

July 27, 2016

Submitted Electronically

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Notice of Filing of a Proposed Rule Change to Increase Transparency for CMO Transactions (SR-FINRA-2016-023)

Dear Mr. Fields:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit these comments in response to (SR-FINRA-2016-023), a proposal to amend reporting requirements and dissemination protocols for collateralized mortgage obligations (CMOs). BDA appreciates the fact that FINRA made valuable amendments to its February 2015 proposal related to reporting securitized products, including CMOs (Regulatory Notice 15-04). In particular, the proposed 60-minute reporting timeframe is a vast improvement for smaller dealers that have fewer operational and trading personnel focused on trade reporting. Additionally, the proposed amendment to reporting timeframes for transactions in pre-issuance CMOs should provide dealers with sufficient flexibility to report a transaction as early as one or two days prior to the first settlement date, if settlement details are available. BDA appreciates these amendments. However, BDA believes that the proposed rule could be improved further.

In order to improve the proposal, BDA recommends that the \$1 million trade-size threshold be eliminated. This change will provide maximum transparency and complete reporting and dissemination harmonization for all CMO transactions, while not disproportionately disadvantaging liquidity or execution quality for any market segment or participant. BDA believes that the proposed \$1 million threshold and the periodic dissemination protocols for trades of \$1 million or greater will create a bifurcated market that will disadvantage the smaller trades that will be disseminated in real-time and small-to-medium sized dealers that more frequently transact in smaller quantities compared to the largest dealers. If the proposal is finalized in its current form, institutional investors

will routinely avoid trading in sub-\$1 million quantities with the small-to-medium sized dealers who typically trade in smaller quantities in order to avoid information leakage. In addition to avoiding trading in sub-\$1 million quantities, institutional investors will also seek to transact with financial institutions that are not required to report trades to TRACE.

Furthermore, this proposal will make it riskier for smaller dealers to provide liquidity and will create liquidity conditions that will disadvantage market quality for retail investors who trade in smaller trade sizes. BDA members have continuously observed the negative impact on liquidity that occurs due to greater real-time dissemination. However, as drafted, this proposal will almost exclusively impair market liquidity for transactions of \$1 million and less. BDA believes the resulting market bifurcation will degrade market quality for smaller trade sizes and cause dealers to be less willing to provide liquidity for transactions of \$1 million or less. This will disadvantage smaller investors and the smaller dealers who trade CMOs in transactions of \$1 million and less with far greater frequency than the largest dealers.

As Table 4 of the Federal Register publication for SR-FINRA-2016-023 shows, FINRA is attempting to provide real-time dissemination for 79.21% of individual CMO transactions, but only 1.64% of CMO trading volume. Middle-market dealers are far more likely to be regular providers of liquidity in the transactions that make up the 79.21% of individual CMO transactions—the transactions that will become far more difficult to execute if this proposal is finalized in its current form. It would be a far better result for competition and the quality of the market if there was no size threshold for real-time dissemination purposes so that investors could be better informed about the 98% of the market that would not be subject to real-time dissemination under the current proposal. Therefore, BDA urges FINRA to file an amendment to the proposal to eliminate the \$1 million threshold.

Thank you for the opportunity to provide these comments.

Sincerely,

A handwritten signature in blue ink that reads "Mike Nicholas".

Mike Nicholas
Chief Executive Officer