

June 8, 2020

Submitted Electronically

Vanessa A. Countryman
Federal Advisory Committee Management Officer
Securities and Exchange Commission
100 F Street NE
Washington DC 20549

In regard to File Number 265-30

Dear Ms. Countryman,

The Bond Dealers of America is pleased to comment on a proposal, "Preliminary Recommendation Regarding Modernizing Rule 17a-7 under the 1940 Act," recently considered by the Fixed Income Market Structure Advisory Committee (FIMSAC). BDA is the only DC-based organization exclusively representing the interests of securities dealers and banks focused on the US bond markets.

BDA fully supports the changes to SEC Rule 17-a7 that the FIMSAC approved unanimously at its meeting on June 1, 2020. We believe the proposal would provide significant benefits for investors in certain fixed bond mutual funds without any threat to safety, soundness, or fair pricing. We urge the Commission to act favorably on the FIMSAC's recommendation.

SEC Rule 17-a7 governs Registered Investment Advisors' use of "cross trades." Cross trades occur when one RIA customer seeks to sell a security and another customer of the same RIA seeks to buy the same security. Rather than executing the trade through a dealer as would be done if the customers were not served by the same RIA, the RIA can effect the trade directly herself as long as the trade is executed in a manner that is consistent with the adviser's fiduciary duty and obligation to achieve best execution. RIA cross trades can benefit investors because the trades occur at the midpoint between the bid and ask prices rather than sales at the bid and purchases at the ask. As a result, customers may achieve better pricing if a RIA crosses the trade.

However, when one of the RIA's customers is a registered investment company under the Investment Company Act of 1940, Rule 17-a7 comes into play, which needlessly imposes restrictions. Rule 17-a7 requires RIAs to obtain multiple market bids and offers for the security in question and execute the trade at the midpoint between best bid and best offer. Obtaining multiple bids, however, can be difficult or impossible for thinly traded securities, especially when dealers know that there will be no external trade. RIA crosses involving other categories of investors do not impose this quotation requirement.

From a dealer's perspective, RIA cross trades do not generate revenue. Dealers are often asked by RIA customers to provide quotes when the RIAs are considering cross trades, and dealers generally provide this service for free. The process does, however, use dealer staff time.

The FIMSAC has recommended that RIA crosses involving registered investment companies be handled in the same manner as for other institutional investors. That means it would no longer be necessary to obtain market quotes to establish the cross price. Instead, RIA's would be required to execute the trade

at the most favorable price under the circumstances. RIA's would be required to use an "independent pricing source" to determine the price of the cross or use an electronic trading platform with functionality designed to establish prices for cross trades. RIAs' fiduciary and best execution duties to their customers would of course remain.

From a dealer's perspective, supporting RIA customers' cross trading requirements is not a resource intensive activity. It does, however, occupy traders' time which could be better spent servicing other customers.

The amendments to Rule 17-a7 proposed by the FIMSAC represent reasonable changes and updates to the rule. By providing a means for registered investment companies to execute cross trades more efficiently, the proposed change would reduce transaction costs for these investors. Because mutual fund investors are overwhelmingly retail, these benefits would accrue to individual investors. The FIMSAC proposal would also clarify "customary transfer fees" as it applies to RIA cross trades, which could provide a means of compensating dealers if they happened to be engaged in a transaction.

If the SEC decides to act on the FIMSAC proposal, we urge you to provide a means for crossed trades facilitated by RIAs to be reported to FINRA's TRACE system in the interest of transparency.

We urge the Commission to act quickly on the FIMSAC's Rule 17-a7 proposal. We would be happy to answer any questions or provide any additional perspective.

Sincerely,



Mike Nicholas
Chief Executive Officer
Bond Dealers of America