



April 19, 2005

Via e-mail to pubcom@nasd.com and via Fed Ex

Barbara Z. Sweeney
Office of the Corporate Secretary
NASD
1735 K Street, NW
Washington, DC 20006-1500

Re: Comment on Proposed NASD Rule 2231 to Enhance
Confirmation Disclosure in Corporate Debt Securities Transactions

Dear Ms. Sweeney:

Citigroup Global Markets Inc. ("CGMI") appreciates the opportunity to comment on proposed Rule 2231, which would require members to provide additional disclosures for transactions in debt securities. The proposed rule serves the important purpose of providing investors with enhanced information regarding specific transactions and educational materials.

In general, we support the NASD's goal to improve the disclosures on debt security confirmations to help investors better understand their investments and attendant costs. We would like to make several general observations about the proposed rule and then comment on some specific disclosure provisions that we believe need clarification.

General comments

The proposed rule is intended to help individual investors understand certain key aspects of corporate bond investing. We believe, therefore, that managed accounts should be excluded from the proposed rule. Managed accounts are discretionary, and clients with managed accounts are not making any investment decisions themselves. Rather, they are relying on sophisticated managers, who don't need the additional information required by the proposed rule. Providing the required confirmation information to account managers will not further the laudable goal of providing additional disclosure to individual customers.

The proposed rule should clarify which "corporate debt" securities are covered. While it is clear that straight corporate debt will be covered, the rule does not make clear whether other securities, such as zero-coupon bonds issued by non-government private organizations, including CATS or TIGRs, non-US government-backed securities, including Fannie Mae, Freddie Mac and Sallie Mae instruments, mortgage-backed securities, including pass-throughs and CMOS, "hybrid" forms of debt securities which trade like equity such as "debt preferred" securities and emerging market debt are subject to proposed rule 2231. We request that the NASD provide a list of covered securities when it publishes its final rule.

Specific provisions of the proposed rule.

Rule 2231 (a) Confirmation of Transactions in Debt Securities

The proposed rule requires that a member who is required to disclose information to a customer pursuant to Rule 10b-10 of the Act also disclose the specific information outlined in paragraph (b) of the proposed rule. The proposed rule states, however, “a member need not disclose to customers information required to be disclosed under this Rule if the member will disclose such information pursuant to Rule 10b-10 of the Act.” We believe that the proposed rule does not make clear (a) whether the information need not be disclosed twice, or (b) that, where Rule 10b-10 has specific requirements--that is, with respect to remuneration and yield--the proposed rule would not apply. The Notice to Members that accompanied the proposed rule states that “members would not be required to make any disclosure that would be duplicative of a disclosure already required under Rule 10b-10 for a particular type of debt transaction.” We believe that this statement should be in the rule itself.

Rule 2231 (b)(2) Brokerage charges

The proposed rule requires that brokers disclose in a text field labeled “brokerage charges” one of three statements, if applicable. We agree that the fees and charges involved in a transaction should be clearly disclosed to customers. We believe that the text field containing this information should be labeled “fees and charges” rather than “brokerage charges” because clients may pay for these transactions without incurring any actual brokerage charges. For example, where the payment for the transaction is included in an overall fee charged to the account that is, in a wrap fee -- the client has paid for the transaction, yet none of the three proposed statements would seem to apply. To cover this situation, we recommend adding a fourth alternative text to the effect that “A payment to our firm for transactions are included in the overall fee paid for this account.” For ease of reference, particularly in the situation where there are multiple transactions on a single confirmation, we believe that all four statements should be contained in a “Notes” section of the confirmation and a number referencing the applicable statement should be placed in the text field.

Rule 2231 (b)(3) Credit ratings

The proposed rule requires that if the debt security is rated by any NRSRO to which the member subscribes, the member must disclose the NRSRO and the credit rating. If the rule is intended to provide additional information to bond customers, it would seem appropriate to require all members to provide this information, not only those members who subscribe to the information. A client’s need to be informed about a debt security’s NRSRO rating should not be dependent on whether the client’s firm maintains a subscription to a rating service.

We seek clarification about the word “subscribe.” To the extent that our current subscriptions allow us to disseminate ratings information to our customers, we would be in a position to comply with the proposed rule. However, in those situations where our subscription service does not presently allow us to disseminate the information to customers,

or where our subscription is limited to a particular branch office or trading desk, would we be required under the proposed rule to contract for and pay additional fees to obtain this subscription service? We believe that all members should be required to provide this information, so that the information is uniformly available to customers and so that members are not exposed to disparate costs.

The proposed rule does not make clear how current the ratings information must be that is included on the confirmation. Generally speaking, the most easily accessible information would be the rating as of the night before the trade. On occasion, however, the rating of a bond might change intra-day. We believe that the rule should make clear that the previous night's information is expected to be included on the confirmation.

We would like the NASD to clarify what statement should be placed on the confirmation in situations in which:

- no rating is available on a particular bond, because the bond is not rated;
- no rating is available because we do not subscribe to a service that provides this information. (However, we reiterate our suggestion that all firms be required to subscribe to ratings information pertaining to the bonds they sell.)

Rule 2231 (b)(4) Indicators of marketability and liquidity

The proposed rule requires that we disclose whether transaction price information on the debt security is “publicly available.” We would like clarification of the term “publicly available.” We believe that under the

Rule, “publicly available” is synonymous with “available through the NASD’s TRACE system.” (We maintain this information and can make it available to clients.) However, we believe the rule should be restated to make this clear.

Rule 2231 (b)(5) Cash flow information

- The frequency of interest and principal payments.

The proposed rule requires that we disclose on a per debt security basis, the frequency of interest and principal payments. We believe that the rule should exempt securities for which the yield cannot reasonably be determined. Examples of these include debt securities with a variable interest rate and debt securities that are mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the issuer.

In addition, we request clarification as to how yield should be calculated, so that all members will calculate the information in the same manner. Specifically, should the yield reflect broker compensation? How should interest be compounded when a bond pays interest more or less frequently (for example, monthly, biannually, or at maturity only) or does not pay interest at all? How should periodic principal payments factor into the calculation?

In addition, rule 5(B) should make clear what is meant by “callable” debt security. For example, if “make-whole” calls were included as “continuously callable” securities, the

results would be misleading as every issue would be run Yield to Worst and would trade as much shorter maturity bond.

- For debt securities carrying a variable coupon rate, disclosure indicating that the coupon rate may vary and that the member will provide in writing additional information upon written request from the customer that is sent not later than six months from the date of settlement.

For practical purposes, we request that the rule permit a generic disclosure to be placed on the back of the confirmation, containing a statement that *if* the rate is variable, the required additional information will be made available upon written request. In addition, we believe that the 3-day time frame for responding to a customer request is too short. The specific information that is required by the rule to be provided upon customer request is not information that is maintained in a central repository as a matter of course. To comply with a 3-day time frame, we would have to build a system specifically for this purpose, hire additional staff and create a centralized location to handle these requests. It is difficult to estimate the additional costs involved, but they could be significant.

In addition, Rule 5(C)(i) should make clear that “the amount of the next interest payment” refers to the next interest payment after the date of the purchase, rather than the next interest payment after the date of inquiry by a customer.

- For zero coupon bonds, the rule requires that members provide the compound accreted value as of the next occurring call date.

We request that the rule include guidance regarding the calculation of the compound accreted value, so that members calculate these rates in a uniform manner.

Rule 2231 (b)(6) Notice of availability of NASD disclosure

We request that the rule make clear that this notice may be contained on the back of the confirmation.

As a practical matter, there is not enough space on the front side of the confirmation for all of the information required to be disclosed pursuant the proposed rule. The back of the confirmation already contains disclosure information and customers should be able to refer to one location for this type of general disclosure information.

Conclusion

We agree that disclosure of transaction costs and debt security ratings is appropriate and can be important information for investors. By excluding managed accounts from the rule’s purview, the rule will more precisely target the investors who are in need of this information. In addition, by clarifying the points discussed in this letter, the NASD will remove members’ uncertainty about the application of various provisions of the proposed rule.

Please contact me if you need any additional information.

Sincerely,

Michael J. Sharp
General Counsel
Smith Barney