

October 18, 2016

**Submitted Electronically**

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1300 I Street NW  
Washington, DC 20005

**RE: Second Request for Comment on Draft Provisions on Minimum Denominations (MSRB 2016-23)**

Dear Mr. Smith:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to the MSRB’s second request for comment, which includes the newly proposed MSRB Rule G-49. BDA members appreciate the efforts that the MSRB has taken to propose a rule that allows for greater flexibility for investors and dealers when transacting in municipal security issuances below the minimum denomination. As drafted, the proposed rule is extraordinarily complex and dealers have serious concerns with confusion arising regarding different interpretations of what is a permissible transaction under the rule. From a practical standpoint, the result of this complexity is that customers will be left with positions in municipal securities that they will not be able to trade or will only be able to trade at inferior prices. This is especially frustrating for municipal securities issuances without heightened suitability concerns that were issued with the standard market convention of a \$5,000 minimum denomination. BDA members believe that the proposed Rule G-49 should recognize the fundamental difference between a minimum denomination established by an issuer in order to restrict sales to sophisticated institutional investors and the standard minimum increments that are the long-time, and frankly antiquated, convention in the municipal securities market. BDA believes that the proposed rule should be more narrowly focused on the issuances for which issuers have intentionally established higher minimum denominations in order to restrict the sales of bonds to only sophisticated investors.

**BDA believes that proposed MSRB Rule G-49 should be focused on issuances with ‘minimum authorized denominations’ of \$100,000 and above.**

BDA believes that draft MSRB Rule G-49 should apply to issuances with ‘minimum authorized denominations’ of \$100,000 or greater. BDA shares the MSRB’s concerns related to investor suitability associated with issuances for which the issuer has intentionally established a ‘minimum authorized denomination’ in order to ensure the securities are sold to sophisticated investors. However, the proposed rule does not differentiate between intentional issuer-driven decisions to limit the sale of the securities to sophisticated investors (suitability concerns) with the practical reality that municipal securities are sold with ‘minimum authorized denominations’ (market convention).

BDA believes G-15 and proposed G-49 derive their complexity from the lack of clear delineation between minimum denominations set due to suitability concerns and minimum denominations established due to long-time market convention—unrelated to heightened investor protection concerns. For example, the rule would apply the same complex set rules for transacting in \$4,000 of AAA-rated General Obligation bonds issued by Anne Arundel County, Maryland (\$5,000 minimum increment) to a transaction in a bond issued with a minimum denomination of \$100,000 sold to no more than 35 sophisticated investors under an exemption from SEC Rule 15c2-12.

The practical impact of approaching the \$5,000 minimum increment in the Anne Arundel County GOs as a suitability issue is that liquidity in the investment is harmed by the complexity of existing Rule G-15 or proposed rule G-49 with no tangible benefit to investor protection. An investor that holds \$14,000 Anne Arundel GOs (or 14 par-value bonds) is harmed by G-15 because if they were to sell \$10,000 in par-value bonds the value of their \$4,000 bond position is priced to reflect the inherent illiquidity that is a consequence of the rule. Therefore, the rule impacts the pricing and liquidity of that \$4,000 bond position. Therefore, BDA believes the structure to allow for the permissible trade in the Anne Arundel GOs, which is predicated on an investor protection concern, actually harms the investor. That is, the rule would protect investors from the problem that these positions may lack liquidity, but that liquidity problem itself was only artificially created by the rule.

BDA urges the MSRB to re-focus the proposed rule on issuances with higher minimum denominations, such as \$25,000, \$50,000, or \$100,000 that have been set due to explicit suitability concerns. BDA recommends a rule focused on minimum authorized denominations of \$100,000 or more to harmonize with the exemption from 15c2-12 so that the marketplace has one understanding of what the issues with heightened investor protection concerns are.

**BDA believes that dealers should be granted greater flexibility to sell positions acquired in a transaction with a customer to another dealer.**

Under proposed Rule G-49 the following transaction scenario is not permissible:

Consider an issuance with a minimum denomination of 100 bonds. Customer A owns 75 bonds and liquidates that entire position in a transaction with a dealer. The dealer owns 75 bonds and subsequently sells 50 bonds out of the 75 bond position to Customer B in a transaction that brings Customer B's holdings to 100 bonds or greater—above the minimum denomination. Under the proposed rule, the dealer would only be allowed to sell the remaining 25 bonds to one or more customers that have an existing position in the issue. It would be impermissible to sell the remaining position to another dealer under both section (b)(ii)(B) and section (c). BDA members believe that, in this instance, inter-dealer sales should be given the same treatment as customer sales. The practical result of denying dealers with this flexibility is that dealers will be left with positions that will not trade and, therefore, dealers will not provide liquidity in certain situations.

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In conclusion, BDA agrees with the MSRB that there needs to be a structure that allows for greater flexibility to execute permissible transactions in below minimum denomination quantities. However, BDA urges MSRB to acknowledge that most minimum authorized denominations are not established with suitability concerns in mind. Therefore, BDA urges the MSRB to focus the rule on the issuances that have higher minimum denominations for the express purpose of restricting the sale of bonds to sophisticated investors. This change will allow bonds with minimum denominations set due to normal market convention to freely trade without a detrimental impact on liquidity, pricing, or investor protection.

Sincerely,



Mike Nicholas  
Chief Executive Officer