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September 25, 2026

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006

RE: Regulatory Notice 26-15: FINRA Requests Comment on Modernizing FINRA's Best Execution Guidance – Fixed-Income Markets

Dear Ms. Mitchell:

SIFMA[1] is pleased to submit this response to FINRA's Regulatory Notice 26-15 ("RN").[2] This letter solely addresses fixed-income best execution requirements. SIFMA has separately submitted extensive comments on the RN that address equity market issues. In section 8 of the RN, FINRA "welcomes comment on any additional or clarifying guidance that members believe would be helpful regarding best execution for any other specific types of securities".

1. Executive Summary

FINRA Rule 5310(a)(1) requires that, in any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.

However, under the current fixed-income market structure, for transactions with institutional clients, firm quotes of sufficient size for the CUSIP in question are rarely disseminated from other market participants for a dealer to act on. As a result, when a dealer provides firm quotes to its institutional clients, it almost always looks to its fair pricing responsibilities. At the same time, a dealer trading with institutional customers is also obliged to maintain a robust best execution program for the rare

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed-income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

[2] "FINRA Requests Comment on Modernizing FINRA's Best Execution Guidance" (RN 26-15), July 24, 2026. Available here: https://www.finra.org/rules-guidance/notices/26-15.

instance when a firm quote of sufficient size for the CUSIP in question from another market participant arises. Separately, institutional customers are themselves sophisticated market participants with their own execution obligations and market access.

Accordingly, amendments to the best execution rules applicable to fixed-income trading are warranted. In this letter we suggest that:

- Fixed-income market structure is very different from equity market structure.
- Institutional investors are highly sophisticated and capable of independently judging execution opportunities in fixed-income markets.
- Existing rules protect institutional investors in fixed-income markets.
- FINRA should implement an exception from best execution requirements for institutional counterparties of broker-dealers in fixed-income markets.
- FINRA and MSRB should explore better alignment of their fixed-income best execution rules.

We believe these recommendations are justified because of institutional sophistication, market structure, and protection provided by existing rules, as well as the benefits to efficiency that would come from alignment of the parallel FINRA and MSRB rulesets.

2. Fixed-income market structure is very different from equity market structure

Fixed-income markets are not equity markets. There is no consolidated quotation data or national best bid and offer, making it challenging to identify actionable prices, particularly for block-size transactions.

Fixed-income markets are vastly larger and more granular than equity markets—for example, fixed-income CUSIPs number over 2.5 million, whereas equity CUSIPs number in the tens of thousands.[3] Unlike equity and options markets, which trade on 29 registered national securities exchanges, fixed-income markets have no comparable centralized venues. While there are various fixed-income trading platforms, and electronic trading continues to grow, those platforms do not cover the full market and are often limited to a specific asset class. Much of the trading still occurs person-to-person, using phone calls, messaging services, and other bilateral means.

The fixed-income markets, unlike the NMS equities markets, do not feature designated or primary market-makers or specialists with an exchange-rule obligation to provide quotes or commit capital to maintain an orderly market. There are no inter-market linkages or Regulation NMS trade-through rules for fixed-income securities.

Even where there are indicative quotations for fixed-income securities, those quotations are rarely firm or actionable and may not be related to previous quoting and trading activity in the particular security. Many fixed-income securities trade very infrequently (e.g., a specific CUSIP may not have traded for over a year), and without dedicated market-makers holding out two-sided quotations on a daily basis, there is not a live market to review (e.g., other resting bids, recent trade price prints, etc.) prior to a customer's engagement of a dealer in a negotiation. Along with this, views on valuation of

[3] SIFMA analysis of Bloomberg data.

a particular security can vary widely, so even if a dealer were to seek additional pricing information from other dealers, it may not clarify exactly where a bond could trade.

At the same time, institutional clients increasingly can canvass prices from dozens of dealers electronically via request-for-quotation ("RFQ") or through connections directly to dealers within their order management systems. These investors often send RFQs for long lists of fixed-income securities, without having decided (until they receive responses) whether they wish to engage in a transaction or not. Trades may be requested on a portfolio basis, where a package of securities is priced, as opposed to individual CUSIP transactions. When an institutional investor submits RFQs to multiple dealers and then selects which securities it will trade, the objectives of best execution are achieved through competition and the investor's agency in being able to choose its preferred bid or offer. The same is true of client-sponsored bids-wanted-in-competition and offers-wanted-in-competition ("BWICs" and "OWICs").

Customer inquiries of this kind are often only the beginning of a negotiation process, which may result in a different price or size, a transaction in a similar but different security, or no transaction at all. Institutional investors also provide indications of interest so that one or more broker-dealers can seek liquidity, without committing to trade until they see the results.

In summary, broker-dealer and customer discretion remain critical factors in bilateral execution for fixed-income securities in institutional transactions.

3. **Institutional investors are highly sophisticated and capable of independently judging execution opportunities in fixed-income markets.**

Institutional customers (i.e., "institutional accounts" under FINRA Rule 4512(c)) are sophisticated, have trading accounts with multiple broker-dealers, conduct their own BWICs/OWICs, and have direct access to certain alternative trading systems ("ATSs") or electronic communication networks ("ECNs"), including bilateral connectivity to certain dealers' systems. Indeed, because institutional customers have access to quotes and market information from multiple broker-dealers, they can have better information about market conditions and prices than even the largest broker-dealers.

The MSRB noted in 2025 that "one perceived impediment to the evolution of electronic trading in the municipal securities market that included such sophisticated investors was the need to comply with a range of baseline MSRB rules designed to also apply to retail investors and less sophisticated institutional customers…in some respects, [this was] also inconsistent with the notion of a self-directed investor with sophistication in the municipal securities market that may rival or, in some cases, even surpass that of many dealers."[4] The MSRB added that "adoption of the SMMP definition and related regulatory approach has allowed a large segment of the sophisticated institutional investor community qualifying as SMMPs to participate on ATSs and other dealer marketplaces *on an equal footing with dealers* to the benefit of the municipal market as a whole."[5] (emphasis added).

[4] MSRB Notice 2025-08, at 2.

[5] MSRB Notice 2025-08, at 3.

Many institutional customers have their own best execution and fiduciary obligations and perform their own execution quality analysis.[6] It does not make sense to require that sophisticated institutional investors be treated as if they were retail investors.

Further, different institutional customers in different situations may have different goals – some may prioritize speed and size of execution (at the potential expense of further price discovery), while others may prioritize working an order over time (and taking the risk of adverse market movements). Frequently, institutional customers want dealers to provide proprietary liquidity to avoid information leakage and to limit adverse market impact.

There is no single way to compare executions of institutional customers with different execution priorities and preferences (which may change in different situations even for a single customer). The MSRB's SMMP approach avoids the inherent ambiguity of evaluating each institutional customer's shifting execution priorities, a problem that is far more common and acute for fixed-income securities than for NMS equities.

In multiple other contexts, FINRA and the SEC have both acknowledged that different protections are needed for retail customers than for institutions. In the implementation of the debt research rule, for example, FINRA acknowledged that institutional investors are not in need of the same level of protection, leading to an institutional investor exemption: "Given the debt market and the needs of its participants, the proposed rule change would exempt debt research distributed solely to eligible institutional investors ("institutional debt research") from most of the provisions…applicable to debt research reports distributed to retail investors."[7] Similar distinctions exist in the suitability rule (FINRA Rule 2111(b)), the markup disclosure rules (FINRA Rule 2232), and Regulation Best Interest.
When the SEC proposed Regulation Best Execution in 2022 (a proposal since withdrawn), proposed Rule 1100 included an exception from best execution requirements where an institutional customer, exercising independent judgment, executes against the broker-dealer's quotation.[8]

4. Existing rules protect institutional investors in fixed-income markets.

The primary focus of best execution regulation is rightly on protecting retail customers who submit non-negotiable orders. As FINRA stated in Regulatory Notice 15-46: "As the availability of electronic systems that facilitate trading in fixed-income securities increases, firms need to determine whether these systems may provide benefits to their customer order flow, <u>particularly retail order flow</u>, and help ensure they are meeting their obligations under the rule with respect to ascertaining the best market for their customer transactions." (emphasis added)

In the fixed-income markets, broker-dealers are subject to FINRA Rule 2121 requiring fair prices and commissions (which has provisions specific to debt securities) and Rule 2111 on suitability. To comply with Rule 2121, dealers have long conducted trade-by-trade price reviews that address many of the

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[6] See Coalition Greenwich, Fixed-income TCA Adoption: What We Can Expect Going Forward (Feb. 28, 2023) (https://www.greenwich.com/fixed-income/fixed-income-tca-adoption-what-we-can-expect-going-forward) (finding that 65% of buy-side firms use or plan to use transaction-cost analysis for fixed-income, but that users customize their data to reflect their own different execution quality priorities).

[7] SEC Release No. 34-75472, at 34.

[8] See Regulation Best Execution, Exchange Act Release No. 96496 (Dec. 14, 2022). SIFMA strongly opposed the SEC's proposal, on the whole, as unnecessary and duplicative, and believes that FINRA is best placed to implement an institutional exemption in its existing rules and guidance.

same concerns as the best execution rule. In light of the market structure discussed in section 2, best execution in institutional fixed-income markets is better described as a fair pricing exercise.

Furthermore, as discussed in section 5, the municipal securities market's experience with the SMMP exemption from best execution obligations has created a track record showing that institutional investors remain protected, which highlights that the best execution rule is not fit for purpose for institutional fixed-income transactions.

5. **FINRA should implement an exception from best execution requirements for institutional counterparties of broker-dealers in fixed-income markets.**

The proposed carve-out would apply to fixed-income trades[9] with "institutional accounts" as defined in FINRA Rule 4512(c), where the customer is capable of independently evaluating investment risks and exercising independent judgment. Broker-dealers would need to document the customer's institutional status consistent with their policies and procedures.

An institutional carve-out would not leave institutions unprotected or vulnerable to unfair pricing practices. We are not aware of evidence of such harm in the municipal securities market under the SMMP framework, and we see no reason to expect a different result in other fixed-income markets. Importantly, as with MSRB Rule G-30, dealers would remain subject to the reasonable and fair pricing obligations of FINRA Rule 2121, including FINRA markup/markdown guidance, and would be required to comport with just and equitable principles of trade.[10]

The municipal securities market experience has shown that such a carve-out is effective and prudent. Municipal securities broker-dealers are subject to a parallel set of MSRB rules, including Rule G-18 on best execution, Rule G-19 on suitability, and Rule G-30 on fair pricing and commissions, for which FINRA conducts surveillance, examinations and enforcement.

When a customer is treated as an SMMP, MSRB Rule G-48 modifies certain dealer obligations, including eliminating a dealer's best execution obligation for that customer. However, SMMP status *does not* eliminate a dealer's fair pricing responsibilities under MSRB Rule G-30. This means a dealer *must* exercise reasonable diligence in assessing the security's market value and price transactions at "fair and reasonable" levels even when transacting with an SMMP. This framework has been in effect for over a decade. Over that period, it has provided benefits to both dealers and SMMPs in terms of cost reduction and transaction efficiency.

For these reasons, we believe our requested carve-out from best execution obligations in transactions with institutional counterparties is appropriate, would greatly ease the operational burden on broker-dealers, and would promote more consistent application of fair pricing standards across municipal and other fixed-income markets.

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[9] A clean proxy for the scope of "fixed-income" products could be products that are reportable to FINRA's TRACE trade reporting system. Broker-dealers already categorize and segment products internally along this demarcation.

[10] At a minimum, should FINRA not proceed with a carve-out, FINRA should clarify that a dealer responding as principal to an RFQ should not be subject to a best execution obligation.

6. **FINRA and MSRB should explore better alignment of their fixed-income best execution rules.**

As noted above, FINRA and MSRB have broadly parallel rulesets.[11] However, their best execution rules diverge because the MSRB rules include the SMMP construct and FINRA's rules do not. If FINRA decides to implement a carve-out for institutional fixed-income trading, FINRA and MSRB should explore how they could better align their frameworks to make broker-dealer compliance processes more efficient and streamlined.

Alignment would decrease compliance burdens on broker-dealers while promoting a more consistent application of the rules across all fixed-income markets.

7. **Conclusion**

SIFMA appreciates FINRA's openness to comment on its existing ruleset. We believe RN 26-15 is an opportunity to further refine the rules that govern fixed-income securities trading and make amendments that continue to protect investors while easing what is today an unnecessarily burdensome and inefficient process for FINRA-member broker-dealers.

We would be pleased to discuss these comments at greater length or provide further feedback upon request. Please reach out to me at 212-313-1126 or ckillian@sifma.org at your convenience.

Sincerely,

Christopher Killian
Managing Director
Securitization and Credit

CC: Racquel H. Russell, Senior Vice President and Director of Capital Markets Policy, FINRA

Jamie Selway, Director, Division of Trading and Markets, U.S. Securities and Exchange Commission

[11] We support maintaining the MSRB's current role in promulgating best execution standards for the municipal securities market in recognition of the constitutional principles of comity and the exempted status of municipal securities under Section 3(a)(2) of the Securities Act and Section 12(a) of the Exchange Act.