BDA Bond Dealers of America

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June 11, 2025

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006

Submitted electronically

Dear Ms. Mitchell,

The Bond Dealers of America (BDA) is pleased to comment on FINRA Regulatory Notice 25-04, "FINRA Launches Broad Review to Modernize Rules Regarding Member Firms and Associated Persons" (the Notice). BDA is the only DC-based group exclusively representing the interests of securities dealers and banks focused on the US fixed income markets.

BDA welcomes the comprehensive regulatory review announced in the Notice. FINRA's rules have far reaching implications for the fixed income markets and fixed income dealers. It is absolutely appropriate for FINRA to conduct a comprehensive review of bond market regulation with an eye towards modernizing and improving the efficiency of FINRA rules. We will use this opportunity to recommend areas of the FINRA rule book which are ripe for amendment. In the area of workplace supervision, we recognize that FINRA has already issued a Notice (Regulatory Notice 25-07) requesting input on regulations governing the "organization and operation of member workplaces." We welcome that Notice as well and we will provide fulsome comments separately in response to that request which will focus on modernizing the way fixed income employees are supervised.

TRACE trade reporting

On June 10, 2025 FINRA filed with the SEC (File no. SR-FINRA-2025-08) amendments to rescind changes to FINRA Rule 6730 approved by the Commission in September 2024 which would have required dealers to report most bond trades to TRACE within one minute. Under the FINRA filing, the current 15-minute reporting deadline would be maintained.

BDA fully supports FINRA's rescission of the one-minute trade reporting amendments. We agree with FINRA that "it is appropriate at this time to maintain the currently effective TRACE reporting standard requiring members to report transactions as soon as practicable, but no later than within 15 minutes of the Time of Execution." We intend to file a comment letter with the Commission where we will urge approval of the one-minute trade reporting amendments.

Reporting RIA allocations

An issue we have raised consistently with FINRA throughout the discussion of shortening trade reporting times is the needless requirement for a dually registered Broker-Dealer and Investment Adviser (BD/IA) to report to TRACE allocations of block trades to individual advisory customer accounts. This requirement is not in the text of Rule 6730. Rather, it is specified in FINRA's "Frequently Asked

Questions (FAQ) about the Trade Reporting and Compliance Engine (TRACE)" (FAQ 3.1.47). As a result, this requirement was never subject to public comment or Commission review.

In its proposed changes to Rule 6730 related to trade reporting times, FINRA addresses this issue. Under newly proposed Rule 6730 Supplementary Material .08, dually registered BD/IAs could either report individual allocations as under current policy or, alternatively, BD/IAs could choose to report the block trade as a single transaction and specify in the trade report the number of IA customer accounts to which the trade was allocated.

BDA believes the requirement to report individual allocations to TRACE is unjustified, and we support the inclusion of proposed Supplementary Material .08 as an element of Rule 6730. Allocations to advisory customers are not trades as that term is commonly understood. They are as they are referred to, allocations of large trades—which are already required to be reported to TRACE—to individual customers. FINRA has never stated why these allocations should be reportable. The MSRB has no such requirement for similar transactions in municipal securities.

Going forward, we also urge FINRA to further amend Rule 6730 to entirely eliminate the requirement to report block trade allocations for dually registered BD/IAs. The requirement serves no useful purpose. In the meantime, we welcome this proposed change now before the Commission and we ask FINRA to amend the TRACE FAQ document appropriately once the new Supplementary Material .08 is fully in place.

Margin requirements for certain mortgage securities

In March 2024 the SEC approved amendments to FINRA Rule 4210 to require BDs to collect and hold margin from customers on certain trades in agency mortgage-backed securities (MBS), defined in the Rule as Covered Agency Transactions (CAT). FINRA's amendments fail to recognize decades-long market conventions on the settlement of new-issue MBS and unfairly disadvantage small and mid-size BDs relative to their larger competitors.

As a result of the FINRA CAT amendments, BDs are required to potentially collect margin on any agency MBS trade that settles in a period longer than T+1. Agency MBS are issued according to a well-defined process that allows time for the origination and warehousing of individual mortgage loans and assembly of the mortgage security. As a result, new-issue agency MBS settle according to a published schedule established by market participants, not T+1 like much of the rest of the capital markets. If the value of the customer's position drops during the time between when they agreed to buy the MBS and when the trade settles perhaps weeks later by more than the established *de minimis* amount of $250,000, the BD must collect and hold margin from the customer until the trade settles. Alternatively, BDs can take a dollar-for-dollar capital charge in lieu of margin. The CAT amendments to Rule 4210 fail to recognize long-established market conventions for originating and distributing new agency MBS on a specific schedule.

In addition, the amendments disadvantage mid-size size BDs. Many mid-size BDs do not themselves clear and settle their customers' trades. Instead, as "correspondent" dealers, they contract for this service with "clearing firms," specialized BDs that provide clearing, settlement, and related services to other BDs and their customers. As a result, correspondent BDs do not hold customer funds or securities—that is done by the clearing firm—and cannot directly collect margin at all from customers. A

capital charge in lieu of margin provides an alternate means of compliance, but with limited capital, a weak MBS market could quickly absorb much of a mid-size firm's capital until the MBS settlement date potentially weeks away. The biggest Wall Street banks do not face these issues. They all "self clear," meaning they can directly hold customer margin funds, and have virtually unlimited capital in case they need to take a capital charge in lieu of margin. It is not surprising that the idea of collecting margin on new-issue agency MBS first arose from the Treasury Market Practices Group, a committee of the country's largest banks and investors who advise the Federal Reserve Bank of New York.

By disadvantaging smaller BDs with respect to new-issue MBS, the CAT amendments also indirectly disadvantage smaller mortgage originators and their customers. Small mortgage companies, community banks, and credit unions depend on the ability to readily sell the mortgage loans they originate. Often these mortgage lenders are too small to attract the attention of large MBS dealers, but they are well served by mid-size dealers. By imposing unfair costs and restrictions on smaller dealers' MBS activities, the CAT amendments also potentially constrain the ability of small mortgage originators to sell the loans they make.

FINRA's adoption of the CAT amendments has inspired clearing firms and large BDs to demand contractual margin terms from their customers and trading counterparties that are often stricter than the Rule requires, which has magnified the negative repercussions of the CAT amendments for mid size dealers even further. Moreover, even when individual customer mark-to-market losses of a correspondent BD may not exceed the $250,000 threshold to collect margin, the combined positions of all that dealer's customer mark-to-market losses could easily exceed the threshold. That means the dealer's clearing firm may be required to collect margin from their correspondent dealer in relation to the combined customer positions, but the dealer is not required to collect margin from their own individual customers.

Another particular compliance issue with respect to the CAT amendments involves interest on customer margin funds. Often interest that accrues to customers on posted margin is very small, perhaps $100 or less. However, dealers still must calculate and pay out this interest since it represents customer funds. The process can be cumbersome for small amounts of interest.

FINRA should address the shortcomings in the Rule 4210 CAT amendments by raising the *de minimis* mark-to-market trigger for collecting margin from $250,000 to $500,000 and amend the Rule such that CAT trades are marginable only if they settle outside the standard MBS settlement window. Also, in 2021 FINRA published a concept release (Regulatory Notice 21-11) requesting comment on the prospect of requiring margin on extended settlement trades in non-mortgage products. Just as there was no compelling, systemic reason to require margin on CAT trades that settle within the normal MBS schedule, there is also no justification for requiring margin on trades in other securities that settle longer than T+1. We urge FINRA to act no further on that initiative.

Additional areas for FINRA attention

In addition to the issues outlined above and remote supervision issues raised in Regulatory Notice 25-07, we believe the following areas deserve attention during the rule modernization review.

Rule coordination with the MSRB

Municipal securities and the municipal bond market have features which sometimes necessitate unique regulations that account for the idiosyncrasies of the product. However, in many areas where municipals do not differ significantly from other products, FINRA and MSRB rules should track very closely. While FINRA and the MSRB in recent years have worked diligently to coordinate their activity on new rulemakings such as markup disclosure and best execution, there are legacy rules where FINRA and MSRB regulation differ needlessly. Examples are advertising (FINRA Rule 2210 and MSRB Rule G-21), account transfers (FINRA Rule 11870 and MSRB Rule G-26), and supervision (FINRA Rule 3110 and MSRB Rule G-27). Different compliance standards for similar activities needlessly increase costs to dealers and raise the risk of noncompliance. We urge FINRA to include these rules in the rule modernization review. We will separately request the MSRB to do the same, and we ask the two SROs to coordinate these reviews closely with the goal of as much harmonization as possible.

FINRA Rule 3220, the "Gift Rule."

FINRA Rule 3220 restricts the ability of broker-dealer employees to provide "anything of value" to anyone who is "in relation to the business of the employer of the recipient of the payment or gratuity" and establishes a limit of $100 per year for any gifts to a relevant person. We recognize the need for a gift rule. However, the $100 limit in the Rule was established in 1993 (NASD Notice to Members 93-8) and has not increased since. If the $100 gift limit had increased for inflation over the last 32 years, it would be approximately $225 today.

We recognize that FINRA has filed with the SEC amendments to Rule 3220 which would raise the annual gift limit to $250 and make other changes to Rule 3220. BDA generally supports that initiative, and we plan to file comments with the Commission on this filing as appropriate.

Additional guidance on calculations

MSRB Rule G-33 is a technical rule governing certain calculations in determining key values related to rule compliance. For example, paragraph (d) of Rule G-33 provides compliance standards related to decimal places and truncation when calculating bond math. FINRA also has rules related to calculations. Rule 11620, for example, provides standards for calculating accrued interest on bond trades. However, FINRA rules in general do not provide sufficient detail around issues like day count and decimal places. We ask FINRA to address this through rulemaking or guidance particularly with respect to calculating accrued interest and yield to worst.

Clarity around market movements

Rule 2121 is FINRA's fair pricing and markup rule. As FINRA is aware, BDs generally do not charge commissions on bond trades. Instead, dealers earn trading revenue from the markup or markdown of prices they charge or provide to customers. So markup regulation is a central element of the fixed income market, much more so than for exchange-traded equity transactions, for which dealers generally charge commissions, not markups. Bond prices and bid-ask spreads can be volatile during a trading day. A bond a dealer acquires in the morning may be worth more or less by the afternoon. However, BDA members report that FINRA examiners are often fixated on the dealer's acquisition or disposition price as the indicator of prevailing market price (PMP) even when bond market benchmarks, as well as the PMP of the bond itself, may have moved significantly since the dealer bought or sold it. This has been a

particular issue for intraday price movements. We ask that FINRA provide training and guidance to examiners on how to determine PMP when there has been market movement between when a dealer acquires a bond and when they sell it. We also urge FINRA to consider whether Rule 2121 (and mark-up disclosure guidance) should be updated to provide additional scenarios where the PMP should reflect the current market price at the time of trade, given the more precise data and technology now available. Allowing the PMP to change only when a significant event occurs is arbitrary and may not be transparent.

SEC Rule 15c2-11

In 2021 the SEC wrongly interpreted their Rule 15c2-11, a 50+-year-old penny stock rule, to apply to quotations in certain fixed-income products. We do not believe the SEC's actions were appropriate, and we have recently written to Chairman Atkins to request that the Commission reverse that decision. In the meantime, we understand that FINRA, in its examinations of dealers for compliance with Rule 15c2-11, has been examining written supervisory procedures associated with Rule 15c2-11 and bonds but not actual compliance with the Rule. We ask FINRA to maintain this examination policy pending possible SEC action on this issue.

BDA welcomes FINRA's rule modernization review. We believe it presents a compelling opportunity to address long-standing issues in the FINRA rule book. We look forward to working with FINRA as the review moves forward.

Sincerely,

Michael Decker
Senior Vice President, Research and Public Policy