

## VIA ELECTRONIC MAIL

June 22, 2016

Brent J. Fields Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

### **Re: MSRB 2016-07: Proposed Rule Change Consisting of Proposed Amendments to MSRB Rule G-12, on Uniform Practice, Regarding Close-Out Procedures for Municipal Securities**

Dear Mr. Fields:

On May 11, 2016, the Municipal Securities Rulemaking Board (MSRB) published its second request for public comment on changes to Rule G-12, close-out procedures (Proposal).<sup>1</sup> The Proposal amends current close-out procedures after a broker, dealer, or municipal securities dealer (Purchasing Dealer) fails to deliver securities to another dealer by the agreed upon settlement date. The Proposal requires these inter-dealer failures to be closed out within 20 calendar days of the settlement date, instead of the current recommended 90 day window. The Proposal allows procedures to begin within three business days of the settlement date, a change from the current 10 business day requirement. The Proposal also changes the earliest day for execution from 11 days after telephonic notice to four days after electronic notification. Lastly the MSRB would allow for a 90 calendar day compliance grace period for resolving all outstanding inter-dealer fails.

The Financial Services Institute<sup>2</sup> (FSI) appreciates the opportunity to comment on this important proposal. FSI applauds the MSRB for identifying an issue created by the current regulatory framework and seeking to correct it with a common sense proposal that decreases the costs and risks associated with inter-dealer failures, while providing investors with greater certainty.

#### **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. These financial advisors are self-employed independent contractors, rather than employees of Independent Broker-Dealers (IBD).

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<sup>1</sup> Regulatory Notice 16-07, Proposed Rule Change Consisting of Proposed Amendments to MSRB Rule G-12, on Uniform Practice, Regarding Close-Out Procedures for Municipal Securities (May 11, 2016) available at <http://msrb.org/~media/Files/SEC-Filings/2016/MSRB-2016-07.ashx>.

<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.

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**

Currently MSRB Rule G-12 allows the purchasing dealer to issue a notice of close-out to the selling dealer on any business day from five to 90 business days after the scheduled settlement date. The current rule does not require a purchasing dealer to initiate a close-out, or to execute a close-out notice it has initiated nor does it provide the selling dealer with the right to force a close-out of the transaction. The current procedures are voluntary and without repercussions. As a result of the voluntary nature of the procedures, if the purchasing dealer chooses not to initiate a close-out within 90 business days of the original contract settlement date, the dealer then loses their right to take advantage of the rule's procedures. In this case, the transaction remains open until it is resolved either by the parties or through arbitration. While the deal is still open, the selling dealer is still subject to market risk for any increase in the price of the municipal securities. As a result of the voluntary nature of the procedures it is not uncommon for dealers to simply allow the delivery deadline to pass, thereby forcing the purchasing dealer to initiate the settlement.

The Proposal will effectively eliminate this practice by mandating new timeframes for faster and more efficient resolutions while also providing purchase dealers with clarifications and revisions that more closely reflect actual market practices. Additionally, these clear timelines will increase investor confidence as customers will have greater certainty regarding the securities in their account. FSI supports this Proposal for these reasons.

### **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. Please contact me at (202) 803-6061 if you have questions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" and a stylized "Bellaire".

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