



January 5, 2007

**VIA EMAIL**

Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-9303

**RE: National Association of Securities Dealers (“NASD”) Filing Relating to Additional Mark-Up Policy for Transactions in Debt Securities, Except Municipal Securities (SR-NASD-2003-141, as amended)**

Dear Ms. Morris:

Citigroup Global Markets Inc. (“CGMI”) is pleased to respond to NASD’s proposed mark-up policy to transactions in debt securities, as amended (the “Proposal”).

The Proposal would, among other things, exempt from the scope of NASD Rule 2440 (the “Mark-Up Rule”) transactions with qualified institutional buyers (“QIBs”) in non-investment grade debt securities, subject to certain requirements. Specifically, transactions with QIBs would be exempted when the member has determined, after considering certain factors, that the institutional client is capable of making its own investment decisions and is in fact making an independent investment decision. CGMI supports the Proposal, subject to our comments below.

CGMI applauds the NASD for recognizing that institutional investors active in the fixed income markets are sophisticated, have access to multiple sources of price information, and have the ability to compare prices among various dealers. CGMI and others, in commenting on previous versions of the Proposal, have emphasized the negative impact that the current application of the Mark-Up Rule has on dealers’ willingness to take risk positions in illiquid bonds.<sup>1</sup> The Proposal will facilitate the role of dealers as liquidity providers by addressing the disincentives the Mark-Up Rule currently poses for firms seeking to commit capital when trading with such clients, particularly in connection with illiquid or volatile securities. This will better serve the needs of institutional investors, who need the maximum access to liquidity and the willingness of as many dealers as possible to provide price quotes on request. CGMI further believes that utilizing the QIB standard as the basis for determining the category of institutional

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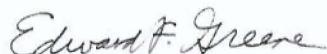
<sup>1</sup> See, e.g., Letter from Edward F. Greene, General Counsel, Citigroup Corporate and Investment Banking, to Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated April 14, 2005, responding to SR-NASD-2003-141; Letter from Micah S. Green, President and Michele C. David, Vice President and Assistant General Counsel, The Bond Market Association, to Jonathan G. Katz, Secretary, Securities and Exchange Commission, dated April 5, 2005, responding to SR-NASD-2003-141.

investors exempt from the Mark-Up Rule is appropriate, as it is a well-established standard used in other contexts where regulators have determined that investor sophistication is relevant to the application of particular rules.

CGMI participated in the preparation of the letters by the Securities Industry Financial Markets Association regarding the Proposal's application to the debt markets generally, as well as the separate letter addressing its application to securitized products (collectively, the "SIFMA Letters") and generally supports the analysis and views set forth in the SIFMA Letters. We are writing separately to highlight comments with regard to the institutional investor carve-out.

CGMI supports SIFMA's efforts to expand the scope of the institutional investor carve-out to capture a greater number of products traded with QIBs.<sup>2</sup> At a minimum, we believe that the institutional investor carve-out should be expanded to capture securities initially offered and sold to QIBs pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933 (the "Securities Act") and transacted between a dealer and a QIB pursuant to Rule 144A of the Securities Act or the so-called Section "4(1<sup>1/2</sup>)" exemption (collectively, "privately placed securities"), regardless of the debt securities' rating or type (including, without limitation, securitized products). As noted in responses to earlier iterations of the Proposal, the application of the Mark-Up Rule to illiquid securities is particularly problematic; dealers are reluctant to facilitate customer transactions in illiquid securities given the risk that a spread that it might reasonably conclude would compensate it for the risk of the trade could be found later by the NASD to be excessive. Accordingly, in order to better facilitate dealer risk taking and liquidity, CGMI proposes that the institutional investor carve-out capture not only "non-investment grade debt securities" (as defined in the Proposal), but also all privately placed securities traded with QIBs.

Sincerely,



Edward F. Greene  
General Counsel  
Corporate and Investment Banking

CC:

Erik Sirri, Director, Division of Market Regulation, Securities and Exchange Commission  
Marc Menchel, Executive Vice President and General Counsel, National Association of Securities Dealers

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<sup>2</sup> The SIFMA Letters advocate expanding the carve-out to include, regardless of rating, transactions with QIBs including privately placed securities, and all securitized products.