



OFFICE OF THE
INVESTOR ADVOCATE

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

January 20, 2015

Submitted Electronically

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

**RE: Regulatory Notice 14-52
Request for Comment on Pricing Disclosure in the Fixed Income Markets**

Dear Ms. Asquith:

Pursuant to Section 4(g)(4) of the Securities Exchange Act of 1934, the new Office of the Investor Advocate at the U.S. Securities and Exchange Commission is responsible for analyzing the potential impact on investors of proposed rules of the Commission and self-regulatory organizations (“SROs”). More broadly, we are also required to identify areas in which investors would benefit from changes in the existing regulations of the Commission or the rules of SROs. In furtherance of these objectives, we will routinely review existing rules and rulemaking proposals of the Financial Industry Regulatory Authority (“FINRA”). We will make recommendations to FINRA from time to time, utilizing the public comment process when appropriate. In addition, as required by Section 4(g)(4)(B), we will report to Congress on the actions taken in response to our recommendations.

We are pleased to have this opportunity to submit comments regarding FINRA’s proposed rule requiring firms to disclose additional information on customer confirmations for transactions in fixed income securities, as described in Regulatory Notice 14-52 (the “Notice”).¹ In short, we support FINRA’s effort to increase price transparency for retail customers, and we urge you to adopt the proposed amendment to Rule 2232.

The Notice details FINRA’s proposal to require disclosure on customer confirmations of same-day pricing information for retail size transactions in certain fixed-income securities. The Notice states that FINRA “believes that customers in retail-size trades would benefit from additional confirmation disclosure of the price of the offsetting trade by the firm and the differential between these prices when the offsetting trade is within the same trading day.” We agree.

Naturally, steps to improve price transparency will benefit individual investors. Although individual investors already receive some of the information at issue and have access to FINRA’s Trade Reporting and Compliance Engine (“TRACE”) data and trading histories from various internet sources,

¹ The comments provided in this letter are solely those of the Office of the Investor Advocate and do not necessarily reflect the views of the Commission, the Commissioners, or those of any other Office, Division, or Commission staff. The Commission has expressed no view regarding the statements of the Office of the Investor Advocate expressed herein.

customer confirmations are not currently required to include information about the cost of the security to the firm.² Nor is it easy for individual investors to determine the value of a security using the publicly available information. By requiring firms to disclose the price of the offsetting trade and the differential between these prices when the offsetting trade is within the same trading day, customers in retail-size trades would likely be better equipped to evaluate the transaction and the quality of service provided to them by a firm. This information may also have a preventative effect because firms will be less likely to charge excessive mark-ups when the price differential must be disclosed so clearly, and customers and FINRA will likely detect improper practices more easily as a result.

Question 5 of the Notice asks whether the objectives of the proposal would be achieved if a firm is required to disclose the price paid or received by the firm in a transaction with a third party, without disclosing the actual differential between that price and the price in the customer transaction. In other words, should the firm be required to show the calculation on the confirmation to reveal the difference between the prices? We urge FINRA to keep this requirement, as it is much easier for the firm to automate this calculation than to place that burden upon investors.

Question 8 of the Notice seeks comment on whether the disclosure should be subject to a *de minimis* standard, where disclosure would not be required if the price differential is small. In our view, it is important for investors to know the pricing information, even when they are receiving a good price, and this information helps them put into context the transactions in which the pricing differential may be excessive.

The Notice posits potential regulatory alternatives to requiring disclosure of pricing information for all trades in the same security where the firm and the customer trades occur on the same trading day. As an alternative, the Notice suggests that one possible approach would be to limit disclosure of pricing information to “riskless principal” trades only. FINRA believes that there are increased benefits to requiring disclosure for all trades rather than limiting disclosure to only riskless principal trades, and we agree with that conclusion. Although the alternative approach would provide a degree of price transparency, we support the adoption of the proposed amendment because of its more all-encompassing reach. We also note that the proposed amendment provides firms with a relatively clear and standardized approach to disclosure, as compared to the alternative riskless principal approach.

In conclusion, we applaud FINRA’s efforts to improve price transparency in fixed income markets. We also appreciate the collaborative and cooperative manner in which FINRA has worked with the MSRB to achieve consistent goals. Your significant efforts will impact post-trade price transparency for individual investors, and we encourage you to continue to make advances not only in post-trade price transparency, but also in pre-trade price transparency. Should you have any questions, please do not hesitate to contact me.

Sincerely,



Rick A. Fleming
Investor Advocate

² Securities and Exchange Commission, Report on the Municipal Securities Market, at 147, July 31, 2012, <http://www.sec.gov/news/studies/2012/munireport073112.pdf>.