

MEMO# 35923

November 13, 2024

ICI Draft Letter to SEC Requesting Extension of Rule 15c2-11 Compliance Relief for Fixed Income Securities; Member Comments Due by November 18

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TO: Fixed-Income Advisory Committee
SEC Rules Committee

Small Funds Committee RE: ICI Draft Letter to SEC Requesting Extension of Rule 15c2-11 Compliance Relief for Fixed Income Securities; Member Comments Due by November 18

Later this month, ICI intends to submit a letter to the SEC, reiterating our concerns about applying Rule 15c2-11 under the Exchange Act (the "rule") to fixed income securities.^[1] Market participants historically have not understood the rule to apply to, and its provisions are not well-suited for, fixed income securities. Applying the rule in this way starting in early January—when the current SEC staff no-action relief^[2] will expire—is more likely to harm than protect retail investors. To avoid this outcome, we request that the SEC or staff extend the current relief indefinitely and apply the rule to fixed income securities, if at all, only after engaging in a proper notice-and-comment rulemaking process beginning no sooner than 2025.

This draft mostly reiterates points we have made in prior letters. Please provide any comments to me (matt.thornton@ici.org) by Monday, November 18 (COB).

Background

The SEC adopted the rule in 1971 and last amended it in 2020. The rule governs the publication or submission of quotations by broker-dealers in a quotation medium other than a national securities exchange i.e., over-the-counter (OTC) securities. More specifically, it requires broker-dealers to collect, record, and review for currency, accuracy, reliability and "public availability" certain information related to issuers and their securities before publishing or submitting quotations on a quotation medium.

Market participants had long understood the rule's intent to be protecting retail investors from fraud in the OTC equity markets. In 2021, however, the SEC staff stated that the rule has applied to "all securities including fixed income securities except for 'exempt

securities'..." since its 1971 adoption.[\[3\]](#)

Summary of Draft Comment Letter

In addition to requesting indefinite extension of the existing relief, our draft letter expresses skepticism of the benefits of applying the rule to fixed income securities. And we believe that doing so could harm funds and their investors, among others. The rule's provisions are not well-suited for fixed income securities (e.g., the rule's exchange-listed securities exclusion is inapt for fixed income securities). If, due to compliance burdens or confusion, dealers reduce their activity—quoting activity, trading activity, or both—funds and their investors would be harmed in at least three ways:

- Fewer available indications of interest or quotes will impair price discovery and transparency for existing securities, which could create valuation challenges.
- Certain fixed income securities could become less liquid, a particular concern for open-end funds that must promptly meet redemption requests.
- Advisers' ability to achieve best execution on behalf of their clients (including funds) would be compromised.

Matthew Thornton
Associate General Counsel

Notes

[\[1\]](#) We first expressed these concerns in a joint comment letter ([Letter from ICI, SIFMA, AMG, IAA, MFA, and CCMC to SEC Chair Gary Gensler](#) (Sept. 23, 2021)). We then sent a follow-up letter focused on the dangers of the rule's application to Rule 144A debt securities ([ICI Letter to SEC Chair Gary Gensler](#) (Oct. 25, 2022)).

[\[2\]](#) [Letter from Josephine Tao, Assistant Director, Office of Trading Practices, Division of Trading and Markets to FINRA](#) (Nov. 30, 2022). This letter states that the Division of Trading and Markets will not recommend enforcement action to the SEC under the rule for brokers or dealers that publish or submit quotations for fixed income securities if the broker or dealer has determined that the fixed income security or its issuer meets one of the criteria in Appendix A of the letter, or that there is current and publicly available financial information about the issuer. Appendix A sets forth several broad categories of fixed income securities.

[\[3\]](#) See [Letter from Josephine Tao, Assistant Director, Office of Trading Practices, Division of Trading and Markets to FINRA](#) (Sept. 24, 2021).