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January 20, 2015

To: Ms. Cythia Friedlander
Director, Fixed Income Regulation
FINRA

By email to Pubcom@finra.org

Dear Ms. Friedlander:

In response to Regulatory Notice 14 – 52 ("Pricing Disclosure in the Fixed Income Markets"), we would like to submit the following comments.

It is our belief that the proposed rule would adversely affect both Municipal and corporate bond markets for "retail" and "institutional" participants. We understand the idea of protecting the customer and agree with the basis of providing best execution for all clients. However, we believe not only that this proposed rule is likely not the best solution, but additionally it may have adverse consequences which may be overlooked in the proposal. We are of the belief that if this rule is enacted, it may in fact cause loss of market makers, deteriorating liquidity in already somewhat illiquid markets, and consequently wider spreads in these markets. In an effort to protect the customer, this proposal may in fact provide for far worse execution. This could potentially be a side effect the authors of this proposal may be overlooking.

Increases in the costs of doing business, paired with increased risks and lower potential reward (or profit) from taking risk would likely push a number of market makers out of the market. More market maker participants translate directly to increased liquidity and competition, leading to tighter spreads and better execution. Declining market maker participation would translate directly to the opposite, decreasing liquidity and competition, and wider bid/ask spreads. Looking at municipal markets, market makers who cover less populous states are even more critical to meet the needs of customers in these states because these markets are overlooked by the larger institutional municipal bond dealers.

Direct costs related to this proposed rule are addressed within the Regulatory Notice and include the costs associated with creating customer confirmations which provide disclosure of pricing information. We believe the proposal may overlook potential indirect costs of providing additional compliance oversight to ensure proper compliance to a fairly complex rule. We already are required to have a trade by trade review which occurs the following day via trade blotter review. Additionally, the proposed rule may create pressures for market makers who are charging reasonable rates to decrease sales charges to stay competitive and could ultimately eliminate many market makers, who are critical to providing market liquidity. This potential for increased cost and risk, along with decreased potential reward could be a catalyst for declines in the number of market makers in both municipal and corporate bond markets.

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In examining the examples used in Regulatory Notice 14-52 we feel that example 6 displays that some regulatory confusion still exists within the bond markets and MSRB and Trace reporting. The example states, *"For Customer 2, Firm A would disclose the price to the firm (98), the price to the customer (102) and the differential between the two prices (4.00)."* In this scenario there would be sales credit of 2.00 percentage points on each side of the trade, leading to a price to the firm of (100) rather than (98). These are two separate and independent trades with reasonable sales credit of 2% being charged. We believe FINRA already has procedures in place for preventing excessive sales charges and if, as the example states, the firm were to charge 4%, there would be regulatory flags which would prompt further examination of the trade in question.

Perhaps a better alternative to the proposed rule may be to educate the investing public on customer protection safeguards already in place. Through better education, it may be feasible that FINRA is able to calm some retail customer concerns and provide some clarity to the retail customer on how the bond markets are structured, how the markets work efficiently under the current structure, and how FINRA is able to provide customer protection under current market structures.

Sincerely,

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