

To: SEC Fixed Income Market Structure Advisory Committee

Re: Comments on 265-30

With the adoption of the CBTS's recommendation for an "Investor Bulletin" through which: "...the SEC and FINRA educate[s] retail investors on the uses, characteristics, and risks of retail notes. The initiative should identify the embedded issuer call option and survivor put options that are typical in these notes along with other options that may have an impact on the pricing of these notes. In addition, investors should be made aware of their lower secondary market liquidity compared to similar securities from the same issuer...", Incapital felt it would be useful to share additional information that could be helpful in defining the scope and content of the Bulletin.

However, at the outset, we felt it important to note that InterNotes® (a branding name) are a segment of the new-issue retail medium term note market and may not be representative of the entire Retail Note market. Consequently, FIMSAC's focus on InterNotes® provides an incorrect impression that InterNotes® represent the broader retail note market. Moreover, as discussed further below, we believe that the features associated with InterNotes® make them an integral portion of a diversified portfolio geared for retail investors. In that regard, liquidity and other constraints discussed by FIMSAC may be more aligned with a broader Retail Note market beyond InterNotes®. Additionally, we believe that any comparison between institutional and retail note transactions and the corresponding primary and secondary market tendencies is an entirely "apples to oranges" comparison. Buyers of size in any market typically receive more favorable terms and may have greater access to the market. Nonetheless, we hope this discussion will further highlight the importance of the Retail Note market and the access that retail investors have to this market, which has evolved over the past two decades. Historically, retail investors have been excluded from the new-issue debt markets and firms such as Incapital have worked hard to create a segment of the debt markets for retail investors and create fixed income products that provide features specifically geared for retail investors.

## **BACKGROUND**

- Since 2001, Incapital as a wholesale broker-dealer has assisted issuers of registered medium-term notes in the offer, sale and distribution of such notes on a weekly basis and distributes such securities through a network of 600+ broker-dealers.
- Over \$274B of new-issue Retail Notes has been issued by over 50 issuers through Incapital and several other broker-dealer platforms, under various branding names. Ten of billion more have traded in the secondary market.
- The Retail Notes are plain vanilla, fixed-rate coupon notes. They are distinctly different from the Structured Notes in that the performance of the Retail Notes are not linked to underlying derivatives that directly affect coupon payments or the final maturity amount.
- Like Institutional Notes, Retail Notes:
  - Are SEC registered programs with documents available on EDGAR
  - Offering Documents describe the terms of the note, the risks, and the liquidity
  - Are not listed on an exchange but are traded among dealers and electronic trading platforms
  - Trades are all reported through TRACE

## **EDUCATION FOR RETAIL NOTE OFFERINGS**

Incapital has provided educational materials to broker-dealers regarding retail notes since the inception of the Retail Note market. The educational information:

- Reiterates the existing disclosures already contained in the SEC filed documents.
- Has been FINRA reviewed materials and discusses usage of the product, characteristics of the product & risks of the product.

The urls below display some of the educational materials that were created by Incapital, reviewed by FINRA, and made available on an ongoing basis to all dealers participating in the distribution of the new issue notes.

- **InterNotes Overview Brochure** <https://www.incapital.com/InterNotesBrochure>
- **InterNotes Overview Video** <https://www.incapital.com/InterNotesVideo>
- **Survivor's Option Guide** <https://www.incapital.com/InterNotesSurvivorsOption>

## **LIQUIDITY (E.G., TRADED PRICE LEVEL) & TRANSPARENCY FOR ALL RETAIL SIZE TRANSACTIONS – PRIMARY & SECONDARY MARKET**

Liquidity for all transactions is a function of the transaction size itself. The notional amount of the trade is the dominant reason for variances in trade execution that are reported in TRACE, within a narrow timeframe.

- This point is empirically supported by data presented by CBTS in its recommendation.
- The data clearly shows that in each defined tier, from >\$10 transaction, from >\$1M to <=\$10M, from \$100K to <=\$1M, down to <=\$100K transaction size, the cost as a percentage of the transaction size progressively increased for each successively smaller tier.
  - The average size of a retail transaction is approximately \$35k.
  - The relationship is maintained in both the primary and secondary markets.
  - The relationship is maintained without regard for the original issuance amount of the note.
  - The relationship is maintained without regard for the intended original distribution channel of the note, e.g., institutional vs retail.
  - The relationship unsurprisingly validates the basic economy of scale principle.
- Retail investors buy secondary odd lot amounts in virtually all corporate debt, both globals and Retail Notes, as evidenced by TRACE data.

## **SUMMARY**

- Incapital supports the continued disclosures in the SEC filed documents.
- Incapital supports FINRA reviewed educational materials.