions. BMOGKST believes that it has a major niche in the coverage of that market. As will be described below, the ability to distribute trader commentary to those clients is of utmost importance to BMOGKST, its clients and the functioning of the debt markets in general.

While we support fully the objectives of the Proposal, we believe that even after FINRA’s revision of the Proposal, it continues to impose undue burdens and obstacles upon the ability of smaller firms such as BMOGKST to provide trader commentary to Institutional Investors which are not Qualified Institutional Buyers, as we explain below.

The BMOGKST strategic analytics group exists for one purpose only—to support the Firm’s sales activities to its institutional customers. The group produces trader commentary on a weekly, monthly and periodic basis, the objective of which is to relay to institutional clients the direction of the fixed-income markets and the relative value of various highly-rated, deeply liquid categories of fixed-income investments, such as municipals, treasuries, agencies,

mortgage-backed and other asset-backed securities. The group performs no fundamental research of any kind and does not comment on nor otherwise participate in anything related to the corporate bond market. Given the size and scope of BMOGKST's business generally and that of the strategic analytics group in particular, the types of segregated management provisions proposed for debt research by the Proposal would be a tremendous burden and would place BMOGKST at a competitive disadvantage in providing trader commentary as a service to small and mid-size institutions. We believe that there is no need for new regulation of "trader commentary", but any regulation of trader commentary should be the subject of a more in depth assessment of the costs and benefits than is evident in the Notice or the Proposal.

Two of our specific concerns are that:

1. Institutional distribution of trader commentary should be exempt, subject to the ability to opt out of the exemption.
2. Any restriction of the participation of persons engaged in sales and trading or principal trading activities in the management of research personnel should clarify the distinction between sales and trading in general and those truly engaged in proprietary trading activities.

We elaborate on our thoughts below.

First, the proposed definition of "debt research report" should not include the type of activity engaged in by the strategic analytics group of BMOGKST because there is no potential for manipulating the debt markets by publishing commentary on what is happening in those markets based on a relative value analysis of the most liquid, credit-risk-free instruments in all of the securities markets. Price movements in debt securities are limited by par value, maturity and interest rate parameters. Unlike equity markets, there are top and bottom limits that cannot be exceeded (except in the case of major credit issues, which are not a factor in the types of securities that we are dealing with). The markets, and the types of securities involved, are too deep and too liquid to be moved by any one firm's commentary as to the relative value of highly rated debt issuers which do not have credit issues.

Second, we believe that the Proposal should be limited to fundamental research, as opposed to trader commentary relating to interest-rate movements demonstrated by market forces for highly-rated and extremely liquid securities. We would be pleased to provide to FINRA amendments to the Proposal which would clarify this distinction.

We note that FINRA has stated that it will undertake cost-benefit analyses of its rules. The impact of the Proposal on trader commentary deserves further rigorous cost-benefit analysis, because we apprehend that the restructuring, inefficiencies and compliance costs to members would overshadow any benefits to the public. Trader commentary is already subject to extensive rules, regulations and safeguards, including reviews by supervisors, legal and compliance

personnel and ultimately by regulators in their periodic examinations. This present mechanism is a more cost-effective manner to protect the public than the forced management restructuring and the ongoing compliance costs that would be associated with such a requirement.

We do support the Proposal's exemption for institutional recipients. We believe, however, that a less cumbersome procedure is necessary to preserve and protect the interests of the smaller and mid-size institutional clients. An affirmative consent provision is cumbersome and burdensome. We cover thousands of such clients. In most cases they have been receiving this type of commentary for years. They will be adequately protected by having the ability to notify us that they did not want to receive our commentary. In that regard, our experience with obtaining Rule 2111 institutional suitability certificates is that clients sometimes do not return the paperwork (in particular duplicate paperwork as they do not understand the need, for example, to produce different certificates for different situations, such as QIB qualification, compliance with Rule 2111 and, if this proposal is adopted, institutional consent to receive trader commentary) especially when they have been doing business with us for so many years.

We also would like to make one particular point with respect to the supposed distinction between "principal trading activities" and "sales and trading" in section (b) (3) (A) (ii) and (iii) of the Proposal in the context of a restriction on compensation decisions. Firms, such as ours, which participate in the underwriting and distribution of fixed-income securities, do so entirely on a principal basis. All of such activity is in the form of inventory management in order to sell such securities to customers. We do not trade for our own account and therefore do not have principal trading activities, but our trading personnel do position securities in the course of selling them to customers. We urge FINRA to clarify that such personnel are not deemed to be engaged in "principal trading activities".

Thank you for the opportunity to comment. If it would be helpful, we would be pleased to supply you with the type of commentary we have supplied to institutional clients for many years.

Very truly yours,



Robert J. Stracks  
Counsel

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