

December 30, 2014

Ms. Cynthia Friedlander  
Director  
Fixed Income Regulation  
FINRA

By email

Dear Ms. Friedlander:

I am a student of the securities markets, not a securities professional. However, I have taught various securities test preparation classes in the past.

The proposed FINRA rule, *Pricing Disclosures in the Fixed Income Market*, (Notice 14-52), requires disclosure of the price paid or received by a member on a principal transaction, as well as the price that the customer pays or receives. As I understand it, the rule applies in cases where trades are effected on the same day, and the size of the order ("qualifying size") is for 100 bonds or less, or the trade is for \$100,000 or less in face value. The intent of the rule, as I understand it, is to provide retail customers with full disclosure, not only how much they pay or receive on bond transactions, but also how much is paid or received by the member firm acting as principal on the trade, where the trades are effected on the same day.

I agree with the thrust of FINRA's proposed rule, especially that disclosure of a member's price on a bond trade to a retail customer should not be limited merely to riskless transactions.

However, I have a problem with the limited scope of the FINRA rule, specifically regarding qualifying size. For example, why limit disclosure only to trades involving 100 bonds or less? I argue that price disclosure on principal trades should be made on all bond trades involving retail customers, with no limit in qualifying size, provided that the customer is truly retail, and not a broker/dealer or other institutional investor.

Consider this example. Grandma Jones has just received \$5 million insurance proceeds upon the death of her husband. Grandma Jones knows nothing about the stock or bond markets. Her representative at ABC Brokerage suggests that she put all \$5 million in XYZ Corp. bonds. On the basis of this advice, Grandma Jones agrees to do this. ABC Brokerage goes out and buys \$5 million XYZ bonds at 95, and then 10 minutes later, sells the bonds to Grandma Jones at 100. In this case, I submit, FINRA should require disclosure, notwithstanding the number of bonds exceeds 100. Grandma Jones is a quintessential retail customer.

I argue, she has, as a retail investor, a right to know how much she is being charged, and whether ABC Brokerage and her representative are taking advantage of her. My same argument applies to transactions whose face amount exceeds \$100,000. There should be full disclosure of the member firm's profit on all retail trades, notwithstanding that they exceed \$100,000 in face value. After all, we are talking about protecting unsophisticated retail bond customers. They deserve to receive full disclosure of the member's price. This disclosure should not hinge on whether the retail trades are for 100 bonds or less, or the face value size is \$100,000 or less.

Also, in reference to FINRA's examples 11, 12, and 13 in Notice 14-52, where some trades occur on previous days, I argue that FINRA should not limit required disclosure to trades occurring on the same day, but require disclosure for all principal trades involving bonds sold to retail customers which are effected within the five previous trading days. Why? Consider this example. Andy, a representative, learns that Widow Helen has just received an inheritance of \$10 million. He talks with Widow Helen and urges her to put the monies into 20 different bond issues. Widow Helen tells him that she needs a few days to think it over, but that she probably will follow his advice. Andy returns to his firm and tells his manager of Widow Helen's probable intentions. In anticipation of the likely forthcoming retail order, Andy's firm goes out and purchases \$10 million in the bond issues that Andy recommended. The firm's average cost for these bonds is 99. Three days later, Widow Helen places her buy order. Andy's firm sells Widow Helen \$10 million bonds for 100. I submit, a trade like this should also be covered by FINRA's disclosure rules. Andy's firm should not be allowed to keep its cost basis secret. Widow Helen, as a retail customer, has a right to full disclosure—to know how much Andy's firm has paid versus what the firm is charging her.

In the first of the above examples, retail customers place orders for more than 100 bonds or for more than \$100,000 in face value. In the last case, the firm's purchase is effected several days before the retail customer places her order. Under the present proposed rule, FINRA's disclosure rules would not apply. I argue, FINRA's rule should offer protection to these retail customers too.

I believe it is bad policy as well as bad business practice for member firms to conceal their costs from retail customers on bond transactions effected on a principal basis, whether in buy or sale trades. In summary, I argue, FINRA should not limit the proposed disclosure rule just to trades for 100 bonds or less, or to trades \$100,000 or less in face value, or only to trades effected on the same day.

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