



The Security Traders Association of New York, Inc.

Kimberly Unger
CEO/Executive Director
79 Madison Ave., 2nd Fl.
New York, NY 10016
212.344.0410
www.stany.org

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Ms. Jill M. Peterson
Assistant Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

RE: Release No. 34-90067; File Number SR-FINRA-2020-031 Notice of Filing of a Proposed Rule Change to Adopt FINRA Rule 6439 (Requirements for Member Inter-Dealer Quotation Systems) and Delete the Rules Related to the OTC Bulletin Board Service

Dear Ms. Peterson,

The Security Traders Association of New York, Inc. (“STANY”)¹ respectfully submits these comments in response to the above captioned rule filed by the Financial Industry Regulatory Authority, Inc (“FINRA”). FINRA is proposing to delete its rules related to the OTC Bulletin Board Service (“OTCBB”) and cease its operation, and to enhance the regulation of quotations in OTC Equity Securities by adopting FINRA Rule 6439 establishing new requirements for member Inter-Dealer Quotation Systems (“IDQS”).

STANY fully supports FINRA’s efforts to modernize rules relating to IDQs. We agree that, in light of electronic and technological advances over the last 30 years the continued operation of the OTCBB, which currently does not display or widely disseminate quotation information on any OTC Equity Securities, serves no benefit to investors or the marketplace. Ceasing operation of the moribund OTCBB would free resources, which FINRA currently expends on maintaining the system, to be used elsewhere where the resources can provide greater good to the marketplace.

We are also fully supportive of FINRA’s proposal to couple the elimination of the OTCBB with enhanced rules

¹ STANY is the voice of the trader in the New York metropolitan area and represents approximately 500 individuals who are engaged in the trading of securities. STANY also represents individuals who formerly traded securities but who are currently either unemployed but seeking to reenter the industry or employed in the industry in capacities that do not require registration. STANY is committed to be a leading advocate of policies and programs that foster investor trust, professional ethics and marketplace integrity and that support education of market participants, capital formation and marketplace innovation. As an industry organization of individuals employed in the securities markets, STANY does not represent a single business or business model, but rather provides a forum for trading professionals representing institutions, hedge funds, broker-dealers, ATSS, and trading centers to share their unique perspectives on issues facing the securities markets.

relating to IDQS. Currently, FINRA's rules to protect the OTC Equities Markets center around regulating the conduct of OTC market makers and members that display quotations on IDQs. At present, FINRA rules generally do not provide direct quotation governance standards for member IDQs on or through which quotations are displayed.

In summary FINRA proposes to require that IDQs:

Establish and disseminate:

1. written policies and procedures relating to the collection and dissemination of quotation information in OTC Equity Securities.
2. written standards for granting access to quoting and trading on its system

Establish:

3. written policies and procedures addressing subscriber unresponsiveness with respect to the display of firm quotations in OTC Equity Securities and the submission of reports to FINRA on a monthly basis that include specified order and response information

Make available to customers:

4. a written description of each OTC Equity Security order- or quotation-related data product offered by such member inter-dealer quotation system and related pricing information

Provide FINRA:

5. with specified information concerning the integrity of their systems.

While we support the implementation of governance standards for FINRA member IDQs and the adoption of new rules to ensure that IDQs have in place minimum standards, we believe that a few amendments to Proposed Rule 6439 would further enhance FINRA's modernization efforts and improve the overall efficiency and effectiveness of the proposed rule.

Regulatory duplication should be eliminated and duplicative reporting under Rule 6439 and CAT should be resolved in favor of the most efficient and logical reporting method.

Proposed Rule 6439 requires that FINRA member IDQs report order level information to FINRA on a monthly basis. Acknowledging and attempting to mitigate redundancies, FINRA has allowed in Paragraph (d) (2) that "to the extent this information is, or becomes, reportable to the Consolidated Audit Trail ("CAT") under Rule 6830, it would not be required to be reported under Rule 6439."

STANY is appreciative of FINRA's efforts to reduce reporting redundancies. However, Rule 6439 provides a reporting mechanism that is more consistent with the way in which IDQs operate and therefore makes collection and reporting more efficient and effective than under the order-based reporting prescribed by the CAT. Due to the unique market structure of IDQs, where subscribers post quotations, send messages and negotiate trades, it would be far more efficient for this information to be collected under Rule 6439 than under the order-based CAT framework.

We suggest that this information be reported under Rule 6439(d) and that to the extent that IDQs hold these reporting obligations, they be exempt from duplicative reporting under the CAT.

With the elimination of the OTCBB, FINRA’s prohibition from Locking or Crossing markets should be expanded to apply across inter-dealer quotation systems, not just within the same inter-dealer quotation system.

With the elimination of the OTCBB and the electronic interconnectedness of the markets for OTC Equity Securities, we believe that now is the appropriate time for FINRA to consider revisions to Rule 6437 (Prohibition from Locking or Crossing). We urge FINRA to revise the language of Rule 6437, which currently applies exclusively to quotations displayed “in the same inter-dealer quotation system” to reflect current market structure and explicitly prohibit locking and crossing quotations from occurring between one or more IDQs. With market structure architecture as it is currently constituted, there is no reason to permit locking and crossing between IDQs. Locked and crossed markets between IDQs interfere with the efforts of our members to comply with their best execution obligations and reflect underlying structural flaws in the market. They can and should be prohibited across all IDQs.

IDQs require guidance with respect to the requirements for compliance with Rule 5220(c)(3) and (4).

Although IDQs monitor subscribers’ activity and facilitate subscriber’s compliance with their firm quote obligations, those obligations appropriately rest with quoting subscribers under Rule 5220. FINRA is now proposing to provide that member IDQs, that do not automatically execute all orders against displayed quotations for which a member subscriber has a Rule 5220 obligation, be required under Rule 5220 paragraph (c)(3) to implement policies and procedures addressing unresponsiveness by their subscribers. These policies and procedures must specify an efficient process by which the IDQS, among other things, will document the subscriber’s “rationale for unresponsiveness.” While we agree that unresponsiveness can be an issue, IDQs are unlikely to have access to subscriber’s rationale or the reasons for unresponsiveness. Therefore, we submit that the firm quote obligation should remain with subscribers and to the extent that IDQs are asked to monitor the reasons for a subscriber failure to meet its obligations, FINRA provide guidance on how that unresponsiveness should be addressed.

FINRA also seeks to require IDQs , under paragraph (c)(4) of Rule 5220, to determine specified steps to address an instance or repeated unresponsiveness. This new also obligation merits further guidance from FINRA.

STANY appreciates the consideration of its comments and would be happy to discuss them with the Commission. Please feel free to contact the undersigned with any questions.

Respectfully submitted,



Kimberly Unger
CEO & Executive Director