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VIA ELECTRONIC MAIL

Ms. Kris Dailey
Vice President
Risk Oversight & Operational Regulation
Financial Industry Regulatory Authority
200 Liberty Street New York, NY 10281

Dear Ms. Dailey:

Before FINRA announced the delay of the effective date of the covered agency transaction amendments to Rule 4210, the BDA provided to FINRA substantial data that we hoped explained to FINRA the value proposition of the inclusion of a capital charge in lieu of collecting margin into the proposed (the "Capital Charge Proposal"). The data that BDA collected from its members shed light on the perspective of the larger regional or super-regional dealer on the anti-competitive impacts of the existing version of the amendments on their businesses and the value that the Capital Charge Proposal would offer them. In short, we believe that the data showed that for these firms, the adoption of the Capital Charge Proposal would enormously help these dealers because (1) it would allow these dealers to continue their businesses without buy-side firms taking their businesses either to counterparties who do not need to collect margin or to a small, concentrated number of dealers, (2) the minimum transfer amount of \$250,000 was triggered relatively infrequently, and (3) any exposure above the \$250,000 minimum transfer was easily manageable within the capital of these firms.

The BDA has recently discussed the Capital Charge Proposal with member firms Duncan-Williams and NatAlliance Securities, two smaller dealers with national presence who regularly trade in covered agency transactions. We raised with these two firms the concern that we have heard FINRA voice that the Capital Charge Proposal could have an anti-competitive impact on smaller firms. Accordingly, we wanted to understand from these firms what the Capital Charge Proposal would mean for them. The following summarizes their perspective:

- ***These firms do not believe that the Capital Charge Proposal will have any anti-competitive impact on their businesses.***

These firms tend not to engage in covered agency transactions that do not fall within the \$10 million exception. These firms tend to engage in trades that do not

fall within the \$10 million exception approximately once or twice a month. As a consequence, these firms do not see how the Capital Charge Proposal can cause an anti-competitive impact on their covered agency transaction business. Further, these firms believe the same with other similarly situated small firms.

- ***These firms expect that the existing covered agency transaction rules will cause some erosion in their businesses.***

While these firms do not engage in significant trades outside of the \$10 million exception, they do expect that they will lose most if not all of the trades that would fall outside of the exception. Under the current covered agency transaction rules, these firms expect counterparties will not be willing to enter into any margining arrangements with them and will take these trades to other dealers or counterparties.

- ***These firms strongly support the Capital Charge Proposal.***

These firms all strongly support the Capital Charge Proposal. While they do not expect for covered agency transaction trades outside of the \$10 million exception to represent a significant amount of their business, they do want the ability to engage in those trades. These firms also explained that these trades may have delayed delivery of just a week or some comparable duration that would not likely impact their capital. From their perspective, the Capital Charge Proposal would give them many options to remain competitive in covered agency transactions and they are not concerned that the Capital Charge Proposal will be anticompetitive or that they will be forced to erode away their capital in order to be competitive.

We know that FINRA has heard a concern that the Capital Charge Proposal may have an anticompetitive impact of larger dealers using their balance sheets to drive smaller businesses out of the business. We are hearing literally the opposite from all of our members – the existing covered agency transaction rules will severely impact their covered agency transaction business and the Capital Charge Proposal will allow them to remain competitive. We want to remain helpful to FINRA as it considers the Capital Charge Proposal and want to provide as much information that helps FINRA in the process as we can. Please continue the dialogue with the BDA concerning the Capital Charge Proposal, as we believe that it represents a positive for all involved.

Sincerely,



Michael Nicholas
Chief Executive Officer
Bond Dealers of America

cc:

Honorable Jay Clayton, Chairman, SEC

Robert W. Cook, President and CEO, FINRA

Michael Macchiaroli, Associate Director, Division of Trading and Markets, SEC

Honorable Randal Quarles, Vice Chairman for Supervision, Federal Reserve System