Attention:

Marcia E. Asquith
Office of the Corporate Secretary
FINRA

Ms Asquith,

I manage Millennium Advisors LLC, a leading fixed income dealer for corporate bonds based in Charlotte NC. I rarely contact FINRA with comments as I assume regulatory matters, with enough feedback, will normally be sorted out on their own, and in a way that is in the best interest of all market participants. But this appears not to be the case with respect to your proposal to make the market less transparent for the vast majority of market participants.

I understand that the comment period for this proposal has expired. However, I have been contacted by financial news reporters from two new organizations with essentially the same question. They want to know if this is an example of "regulatory capture" by the largest dealers and a few very large asset managers.

I deflected as we don't comment on regulatory matters to reporters. But they seemed well informed on the subject and make a good case. And FINRA should be aware, if it isn't already, that this could be an explosive issue.

1) The firms who benefit from this proposal are a few very large dealers who would like to be able to take on large block risk and hide the price until they can move or hedge the positions with uninformed counterparties. This is the key problem. The proposal fundamentally supports the idea of a large dealer with superior information (knowledge of a large amount of selling or buying in a bond) -- being allowed to trade with uninformed counterparties, to their detriment. For every block trade that TRACE hides from the market, there is the potential for many victims. Suppose Large Dealer X bids for and buys $20MM of a semi-liquid bond at $100, and is allowed to hide the size and price. Dealer X now starts selling the bond at $104. Suppose 4 investors and smaller dealers (all victims) each buy $1mm at $104. They don't know Dealer X still has $16MM to go and that they are about to be run-over because of unequal dissemination of information. Dealer X finds 6 more investors (victims) who buy $1mm at 103. Then 5 more who buy at $102. And then finds the last investors to buy the remaining bonds at $101. Then the original trade is finally reported. The new market that is quoted by dealers generally? $100-101. One party making a windfall gain. One party getting fast liquidity. And many direct victims -- not to mention the indirect victims -- the funds, investors and dealers who may also be trading this bond, or issuer, with inaccurate information.

2) A few very large asset managers ***<u>may</u>*** benefit, if they are the party trying to buy or sell a large block of bonds through Dealer X. Normally the market functions well for blocks when dealers cross the entire amount between two investors. This is the case for blocks today. Dealer X can't hide information from the market, so it knows it needs to "cross" the block between a few large investors at approximately the same time. The seller in the example above, Large Investor Y, entrusts Dealer X with an order to sell $20MM of the bond at $100 or better. Dealer X then carefully contacts a few large investors about their interest. If it lines up interest for all or most of the $20MM, it will execute the trade, "crossing" the $20MM for perhaps $0.25 (buying the block at $100 and selling to a couple investors at $100.25). ***TRACE***

has forced the market to operate in a way that was fair to both the buyers and the sellers. So how does the Investor Y, selling the $20MM block, benefit from an opaque market? If Dealer X can't find buyers and is not willing to take on $20MM of risk onto its balance sheet, and disclose the price, for fear of being unable to sell it for a big profit. In this case, a transparent market does pose some potential inconvenience for Investor Y. It may have to sell its position more slowly or it may have to give Dealer X a longer order so that Dealer X has more time to sell the bonds before buying them from Investor Y.

How can we help Dealer X to make more money and Investor Y to have faster liquidity for their blocks? The answer should not be to let them take advantage of many smaller and uninformed investors through unequal information.

Why should the rest of the market be forced to pay Dealer X a windfall, in order to give Investor Y faster liquidity? A fairer perspective is simply to say that if Investor Y builds a very large position in a semi-liquid bond -- the resulting liquidity costs should be borne by Investor Y. Investors should be responsible for the liquidity or illiquidity of their investments. Regulators should not help investors and dealers improve their liquidity by deceiving other market participants.

The market is already developing numerous tools and vehicles to help large Investors achieve better liquidity. ETFs for example. And many platforms have formed, with some ingenious trading protocols, to help investors cross larger blocks. Please allow the market to work -- creating new liquidity solutions -- rather than adopting a throw-back proposal to an opaque market where large dealers will again take advantage of investors.

3) If you are Dealer X and you wanted to persuade Large Investor Y to support this proposal, how would you do it? After all, Large Investor Y will only hypothetically benefit from this scheme if it has a block that it really needs to sell quickly, and its dealers cannot find buyers quickly. Yet what about blocks sold by other large investors? Won't Investor Y be at a disadvantage in those situations since it won't know about the hidden block trades? Investor Y might even become one of the direct or indirect victims itself. The answer is simple -- Dealer X assures Investor Y that it will share information with it about all block trades it is working on. How cozy. So you would have a few large dealers and a few large investors benefitting from superior information relative to the vast majority of market participants.

One would have hoped that Large Dealer X and Large Investor Y would have been satisfied with the limitations on information they already achieved (trade reporting sizes limited to $5MM). Many observers and economists have already shown the inefficiencies arising from this rule, and how most market participants are disadvantaged by it. So now a few large investors and dealers are reaching for an even bigger advantage.

I hope it will be FINRA, and not the press or some other body, that protects the vast majority of investors from this big step backward.

Best,

Mike

Mike Healy
Managing Director, Co-Founder

T 980 213 2300 F 980 213 2355
mhealy@millenniumadvisors.com