



May 25, 2016

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1300 I Street NW  
Suite 1000  
Washington, DC 20005

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

Dear Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates this opportunity to respond to Notice 2016-013<sup>2</sup> (the “Notice”) issued by the Municipal Securities Rulemaking Board (the “MSRB”) in which the MSRB is requesting comment on draft amendments to MSRB Rule G-15(f) on minimum denominations. The rules governing minimum denominations have not been updated in 15 years, and SIFMA and its members are pleased that the MSRB is undertaking this review. As rounds lots are more liquid than odd lots, SIFMA supports the intent of the original rule, which is stated in the Notice as seeking to protect investors that own municipal securities in amounts below the minimum denomination. SIFMA and its members believe that the draft amendments as set forth in the Notice are largely reasonable, however, we would appreciate the MSRB’s consideration of the three suggestions and alternatives we have detailed below.

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<sup>1</sup> SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

<sup>2</sup> MSRB Notice 2016-13 (April 7, 2016).

## **I. Minimum Denominations Rules Generally**

SIFMA and its municipal securities broker, dealer and municipal securities dealer (“dealer”) members agree that, as designed, the draft amendments largely serve to improve liquidity for investors without increasing the number of customers maintaining positions in municipal securities below the minimum denomination. We also agree that, in the aggregate, the exceptions generally continue to appropriately balance the interests of issuers, investors, dealers and the market as a whole. There are no other trading scenarios that we believe would enhance liquidity for investors without increasing the number of customers maintaining a position below the minimum denomination.

SIFMA and its members are not in agreement with the MSRB’s characterization of current law. We believe that this change narrows the current second exception to the rule. For example, if the seller is liquidating the entire position, it is believed by dealers that under current law the dealer could break up the position even further, regardless of whether those buyers currently owned any position in the securities. It is important for the MSRB to recognize that this draft change alters current law in order to guide dealer examination and enforcement efforts. With respect to the first scenario proposed, despite being a change in current law, SIFMA and its members believe that this would be a positive change to the rule going forward.

The exception permitting a dealer to purchase from a customer a position below the minimum denomination, should apply when that customer’s below minimum position is a result of an allocation in a managed account, from a position purchased in an amount equal to or above the minimum denomination. There are many reasons the dealer should not be prevented from using this exception. The dealer should not be held responsible for other market participants’ allocation decisions. Investment advisors are not governed by the MSRB rules, and making rules to attempt to influence their behavior by penalizing dealers will be unfair and fruitless. Also, prohibiting use of this exception potentially leaves the customer in an untenable position – with a position in securities they cannot liquidate. For example, if a client has a \$5,000 position in a security where the minimum denomination is \$100,000 per the indenture, the customer needs to be permitted to liquidate the entire \$5,000 position, regardless of how that position was created. Prohibiting the dealer from using this exception would essentially make the position untradeable (without adding to it, which may not be economically feasible) and would be unfair to the customer.

There are many scenarios that cause a customer’s position to fall below the minimum denomination. As noted in the notice of filing on the prior rule change, a below-minimum denomination position may be created, for example, by call provisions that allow calls in amounts less than the minimum denomination,

investment advisors who may split positions they purchase among several clients, the division of an estate as a result of a death or divorce, or as a result of a gift.<sup>3</sup> These are some of the reasons positions exist below the minimum denomination.

There are a number of circumstances whereby customers seek positions below the minimum denomination. These include customers adding to an existing position, at that firm or another firm, and opportunistic buyers.

Dealers should not have to provide the written statement informing the customer that the quantity of securities being sold is below the minimum denomination for the issuer, and that this may adversely affect the liquidity of the position, if the dealer has already determined that the sale to the customer below the minimum denomination results in the customer being at or above the minimum denomination. In this scenario, there are no adverse consequences, as after the trade is completed, the customer has a position in their account that is at or above the minimum denomination.

SIFMA and its members would like to note that MSRB registrants have found that sometimes it can be difficult or costly to identify existing holders of securities to which to sell below minimum denomination positions.

## **II. Alternatives and Suggestions**

The alternatives identified in the Notice largely represent a reasonable set of regulatory alternatives regarding permissible transactions below the minimum denomination of an issue. SIFMA and its members, however, have three suggestions and alternatives for consideration by the MSRB.

### **a. Eliminating Barriers to Trading on ATS Platforms**

SIFMA and its members believe that Rule G-15(f) should be limited to customer trades, and not apply to inter-dealer transactions between sophisticated parties. At a time when dealers believe that the SEC and other regulators are trying to encourage the use of alternative trading system (“ATS”) platforms, this rule creates significant compliance challenges for those dealers using an ATS platform that anonymizes the counterparties. We understand that FINRA examiners are looking through interdealer trades to the end customer. In the draft changes to Rule G-15(f)(ii), the language permitting the dealer to rely on customer account

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<sup>3</sup> Securities Exchange Act Release No. 45174 Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations (December 19, 2001), 66 FR 67342 (December 28, 2001), at fn 3.

information has been deleted and moved to section Rule G-15(f)(v). To that end, particularly in the case of a dealer trading on an ATS, it would be helpful for the MSRB to waive the requirement that a dealer must determine if their dealer counterparty's selling customer is selling their entire position that is below the minimum denomination, based on their account records or a written statement. Requiring this documentation is an unnecessary impediment to trading on an ATS platform.

#### **b. Improve Information on EMMA**

Another issue that has become evident is that some private placement memorandum ("PPM") documents are not on the MSRB's Electronic Municipal Market Access ("EMMA") website, so there is no way for the dealer to check for the minimum denomination and increment information on that particular transaction. To remedy this issue, we suggest that MSRB Rule G-32 be amended to require the filing of minimum denomination and increment information on EMMA.

Additionally, many information service providers have blank or incorrect information in the minimum denomination and increment fields. Underwriting dealers are already required to send to the Depository Trust and Clearing Corporation ("DTCC") minimum denomination and increment information through the New Issue Information Dissemination System ("NIIDS") by mandate of Rule G-34. MSRB could take this information from the DTCC's NIIDS feed and display the information on EMMA. If a security is not NIIDS eligible, then the dealer should be able to send the information directly to the MSRB for transparency purposes on EMMA.

#### **c. Increments**

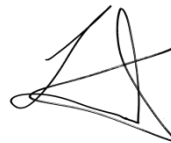
It is important to note that heretofore, the prohibitions and disclosures in Rule G-15(f) were limited to positions below the minimum denomination, with no reference to increments. Increment amounts are not uniform in bond documents across the industry. As described above, information from the commonly used information service providers regarding permissible increments is not always available or reliable. All the other changes as detailed in the Notice can be implemented without delay; the inclusion of the verbiage pertaining to incremental amounts, however, would potentially require additional implementation time. If permissible increments are to be incorporated into Rule G-15 and subject to regulatory review and enforcement, dealers would want to reconfirm the presence and validity of the data available through the information service providers. This process may include additional systems development and connectivity testing of these systems between vendors and dealers. As a result, SIFMA and its members believe that if the language referencing incremental amounts remains in the proposed change to Rule G-15(f), additional implementation time would be

required. Prohibiting trading in amounts that do not conform to the stated increments also potentially leaves the customer in an untenable position – with a position in securities they cannot liquidate. For example, if a client has \$22,000 position in a security where the minimum denomination and increment requirements are both \$5,000 per the indenture, the customer needs to be permitted to liquidate the entire \$22,000 position, either in whole or in part, regardless of how that position was created. Any limitation on trading that would make the entire \$22,000 position or the \$2,000 tail piece untradeable would be unfair to the customer.

### **III. Conclusion**

Again, SIFMA and its members largely support the proposal as stated in the notice. SIFMA would appreciate, however, if the MSRB would clarify that the changes in the Notice narrow a current exception to the rule. Also, SIFMA and its members would appreciate the MSRB's consideration of our alternatives and suggestions, as detailed above. We would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at (212) 313-1130.

Sincerely yours,



Leslie M. Norwood  
Managing Director and  
Associate General Counsel

cc: ***Municipal Securities Rulemaking Board***  
Lynnette Kelly, Executive Director  
Robert Fippinger, Chief Legal Officer  
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