

Comment on Notice 2016-13

from Rick DeLong, Vista Securities

on Monday, May 9, 2016

Comment:

As market makers in odd-lot municipal securities, we are often asked to bid on amounts of bonds that were initially issued in five thousand minimum denominations (5m), but through some actions, for example, those necessary to divide and liquidate estates, the amounts to be bid upon include a "tail". For example, an owner of 25m bonds has an estate divided between two heirs, with each heir entitled to half of the position, or 12.5m bonds. While there might be 10 or more bids for a 25m bond piece, there are typically few if any bids for 12.5m. The resulting difference in the price received by each heir versus the value of the original position could be hundreds or even thousands of dollars.

To protect investors, either the ability to split denominations below 5m should be prohibited or the trading restrictions should be removed. We believe there should be no restrictions on trading in these situations, except an acknowledgement by the customer who ends up with the "tail" that the market for amounts below the issue's minimum denomination may be illiquid. This could be accomplished by a letter or e-mail but should not require a change to the confirmation.

These odd amounts are often liquidated through brokers-brokers or automated trading platforms. The existing requirements to satisfy the current exemptions discourage many traders from bidding on the bonds, since they would be relying on the selling dealer and the brokers-broker/platform to provide verification from the selling client that the sale is a take-out of their entire position. While this has merit in \$100m denominated securities put in place to protect unsophisticated investors, it is unnecessary for unrestricted securities. Existing suitability rules are sufficient to protect retail investors in these situations. No other notification or verification of liquidating positions should apply. We believe this would significantly increase the demand for these odd amounts and reduce the regulatory burden on the dealer community and possibly introduce municipal bonds to small savers.