



**Wells Fargo Advisors, LLC**  
Regulatory Policy  
One North Jefferson Avenue  
St. Louis, MO 63103  
HO004-095  
314-242-3193 (t)  
314-875-7805 (f)

**Member FINRA/SIPC**

May 25, 2016

Mr. Ronald W. Smith, Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314  
Via online at <http://www.msrb.org/CommentForm.aspx>

**RE: Regulatory Notice 2016-13: Request for Comment on Draft Amendments to MSRB Rule G-15(f) on Minimum Denominations**

Dear Mr. Smith:

Wells Fargo Advisors, LLC (“WFA”) appreciates the opportunity to comment on the Municipal Securities Rulemaking Board (“MSRB” or the “Board”) Regulatory Notice 2016-13: Request for Comment on Draft Amendments to MSRB Rule G-15(f) on Minimum Denominations (“Proposed Rule”).<sup>1</sup> We are generally supportive of the Proposed Rule, however, we believe that the efficacy of the proposed provisions hinge largely on the definition of “entire position.”

WFA is a dually registered broker-dealer and investment adviser that administers approximately \$1.4 trillion in client assets. We employ approximately 14,988 full-service financial advisors in branch offices in all 50 states and 3,838 licensed financial specialists in retail bank branches across the country.<sup>2</sup> WFA and its affiliates help millions of customers of

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<sup>1</sup> MSRB Regulatory Notice 2016-013: Request for Comment on Draft Amendments to MSRB Rule G-15(f) on Minimum Denominations, *available at*: <http://www.msrb.org/~media/Files/Regulatory-Notices/RFCs/2016-13.ashx?n=1>.

<sup>2</sup> WFA is a non-bank affiliate of Wells Fargo & Company (“Wells Fargo”), a diversified financial services company providing banking, insurance, investments, mortgage, and consumer and commercial finance across the United States of America and internationally. Wells Fargo’s retail brokerage affiliates also include Wells Fargo Advisors Financial Network LLC (“WFAFN”) and First Clearing LLC, which provides clearing services to 73

varying means and investment needs obtain the advice and guidance they need to achieve financial goals. Furthermore, WFA offers access to a full range of investment products and services that retail investors need to pursue these goals.

## **DISCUSSION**

MSRB Rule G-15 generally requires brokers, dealers and municipal securities dealers from effecting transactions with customers below the minimum denominations specified in bond documents, with exceptions consistent with the rule's original intent to protect investors that own municipal securities in amounts below the minimum denomination without creating an additional number of below-denominations positions. In support of the protections afforded by Rule G-15, broker-dealers are obligated to seek best execution pursuant to Rule G-18, ensure suitability of recommendations and transactions under Rule G-19 and provide time of trade disclosures imposed by Rule G-47. Pursuant to such obligations, a dealer must disclose to a customer at or prior to the time of trade all material information known about the transaction and/or security. This includes a circumstance where a transaction or position owned by the customer is below the minimum denomination.

WFA believes the existing exceptions to Rule G-15 generally provide necessary protections to clients without adversely affecting the liquidity of the positions. The proposed exceptions align with the intent of Rule G-15 and are beneficial to both clients and dealers. Under the Rule G-15(f)(ii) exception, dealers are permitted to buy an amount below the minimum denomination from a customer if the dealer determines that the customer's position in the issue is already below the minimum denomination and that the entire position would be liquidated by the transaction. Under Rule G-15(f)(iii) dealers are also permitted to sell an amount below the minimum denomination to a customer if the dealer determines that the position being sold is the result of a customer liquidating an entire position below the minimum denomination, as described in subsection (f)(ii), provided the necessary disclosures are made.

WFA suggests that additional guidance be provided in defining "entire position." We look to the following example to illustrate the implications: A client owns \$23,000 par amount of a municipal bond that has a minimum denomination and minimum increment of \$5,000. Under the proposed language, the "entire position" must be liquidated. Is the entire position the total client holding (\$23,000), or is the entire position the amount above the minimum denomination multiple (\$3,000)?

The primary benefit in establishing the "entire position" as the amount above the minimum denomination multiple is increased liquidity for the client. The client would be able to liquidate the portion of their holding that does not conform to the rule without selling the entire bond position. In addition to re-selling the below denomination to one client, WFA believes firms should have the ability to sell any amount to holders that result in clients

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holding a position that conforms to both minimum denominations and minimum increments. Thus, using the example above, if a client sold the \$3,000 bond position, those bonds could be sold to three different holders that each held a \$9,000 position resulting in three separate positions that now meet the proper minimum and multiple denomination.

Firms also need guidance related to minimum increments. Using the example above, if the client wanted to sell \$13,000 of their \$23,000 bond holding, the firm should have the same flexibility to re-sell the \$3,000 position which represents the amount below the minimum increment of \$5,000.

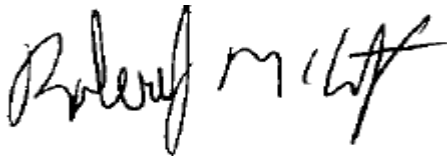
In many cases, clients that hold positions that do not meet either the minimum denomination or minimum increment are the result of an operational limitation such as an estate or family settlement. We believe that increased flexibility related to how these positions are traded will result in increased liquidity and pricing for clients.

## CONCLUSION

WFA prides itself in our continued efforts in providing exceptional service to our clients, including situations affected by Rule G-15 where liquidity may become a concern. Accordingly, we would appreciate additional clarification from the Board in regards to the definition of "entire position" to enhance our clients access to market liquidity.

WFA appreciates the opportunity to respond to the Proposed Rule and commends the Board in its continuing efforts to recognize exceptions that help clients overcome some potential and unnecessary negative implications of the rule. We also request the above noted clarification. If you would like to further discuss this issue, please contact me at (314)242-3193 or [robert.j.mccarthy@wellsfargoadvisors.com](mailto:robert.j.mccarthy@wellsfargoadvisors.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. McCarthy". The signature is written in a cursive, somewhat stylized font.

Robert J. McCarthy  
Director of Regulatory Policy