Comment on Notice 2014-20

from Gerald Heilpern,

on Tuesday, December 9, 2014

Comment:

Questions/thoughts re the new disclosure rule:

If this is adopted the customer might think that he/she is better off. Unfortunately the opposite is true. Right now firms can search the whole country for the best bond to satisfy the clients need and then mark it up one or two points for their efforts. Obviously, if this markup is shown the client is not going to be happy. Under the new procedure there will three classes of brokers:
1. Small firms that do not carry inventory. - these firms will be out of the bond business and all the diversity that they provide will be lost.
2. Small firms that carry inventory – these firms will ONLY show bonds in their inventory. This will result in a very narrow choice for their customers.
3. Large firms that carry inventory – these firms will benefit greatly from the change. The customer will have a larger choice than the small firm can provide but no matter how large the firm is, it will never equal the choices now available by any firm being able to check for the best bond and the best price.

Capitalism is based on competition. By eliminating whole classes of competitors the customers will suffer as to choice and price. Right now I am the manager of a small firm the does not keep inventory. I have spent 38 of my 46 year career at small firms. I and my RR's have NEVER lost out to a large form on an order based on competing with large firm's inventory, We offer the inventory of every trading firm in the country and by careful shopping and using judicial mark ups we are always competitive. The only winners under the proposed plan will be the large firms.

One additional thought. There is a sense among regulators that profits on individual trades is basically unfair. Instead of commissions/mark ups there is pressure to create managed accounts using an annual fee of 1% or more on the value of the account. Under past practices the client who buys 100m bonds might incur a markup of one to two thousand dollars. Under managed accounts, the customer would pay one thousand dollars PER YEAR for as long as the position is kept. I can't see how this benefits the customer.

Sincerely yours,

Gerald Heilpern 845-357-5044