Bond Dealers of America

1909 K Street NW • Suite 510
Washington, DC 20006
202.204.7900
www.bdamerica.org

April 4, 2016

VIA ELECTRONIC MAIL

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

RE: FINRA Regulatory Notice 16-09 (November 10, 2015): Request for Comment on Proposed Amendments to FINRA Rules to Support the Industry Initiative to Shorten the Settlement Cycle for Securities in the U.S. Secondary Market From T+3 to T+2

Dear Ms. Asquith:

On behalf of the Bond Dealers of America ("BDA"), I am pleased to submit this letter in response to the Financial Industry Regulatory Authority ("FINRA") Notice 16-09, on its proposed amendments ("Proposed Amendments") to FINRA rules related to shortening the settlement cycle. BDA is the only DC-based group representing middle-market securities dealers and banks focused on the U.S. fixed income markets. Accordingly, we believe that we offer insight into how the Proposed Amendments would impact middle-market securities dealers.

Rule Changes

BDA understands these regulatory changes are part of a broader, industry-wide initiative supported by the Securities and Exchange Commission's ("SEC") and other self-regulatory organizations ("SROs") to shorten the settlement cycle by the third quarter of 2017. BDA believes this timeframe should allow FINRA, the SEC, and the MSRB to make all the required conforming regulatory changes, while also allowing ample time to assess the comments BDA is requesting FINRA to consider in this letter. Additionally, the late 2017 timeline should allow dealers to make all the necessary changes to systems that the proposed rule will require.

We urge FINRA to consider the impact that the Proposed Amendments will have on the fixed-income markets and broker-dealer customers, which we expand upon below.

Impact on Customers and Overall Regulatory Concerns

BDA members have concerns regarding the impact that a shorter settlement cycle would have on investors. For example, SEC's Rule 15c6-1 requires a broker-dealer to cancel or liquidate a cash account transaction if it has not been paid for within five business days (T+5) of the securities transaction. Shortening the settlement cycle to T+2 would automatically reduce the timeframe before a dealer would have to liquidate an unpaid for transaction to T+4. Shortening the settlement cycle by one day may negatively impact retail clients that still rely on sending checks, which may not be sent, received, processed, and cleared, within the shortened four-day window.

Brokers who do a large amount of retail business will undoubtedly require ample time to communicate the practical consequences that a shortened settlement cycle will have on retail customers. While BDA does believe, as stated above, the 2017 timeline does provide enough time to make the transition, this is a particularly sensitive area that broker-dealers and regulators should be cognizant of as the transition to a shorter settlement cycle continues.

The information from industry-wide testing will be beneficial and will inform the process going forward for the Proposed Amendments—especially as it relates to the anticipated conversations our firms will have with their retail clients. Time to educate retail investors will be required to get this particular client informed about the shift to T+2. However, in order to avoid a market disruption, we would request that FINRA and other regulators work to preserve the five-day payment timeframe as required under current Rule 15c6-1.

Consider the Impact of Altering Timing of Other Regulations

BDA believes the proposed rule will make clearing and settling transactions more efficient, which will reduce risk in the marketplace. However, the impact of shortening the settlement cycle will filter through to other regulations explicitly tied to the settlement dates of fixed-income transactions. In some instances, this will create new regulatory burdens for dealers.

For example, the proposed FINRA Rule 11860(a)(3) would require members to deliver confirmations to a customer 'not later than the close of business on the date of any such execution of the transaction'. This is a tremendous undertaking for broker-dealers, especially smaller dealers who are currently implementing a rather large amount of new regulatory requirements. Broker-dealers will need to commit large amounts of internal resources to change the systems and processes that are used to deliver confirmations in order to process confirmations on a T+0 basis. BDA urges FINRA to consider leaving other regulatory requirements that are tied to the settlement date, like the requirements for delivering customer confirmations under 11860, unchanged and allow customer confirms to be sent T+1. This will minimize the regulatory and compliance cost impact of the proposed rules without limiting the risk-reducing benefits of the shortened settlement cycle.

Additional Items to Consider

We anticipate the impact of the Proposed Amendments will become more understandable for the industry as more detailed analyses of the impact of the Amendments on systems and technology continue. While the Depository Trust and Clearing Corporation ("DTCC") conducted a cost study of transitioning to a shorter settlement cycle, we believe that the true costs for firms that only participate in the fixed-income markets are unknown and will require additional time to gather beyond the one-month timeline given for this request for comment. The BDA and its members will continue to participate in industry-wide discussions and gather any information needed to assess the impact of the Proposed Amendments.

BDA member firms are the dealers who will be most affected by the transition to a T+2 settlement cycle and the costs and potential compliance burdens of the Amendments. We believe that our input is valuable and that it provides FINRA with additional insight for middle-market broker dealers and BDA is willing to provide additional comments and information regarding this issue if needed. Thank you again for the opportunity to submit these comments.

Sincerely,

Michael Nicholas
Chief Executive Officer