

April 9, 2018

VIA ELECTRONIC MAIL

Jennifer Piorko Mitchell
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006-1506

RE: FINRA Regulatory Notice 18-05: FINRA Requests Comment on the Application of Certain Rules to Government Securities and to Other Debt Securities More Broadly

Dear Ms. Piorko Mitchell:

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 18-05 (the “Notice”), requesting comment on the application of certain rules to government securities and other debt securities more broadly. BDA is the only 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 the Notice.

FINRA rules already adequately protect investors in U.S. Treasury securities and other government securities (other than municipal securities).

The BDA believes that the application of the many rules identified in the Notice to government securities and U.S. Treasury securities does not make sense because dealers do not comprise a sufficient amount of the markets in these securities to justify the specificity of rules to them. The BDA believes that the key rules that should apply to these transactions already apply, which include fair dealing, anti-manipulative and anti-fraud rules, fair pricing, and suitability.¹ These rules adequately provide FINRA and the SEC with the regulatory authority to ensure that dealers fairly and appropriately trade in these securities. Particularly with U.S. Treasury securities, dealers only represent a portion of the vast trading that occurs. The policy purpose behind many of the FINRA rules that it addresses in the Notice exist because of the key role that dealers play in those securities – often times serving in a market-making function in which dealer activity can highly sway the trading of those securities. That is simply not the case with U.S. Treasuries securities and other government securities.

¹ See letter written by FINRA to SEC, dated October 17, 2016 in which it specifies the many rules that already apply to U.S. Treasury securities.

BDA's concerns with application of specific FINRA rules.

The following sets forth BDA's concerns regarding the specific FINRA rules that it is considering applying to U.S. Treasury securities and other governmental securities:

- ***FINRA Rule 2242.*** BDA does not believe that FINRA Rule 2242 should apply to U.S. Treasury securities because the market is much larger than just dealers, market commentary covering these securities is merely high-level economic views and dealers do not have any particular knowledge concerning the market.
- ***FINRA Rule 5280.*** In addition to our thoughts about FINRA Rule 2242, in which the same reasoning can apply to this rule as well, in instances where a dealer engages in manipulative or fraudulent activities, existing FINRA rules sufficiently cover that activity. Given the presence of anti-manipulative and anti-fraud rules, dealers do not sufficiently drive or sway the market in U.S. Treasury securities to justify extending this rule to those securities.
- ***FINRA Rule 5240.*** Again, like the prior rules, dealers do not drive or sway the markets in U.S. Treasury securities enough to justify this specific of a rule. The BDA believes that FINRA and the SEC should be able to rely on existing rules to protect against manipulation of prices and that there is no need for a specific rule.
- ***FINRA Rule 5250.*** The BDA does not believe that an extension of this rule makes sense. As FINRA notes, the rule has marginal if any benefit with U.S. Treasury securities and other government securities since the issuer would be the United States government. We do not believe that there is some class of these securities that would be meaningfully covered by this rule and that (as with the other rules) existing FINRA rules would adequately cover any abuses that fall outside of these specific rules.
- ***FINRA Rule 5270.*** The BDA believes that this rule should not be applied the U.S. Treasury securities. The problem with extending this rule to U.S. Treasury securities is defining what constitutes a material customer block transaction. Given the enormity of the U.S. Treasury market, it would be critical to define a block transaction as so large as to render any application of the rule meaningless. Again, if there ever were a situation where a dealer engaged in this conduct at the size necessary to create harm, existing FINRA rules would cover that conduct.
- ***FINRA Rule 5320.*** Again, with the other rules, we believe that the market for U.S. Treasury securities is far too large for this rule to meaningfully apply. The point of this rule is avoid dealers from influencing the market for a security when it knows it has a customer order coming right behind that trade. With the market for U.S. Treasury securities, the market is far larger or less influenced by the dealer to make sense to apply this rule to the market.
- ***Various Qualification Rules.*** The BDA believes that adding additional license requirements do not make sense and should not be applied to U.S.

Treasury securities. Mandating additional licensing requirements would place undue burden and require an entire new rule sets that is for the most part not relevant to specific trader roles.

In short, the BDA believes that FINRA should rely on its basic fair dealing, anti-manipulative and anti-fraud, fair pricing, suitability, and other fundamental rules when regulating the U.S. Treasury and other governmental securities (other than municipal securities) markets. These market are simply too large and well traded to justify the specific FINRA rules mentioned in the Notice.

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