



VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS  
AND INDEPENDENT FINANCIAL ADVISORS

## VIA ELECTRONIC MAIL

October 18, 2016

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

Re: Second Request for Comment on Draft Provisions on Minimum Denominations

Dear Mr. Smith:

On September 27, 2016, the Municipal Securities Rulemaking Board (MSRB) published its second request for public comment on draft provisions on minimum denominations (Draft Provisions).<sup>1</sup> The Draft Provisions would create new MSRB Rule G-49, expanding exceptions to the prohibition on below-minimum denomination transactions in a stand-alone rule to make them easier to locate and understand.

The Financial Services Institute<sup>2</sup> (FSI) appreciates the opportunity to comment on this important proposal. FSI and its members support the MSRB's efforts to create more flexibility in how firms and customers may reconcile below-minimum denomination transactions. FSI believes the Draft Provisions remove requirements that unnecessarily inhibit trading by dealers in such positions in municipal securities, often to the detriment of customers. We also believe the Draft Provisions strike an appropriate balance between enhancing liquidity and restricting the creation of additional below-minimum positions.

### Background on FSI Members

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the U.S., there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives<sup>3</sup>. These financial advisors are self-employed independent contractors, rather than employees of Independent Broker-Dealers (IBD).

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<sup>1</sup> Second Request for Comment on Draft Provisions on Minimum Denominations, MSRB Notice 2016-23, September 27, 2016.

<sup>2</sup> The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

<sup>3</sup> The use of the term "financial advisor" or "advisor" in this letter is a reference to an individual who is a registered representative of a broker-dealer, an investment adviser representative of a registered investment adviser firm, or a

FSI member firms provide business support to financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners who typically have strong ties to their communities and know their clients personally. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations and retirement plans with financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their investment goals.

### **Discussion**

FSI appreciates the opportunity to comment on the Draft Provisions. FSI applauds the MSRB's efforts to reduce the regulatory burden on dealers while facilitating access to liquidity for those investors with below-minimum denomination positions. We also applaud the MSRB's efforts to make the exceptions and guidance into a stand-alone rule so it is easily accessible and the requirements more clearly outlined for firms. We offer additional supportive comments below.

Existing Rule G-15(f) prohibits dealers from trading in amounts below the minimum denomination of a municipal security, but contains two exceptions in order to preserve liquidity for such positions already held by customers. FSI agrees with the MSRB that there are trading scenarios currently prohibited that, if allowed, would likely increase the ability of customers holding below-minimum denomination positions to exit those positions. As a result, the Draft Provisions will reduce the burden on dealers of implementing the existing prohibitions and benefit customers.

In April 2016, the MSRB requested comment on two additional proposed exceptions<sup>4</sup>, which would not allow sales that would create a below-minimum position where there previously was none (Minimum Increment Condition). At that time, several commenters expressed concern that this Minimum Increment Condition would unnecessarily limit the transfer of positions, resulting in reduced liquidity.<sup>5</sup> FSI agrees that eliminating the Minimum Increment Condition from draft Rule G-49 will allow dealers additional flexibility in transactions involving below-minimum denomination positions, and will enhance liquidity for customers holding such positions without creating additional outstanding positions.

The Draft Provisions would eliminate the requirement that a dealer obtain a written statement from someone other than the customer that the customer's position was fully liquidated prior to making a sale. Previous commenters observed that this requirement would prevent dealers from using alternative trading systems or broker's brokers.<sup>6</sup> FSI supports eliminating the liquidation statement requirement from the Draft Provisions as including it would result in less flexibility for

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dual registrant. The use of the term "investment adviser" or "adviser" in this letter is a reference to a firm or individual registered with the SEC or state securities division as an investment adviser.

<sup>4</sup> Request for Comment on Draft Amendments to MSRB Rule G-15(f) on Minimum Denominations, MSRB Notice 2016-13, April 7, 2016.

<sup>5</sup> MSRB Notice 2016-23 *supra*. at 5.

<sup>6</sup> *Id.* at 6.

dealers and would not enhance liquidity for customers holding below-minimum denomination positions.

For the above reasons FSI's members encourage the adoption of the Draft Positions as modified from the original proposal. The Draft Provisions will result in enhanced liquidity for customers and the new rule G-49 would provide important clarification for firms in complying with the requirements. We applaud the MSRB for making these changes.

**Conclusion**

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with the MSRB on this and other important regulatory efforts

Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 803-6061.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D.T. Bellaire".

David T. Bellaire, Esq.  
Executive Vice President & General Counsel