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May 21, 2025

BY EMAIL: pubcom@finra.org

Jennifer Piorko Mitchell
FINRA, Office of the Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1506

Re: Broad Review to Modernize Rules Regarding Member Firms and Associated Persons, Regulatory Notice 25-04

Dear Ms. Mitchell:

I write on behalf of Open to the Public Investing, Inc. ("Public"), a FINRA-licensed broker-dealer (CRD: 127818). We offer brokerage services to self-directed customers through the Public.com website and the Public mobile app (the "Public Platform" or "Platform"). On our Platform, retail investors can build modern, diversified portfolios spanning US-listed stocks and ETFs, high-yield cash sweeps, options, bonds, and cryptocurrencies.

We appreciate the opportunity to suggest areas where FINRA rules could benefit from a fresh look. We believe that **FINRA Rule 7730**, which governs the fees assessed on member firms by the Trade Reporting and Compliance Engine ("TRACE"), should be amended to encourage greater retail participation in the bond market by lowering the TRACE fees charged for smaller bond transactions.

Last year, Public launched "fractional bond trading," which allows retail investors to purchase bonds in increments as small as \$100 par.¹ We did this in response to growing investor demand for yield products in a high interest rate environment and because of the meaningful advantages direct bond ownership can provide for many retail investors compared to mutual funds and ETFs.

¹<https://medium.com/the-public-blog/introducing-fractional-bond-trading-exclusively-on-public-e8c8da948dd5>

A significant obstacle to broader adoption of fractional bond trading, however, is that FINRA currently charges a flat \$0.475 TRACE fee for trades under \$200,000, regardless of transaction size. For smaller trades, this fee is disproportionately high. For example, a \$100 bond purchase can incur up to a 95-basis-point fee, since brokers must pay TRACE fees on both the purchase and sale legs of the transaction. On average, TRACE fees consume approximately 34% of Public Investing's total revenue on corporate bond transactions each month, making it economically challenging to scale fractional bond offerings for retail investors.

We recommend reducing TRACE fees for bond trades with a par value under \$1,000 to \$.0475 a trade. Doing so would lower costs for retail investors, improve access to the bond market, and provide greater incentives for brokers to innovate and better serve retail investors.

Public's Launch of Fractional Bond Trading Has Successfully Opened the Market to Retail Investors

In 2019, Public was one of the first broker-dealers to offer real-time fractional share trading, enabling clients to build diversified portfolios of equities and ETFs with smaller investments than traditionally required. Building on that experience, we launched fixed income trading in 2023, starting with a Treasuries Account that allows clients to invest as little as \$100 in 6-month T-Bills. Given prevailing yields, this product quickly became one of the fastest-growing assets on our platform.

We subsequently expanded our offerings to include a wide range of corporate and government bonds. However, we quickly found that typical minimum transaction sizes—\$1,000 par for corporate bonds and \$5,000 for municipal bonds—were too large for many retail investors to achieve meaningful diversification. Furthermore, meaningful liquidity is not always available at these minimum sizes, aggravating this challenge by effectively shutting out smaller investors from directly accessing the bond market.

To solve this, we reduced the minimum corporate and government bond transaction size to \$100 par. Through our partnership with Moment Markets, we implemented a new order routing and liquidity aggregation platform that enables us to access liquidity across venues and offer smaller lot sizes at competitive prices—further enhancing access for retail investors.

Adoption on Public's platform has been strong, and growing, but the small average trade size has led to significant TRACE fees that inhibit our ability to grow the product. To put it concretely, in the month of March 2025, Public Investing customers made approximately 23,000 corporate bond trades, with an average trade size of about \$520. On these trades, Public Investing paid \$21,722 in aggregate TRACE fees on

approximately \$63,000 of revenue. In other words, 34% of every dollar we make goes toward TRACE fees and TRACE fees act as an implied markup of approximately 18 basis points on each transaction.

While we remain committed to offering these products to our customers, the economics of high transaction-based fees make it difficult to justify additional investment in offerings that could meaningfully benefit retail investors.

Changes to TRACE Will Further Increase Accessibility to Fixed-Income

We support regulatory efforts that increase transparency and level the playing field for retail investors, and TRACE is no exception. However, we believe that the current TRACE fee structure for corporate and agency bonds disproportionately penalizes smaller transactions while benefiting larger institutional transactions.

Under the current fee structure, TRACE charges:

- \$0.475 per trade for transactions up to \$200,000 in par value;
- \$0.002375 per \$1,000 in par value for transactions between \$200,000 and \$999,999;
- A flat \$2.375 per trade for transactions of \$1,000,000 or more in par value.

Every broker incurs at least two TRACE fees when selling a corporate or agency bond to a retail investor: one when purchasing a bond from the marketplace and another when selling that bond (or part of that bond) to the client.² This structure gives larger brokers—who can purchase bonds in larger quantities—a meaningful advantage over smaller brokers due to the lower overall TRACE fees paid on larger transactions, as shown by the chart below.

Initial Purchase	TRACE Fee	Fee per \$1000	Customer Purchase	TRACE Fee	Aggregate Fee
\$1,000,000	\$2.375	\$0.002375	\$1,000	\$0.475	\$0.477
\$1,000	\$0.475	\$0.475	\$1,000	\$0.475	\$0.95

² For introducing brokers, which tend to be smaller than brokers that are self-clearing, there may be additional TRACE fees paid by the clearing broker for bonds it subsequently sells to the introducing broker. These fees would only further reduce margins and increase the total amount paid by the retail client.

In this hypothetical example, a \$1,000,000 bond trade incurs just \$2.375 in TRACE fees, equivalent to 0.02375 basis points. By contrast, a \$1,000 bond transaction incurs a \$0.475 fee, or 4.75 basis points. As a result, a \$1,000 sale executed by a broker that initially purchased the bond as part of a \$1,000,000 trade incurs a total TRACE fee of approximately 4.77 basis points. However, a broker that initially purchased the bond as part of a \$1,000 trade to fulfill the same retail order would incur a total TRACE fee of 9.5 basis points—double the cost on an effective basis. This disparity becomes even more pronounced for fractional bond trades. For example, if an introducing broker purchases just \$100 in par value of a bond from its clearing broker and resells it to a client, the effective total TRACE fee for that transaction would be approximately 95 basis points.

The SEC originally approved the TRACE fee schedule based on the belief that:

[T]he proposal provides for the equitable allocation of reasonable fees, dues, and other charges, and does not permit unfair discrimination between clients, issuers, brokers, or dealers. For example, in several instances, the TRACE fee structure adopts a sliding scale approach. The Commission believes that this sliding scale structure promotes an equitable distribution of the relevant fees while reducing the possibility of unfair discrimination between clients, issuers, brokers, or dealers.³

We agree with the SEC's assessment, but we believe that the current structure now deviates from this goal. The current TRACE fee schedule was designed at a time when the fixed-income market was almost exclusively institutional. Given the significant growth in retail participation, it is time to modernize the fee structure to better reflect the evolving dynamics of the market.

We Propose Lowering TRACE Fees for Sub-\$1000 trades

We propose a targeted adjustment to the TRACE fee schedule in Rule 7730: reduce the TRACE fee for trades involving bonds with a par value under \$1,000 from \$0.475 to \$0.0475.

Because trades under \$1,000 par currently represent a small fraction of overall TRACE volume, this change is unlikely to affect FINRA's ability to maintain TRACE. In fact, a more inclusive market could ultimately expand participation and improve TRACE's sustainability over the long term by increasing trading volumes.⁴

³ See Securities Exchange Act Release No. 46145 (footnote omitted) (June 28, 2002), 67 FR 44911 at 44913 (July 5, 2002) (File No. SR-NASD-2002-63).

⁴ FINRA may also wish to consider broader changes to Rule 7730 that would further level the playing field. For example, FINRA could apply the same per-par-value fee scale used for trades between \$200,000 and \$999,999 to both larger and smaller transactions. This would align the fee structure more closely with the SEC's goal of preventing unfair discrimination among market participants. Alternatively,

Benefits of this Proposal

Lowering TRACE fees for smaller bond transactions will allow for greater direct ownership of bonds and for the construction of well-diversified fixed income portfolios for a broader segment of the retail investor population. Direct bond ownership has meaningful advantages over traditional corporate bond mutual funds for retail investors including:

- **Duration Management:** Direct bond ownership allows investors to tailor the duration of their portfolios to match personal risk tolerance, cash flow needs, and investment horizons. Mutual funds and ETFs, by contrast, are typically managed to specific durations that may not align with investor preferences or needs.
- **Lower Management Fees:** By building their own fixed income portfolios, investors can avoid the fees associated with actively managed bond funds or bond ETFs if they so choose. This results in greater transparency and improved long-term returns, particularly for fee-sensitive investors.
- **Tax Management:** Retail investors who directly own individual bonds have greater flexibility to manage their tax exposure over time. For example, they can hold certain bonds to maturity to defer taxable gains—capabilities not always available through mutual funds or ETFs, which often generate taxable events regardless of an investor’s specific strategy or timing.

In addition to benefiting retail investors, these changes would also improve the fixed income capital markets more broadly:

- **Increasing Liquidity:** Enabling more retail participation will increase demand for bond trades in smaller amounts—improving liquidity and price discovery across the bond market, especially in parts of the market dominated by large institutional block trades.
- **Driving Investment in Retail-Focused Infrastructure:** As retail activity grows, firms will have greater incentive to invest in infrastructure that supports small-lot fixed income trading. This includes improvements in liquidity, routing, execution quality, and pricing transparency—all of which will benefit the market ecosystem as a whole and accomplish through private ordering long needed reforms and increased electronification of the fixed-income markets.
- **Disincentivizing “Creditor-on-Creditor Violence”:** By broadening the investor base and increasing the number of bondholders, the risk that concentrated institutional creditors can act unilaterally, or in concert with issuers, in restructurings or distressed scenarios will decrease. A more dispersed ownership base helps promote fairer outcomes and discourages aggressive

FINRA could maintain the existing fixed fee for trades over \$1,000,000 while extending the current scaled fee schedule downward to apply to trades below \$200,000.

tactics that may disadvantage smaller investors and less sophisticated institutional investors.

- **Leveling the Playing Field between Brokers:** The current TRACE fee structure favors large institutional broker-dealers with the ability to purchase bonds in larger blocks and, as discussed above, reduce their effective TRACE fees substantially. Adjusting fees for smaller trades would level the playing field for retail-focused broker-dealers, enhancing competition, spurring innovation, and ultimately expanding access to fixed income investing for millions of individual investors.

We welcome any opportunity to engage on these or any other subjects about making retail investing fairer and providing opportunities for our members to save and invest for their futures.

We look forward to the opportunity to discuss our proposal with you and your team.

Sincerely,

A handwritten signature in black ink, appearing to be 'SS' or 'Sikes' in a stylized, cursive font.

Stephen Sikes
Chief Executive Officer
Open to the Public Investing, Inc.