

# FINANCIAL INFORMATION FORUM

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## **Via Electronic Delivery**

January 20, 2015

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

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

Re: MSRB Notice 2014-20 - Request for Comment on Draft Rule Amendments to Require Dealers to Provide Pricing Reference Information on Retail Customer Confirmations; FINRA Notice 14-52 - Pricing Disclosure in the Fixed Income Markets

Dear Mr. Smith and Ms. Asquith,

The Financial Information Forum (FIF)<sup>1</sup> would like to take this opportunity to comment on MSRB Notice 2014-20 - Request for Comment on Draft Rule Amendments to Require Dealers to Provide Pricing Reference Information on Retail Customer Confirmations and FINRA Notice 14-52 - Pricing Disclosure in the Fixed Income Markets (“Requests for Comment”). We appreciate the willingness of the MSRB and FINRA to seek feedback on these important issues in a coordinated manner and will respond to both notices in this comment letter.

With respect to the Requests for Comment, FIF respectfully makes the following recommendations:

1. Fully align efforts of MSRB and FINRA regarding these proposals
2. In order to minimize implementation challenges, consider the alternative approach of leveraging existing EMMA and TRACE data
  - a. Add a link to EMMA and TRACE data on the customer confirmation
  - b. Aggregate EMMA and TRACE data into a single website
  - c. Perform a survey of retail investors to identify enhancements to EMMA and TRACE
  - d. Further educate retail investors on EMMA and TRACE functionalities

FIF’s perspectives on the proposals in the Requests for Comment are discussed in more detail below.

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<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

### **Aligning Efforts of MSRB and FINRA Imperative**

FIF members appreciate that the MSRB and FINRA have taken a coordinated approach in proposals to require dealers to provide pricing reference information on retail customer confirmations. While the Requests for Comment issued by MSRB and FINRA are similar, there are differences in some of the details. For instance, in Example 7 of the Proposed Disclosure Requirement section of the FINRA Notice, the example requires the weighted average price of the firm's trades to be disclosed on the customer confirmation. In Example 9 of the same section, FINRA expects that the firm would consistently apply a last in, first out (LIFO) methodology that would refer to the last principal trade(s) that preceded the customer trade. These scenarios are not defined in the MSRB proposal and it remains unclear if the MSRB would mirror the FINRA requirements. We believe costs to dealers would increase exponentially if there are any variations between the FINRA and MSRB rules. FIF members urge MSRB and FINRA to be fully harmonized in any resulting regulations.

### **Significant Implementation Challenges as Proposed**

These proposals will lead to operational and technological challenges that will increase costs to dealers as outlined below.

- Capturing trades to make sure dealers are tying principal trades to customer trades will be challenging. The process will be even more challenging for batch trades. Programming systems to match principal batch trades with customer trades would be a very complex process involving trade by trade matching. Enhanced audit trails will need to be built to validate system processes. Larger firms may have order management systems that can be modified to comply but smaller firms may end up having to do this manually. Matching principal and customer trades will be further complicated by trade cancels and rebills. This trade capture piece alone will lead to significant costs.
- Customer confirmations are currently produced at the time of the trade. All customer confirmations would need to be produced at the end of day in the proposed rule in case a corresponding principal trade is executed. Programming trading systems to wait until the end of the day to see if a corresponding trade is executed and adding information retroactively to the confirmation will be a costly, time-consuming task.
- Another programming challenge would be crafting systems to suppress resubmission of trades to regulators if a confirmation needs to be modified with pricing reference information at the end of the day. Systems would need to be able to recognize that this is a trade information modification affecting customer confirmations that does not require resubmission of the trade.
- The MSRB and FINRA proposals both apply to retail-sized transactions of 100 bonds or fewer or bonds in a par amount of \$100,000 or less. Since the proposals are not limited to transactions of actual retail customers, institutional trades may fall within the parameters of these proposals. For the majority of FIF members, institutional trades flow through Omgeo's TradeSuite Institutional Delivery (ID)<sup>2</sup> via DTCC's ID System. Each transaction is confirmed and affirmed/matched through Omgeo's TradeSuite system, which distributes the affirmed confirmation to appropriate parties of the trade. If this rule applies to retail-sized institutional trades, the ID System may be required to add additional fields to the confirmations it generates to comply with the rule. The costs associated with implementing these fields at DTCC and Omgeo should be evaluated in the cost-benefit analysis for these proposals. To address this concern, FIF recommends limiting the parameters of these proposals to transactions of 99 bonds or fewer or bonds in a par amount of \$99,000 or less. Doing so would eliminate potential

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<sup>2</sup> TradeSuite ID is a 10b-10-compliant solution which automates messaging and settlement for equity and fixed income securities. It provides seamless connectivity from execution to settlement on domestic and cross-border trades of U.S. securities.

institutional trades or DVP/RVP transactions and therefore focus more on retail customer trades. This would make trading systems' programming logic to determine when pricing reference information should be on a customer confirmation much less complex. The best way to ensure that only retail trades are impacted is to clearly articulate in the proposal that the requirements only apply to accounts of natural persons.

### **Other Considerations**

FIF members understand that the MSRB and FINRA would like to better inform retail investors. However, it is not certain that providing pricing reference information on retail customer confirmations will achieve this goal. Providing the price of the corresponding principal trade in comparison to the customer trade may be misleading. Overhead costs, such as compliance and technology, need to be factored into pricing securities in customer transactions. Additional information may need to be provided to customers explaining what their price represents and that there are other costs to broker dealers that are not strictly represented in the execution of the principal and customer trades. Providing this additional information to customers will continue to increase implementation costs. Furthermore, pricing reference information on customer confirmations could lead to some irrelevant data being reported to customers at the end of the day. While the fixed income markets fluctuate daily, customers could be receiving confirmations that show stale pricing as a result of intraday market movement. Overall, FIF members believe additional information on the confirmation may actually confuse customers as they will be seeing multiple prices listed. Customers may also wonder why they see additional information on only some of their trade confirmations and not on others.

FIF members would also like clarification on how to treat customer allocations of institutional-sized trades in the current proposals. If a broker dealer buys 500 bonds early in the day and sells 400 of those bonds to a customer later in the day, we understand that no pricing reference information would be required on the customer confirmation. If that client now requests separate allocations to sub accounts of 80 bonds to five different accounts, each of those allocation transactions would get a confirmation for the purchase of 80 bonds. Under these proposals, would those transactions require pricing reference information to be disclosed on the customer confirmations? There will always be a distinction between institutional and retail-sized pricing. Disclosing these markups to customers on confirmations may mislead customers as they won't be provided the context that the principal trade was an institutional-sized lot. FIF members request clarification on this scenario.

### **Recommendations**

If the MSRB and FINRA decide to proceed with the proposals in the Requests for Comment, FIF members have the following recommendations:

- As mentioned above, ensure the MSRB and FINRA align efforts in any final regulations
- Eliminate institutional trades from the scope of these proposals
  - Add the definition of natural persons when determining which investors this rule will apply to. This will ensure the rules apply to retail customers only and will eliminate institutional trades from these regulations.
  - Apply the rule to retail customer trades of 99 bonds or fewer or bonds in a par amount of \$99,000 or less, instead of the proposed 100 bonds or fewer or bonds in a par amount of \$100,000 or less.

FIF members believe the MSRB and FINRA should consider alternate approaches to achieve their goal.

One step MSRB and FINRA could take is to require that broker dealers provide links or reference to EMMA and TRACE on customer confirmations. This would leverage the work that the MSRB and FINRA have already done to provide pricing reference information to retail investors and may expand the

awareness of these sources of data. Retail investors can utilize EMMA and TRACE data to acquire market information and evaluate the costs associated with their transactions. The MSRB and FINRA currently provide the ability for retail investors to identify same-day principal trades of the same security as their individual trades. We don't believe investors that utilize this information and actively seek it out would benefit from similar information on their customer confirmations. Realistically, customers would benefit much greater by using EMMA and TRACE in real-time compared to pricing reference on confirmations as they can obtain reference pricing information prior to submitting their trade. In this manner, we believe a link on customer confirmations to EMMA and TRACE data would satisfy the same goal as these proposals to better inform retail investors with much less implementation impact.

Additionally, MSRB or FINRA could aggregate all trade data available on EMMA and TRACE to provide a single website so customers can visit one place for all of this information. Dealers could then put a single link on customer confirmations further simplifying implementation.

The MSRB and FINRA could also survey retail investors to gauge their knowledge and usage of EMMA and TRACE. This could serve to inform retail investors of EMMA and TRACE benefits and functionalities, and bring to light ways to improve upon the accessibility of the data.

Finally, the MSRB and FINRA could further educate retail investors on EMMA and TRACE functionalities. Pricing reference information is already available on EMMA and TRACE. Creating summary documents or holding webinars that detail how to access information in EMMA and TRACE would allow for broader customer usage. Education combined with a survey and references to EMMA and TRACE on customer confirmations would lead to better informed retail investors.

In conclusion, FIF would like to thank the MSRB and FINRA for providing the opportunity to comment on the proposed changes. We look forward to a future meeting with DTCC, MSRB and FINRA in order to discuss the issues raised in the letter.

Regards,

A handwritten signature in black ink, appearing to read "Darren Wasney". The signature is fluid and cursive, with a long, sweeping underline.

Darren Wasney  
Program Manager  
Financial Information Forum