BDA Bond Dealers of America

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May 10, 2012

VIA ELECTRONIC MAIL (send to: *rule-comments@sec.gov*)
Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Proposed Rule Change Relating to TRACE Reporting and Dissemination of Transactions in Agency Pass-Through Mortgage-Backed Securities Traded in Specified Pool Transactions and SBA-Backed ABS Transactions (Release No. 34-66804; File No. SR-FINRA-2012-021)

Dear Ms. Murphy:

The Bond Dealers of America (BDA) is pleased to submit this letter in response to the United States Securities and Exchange Commission's (SEC) solicitation of comments in connection with the Financial Industry Regulatory Authority's (FINRA) proposed rule change (FINRA proposal) to amend the FINRA Rule 6700 Series and Trade Reporting and Compliance Engine (TRACE) dissemination protocols regarding the reporting and dissemination of transactions in TRACE-Eligible Securities that are (collectively, the Agency Specified Pool Securities): (1) Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions and (2) Asset-Backed Securities backed by loans guaranteed as to principal and interest by the Small Business Administration and traded either in Specified Pool Transactions or to be announced. The BDA is the only DC based group representing the interests of securities dealers and banks focused on the U.S. fixed income markets and we welcome this opportunity to state our position.

The BDA is concerned with the FINRA proposal in that it will disclose to the market information concerning investor strategies and trading activity that is currently considered proprietary. Agency Specified Pool Securities are different from other fixed income securities in that the pools can be smaller in size and a single investor frequently owns the entire pool when the pool is smaller in size. In these cases, the market easily knows who these investors are and what pools they own. Much of the market in the Agency Specified Pool Securities is driven by institutional investors who take the time to research the performance of pools, to develop a strategy to generate a profit and ultimately to execute on that strategy. When a single investor owns a large percentage of a specified pool, if the FINRA proposal were finalized in its current form, the market would be able to know that this investor is buying or selling and the market would be then be able to track this investor's activity, and reverse engineer and capitalize on its strategy. The BDA thinks a more fair approach to investors is if broker-dealers are allowed to omit the pool number and CUSIP information from TRACE dissemination regardless of the size of the transaction. This would still require the dissemination of the security type, the coupon and the actual maturity, which would allow the market to have access to the information it needs without compromising the proprietary trading strategy of investors.

Another concern of the BDA revolves around a loophole in the TRACE reporting system. Broker-dealers that are affiliated with banks can run transactions through the bank's balance sheet and there is no requirement that the banks report these transactions to the TRACE reporting system. This allows banks to effectively avoid TRACE reporting in transactions involving Agency Specified Pool Securities. This causes two problems that are particular to the market in Agency Specified Pool Securities. First, this can encourage manipulation in the market for the Agency Specified Pool Securities because the market in Agency Specified Pool Securities experiences a lot less liquidity and activity than other fixed income markets. This can invite investors to manipulate the market by purchasing a block of Agency Specified Pool Securities through a broker-dealer that is required to report the transaction through the TRACE reporting system, and then selling an even larger block of the same Agency Specified Pool Securities through a bank that is not required to report the transaction. This can give the investing public the appearance of demand for the security that does not in fact exist. Given the size, activity levels and liquidity in the market for Agency Specified Pool Securities, it is very important that if some of the transactions are required to be reported, all transactions must be reported or the FINRA proposal will invite manipulation of the market. Second, investors will be encouraged to trade Agency Specified Pool Securities through banks rather than unaffiliated broker-dealers so as to avoid the reporting requirement. Given the concerns that investors have about retaining proprietary information in this market, the FINRA proposal will draw customers away from these broker-dealers only because of the existence of these rules. This will unfairly treat broker-dealers that are not affiliated with banks.

Thank you again for the opportunity to submit these comments.

Sincerely,

Michael Nicholas

Chief Executive Officer