



March 15, 2013

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, VA 22314

Re: MSRB Notice 2013-02: Request for Comment on More Contemporaneous Trade Price Information Through a New Central Transparency Platform

Dear Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates this opportunity to respond to Notice 2013-02² (the “Notice”) issued by the Municipal Securities Rulemaking Board (the “MSRB”) in which the MSRB is requesting comment on more contemporaneous trade price information through a new central transparency platform (“CTP”). SIFMA and its members support the concept of transparency and have been very supportive of some the MSRB’s past transparency initiatives, such as the MSRB’s Electronic Municipal Market Access (“EMMA”) website. We do, however, have some specific concerns about the benefits of these proposals relative to the costs and burdens they will impose upon the regulated entities. SIFMA’s concerns about certain aspects of the amendments are more fully described below.

I. End-of-Day Reporting Exceptions

The MSRB is seeking comment on whether it should eliminate any of the end-of-day trade reporting exceptions, or reduce the period of lag in reporting trades

¹ The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

² MSRB Notice 2013-02 (January 17, 2013).

currently subject to such exceptions, upon transitioning to the CTP. The end-of-day trade reporting exceptions all have something in common. These types of transactions, namely list offering price transactions, takedown transactions, trades in short-term instruments³, and “away from market” trades (including customer repurchase agreement transactions, unit investment trust related transactions, and tender option bond related transactions), do not add relevant price information to the transparency platform as the prices for these transactions is either known to the market or are off-market. These trades are required to be reported to ensure completeness for regulatory audit trail purposes, but the prices reported are of limited to no value to market participants. Additionally, SIFMA asserts that primary market marketing relationships and distribution agreements are the functional equivalent of selling group agreements and therefore list offering price and takedown transactions executed by syndicate members or sole underwriters with these partners should also be eligible for the end-of-day exemption. SIFMA believes that firms that have these marketing relationships and distribution agreements that function as primary market distribution vehicles, should get the benefit of the takedown transaction end-of-day exemption because the agreements obligate these firms to trade at list offering prices in the same fashion as the underwriters. Further, we request the MSRB clarify that a firm that has executed a primary market distribution agreement with an underwriter is a “selling group member” for purposes of G-14 Real-time Transaction Reporting System (“RTRS”) Procedures section (d)(ii).

SIFMA and its members are supportive of the efforts being made to harmonize the MSRB and FINRA rules, and we believe that the reporting rules should be made to be consistent. To that end, we believe special attention should be paid to the fact that the Financial Industry Regulatory Authority’s (“FINRA”) Trade Reporting and Compliance Engine (“TRACE”) system does not require the reporting of customer repurchase agreement transactions. As the price information for repo trades has little to no value to market participants, SIFMA questions why this information should have to be reported to the CTP at all. Also, pursuant to FINRA Rule 6730, list offering price transactions and takedown transactions only need to be reported on the next business day (T+1), instead of the end of day on trade day, as is required under the MSRB rules. We encourage the MSRB to adopt these same standards to promote consistency and harmonization with TRACE in trade reporting paradigms.

³ Short-term instruments by and large trade at a price of 100, thus the price reporting is of little value to the market. The relevant information is the reporting of the rate of these short-term instruments, which is only required to be sent to the MSRB by the end of the day by the remarketing agent.

The MSRB is also seeking comment on any costs or burdens associated with eliminating any of these exceptions or reducing the period of lag in reporting such trades. Any reduction in time for trade reporting, up to and including the elimination of the end-of-day reporting exceptions will cost regulated entities significant amounts of money to change their systems, reprogram their internal mainframe, and account for increased bandwidth demands. If the end-of-day-reporting exceptions are eliminated, then large transactions with up to 100 syndicate members and thousands of trades will need to be pushed through a firm's systems much faster than in today's environment. Swing trades and accounting for sales credit can further complicate the process. It should also be noted that list offering price trades and takedown trades are specific to new issues, and these new issue trades may be making as many as 4 "hops" before the information can be sent to the MSRB. For instance, information may be created in an underwriter's "book running" system, then get sent to a clearing firm, then to the correspondent firm's middle office system, then to its back office system, and finally to the National Securities Clearing Corporation ("NSCC"). Speeding up the reporting deadline for these transactions might include redesigning systems to report from their "front end" (the earliest data location where all required trade data is present), which would be a very costly task for no perceived benefit.

II. Trade Reporting Process

The MSRB is seeking comment on whether its initial decision to adopt a straight-through processing approach with regard to trade reporting and marketplace clearance and settlement functions should continue to drive the trade reporting process for the CTP. SIFMA has long been a proponent of straight through processing and regulatory efficiency. Most SIFMA member firms use the NSCC Real-Time Trade Matching ("RTTM") web portal and the RTRS portal. These firms appreciate the single-stream process, and the fact that the trades get a regulatory time stamp when they hit RTTM.

SIFMA would like to note, however, that certain improvements to the RTTM to RTRS pipeline would be helpful. Most trade reporting fields are modifiable on customer trades but modifications are limited on interdealer trades. Some interdealer trades do not go to NSCC for settlement through its central netting system, but are still required to be reported with a special "comparison only" option. Short-term municipal securities are an example of this kind of trade report. SIFMA feels that the MSRB should allow dealers to modify these trades in the MSRB's RTRS or CTP directly. This will reduce the burden for the dealers that currently have to go back to NSCC's RTTM system for modification. This is an awkward process because the trades are not in RTTM for settlement. SIFMA suggests the MSRB enhance their systems to allow this type of dealer trade to be modifiable without cancelling and resubmitting through RTTM.

As far as we are aware, there are no newly emerging technologies, processes or protocols that the MSRB should be considering for handling trade reporting processes for the CTP that can be scaled across all types of dealers in the marketplace to reduce dealer back-office burdens and to enhance consistency of data received from all reporting dealers. If such technologies do become available, we will certainly make the MSRB aware of them.

III. Timeliness of Trade Reporting

The MSRB is seeking comment on the factors that may have resulted in the more rapid trade reporting of small trades as compared to large trades, focusing particularly on existing barriers to having large trade reporting statistics match those of small trades. There are similar characteristics to many small trades. Many small trades are executed on electronic platforms, and require minimal, if any, manual intervention. This fact allows smaller trades to be executed quickly. Larger trades, by contrast, typically require traders to confirm with a client and put in a manual trade ticket. Also, large trades require more scrutiny at firms as they expose firms to more risk. Bottlenecks can happen, landing trades in error queues or other queues for such manual review as margin or credit issues.

Narrowing the window for trade reporting below 15 minutes would impose substantial costs and burdens on regulated entities. In order for dealers to move to a 10 minute-or-less reporting timeframe, dealers would need to examine their systems and consider reporting out of their front-end systems instead of back office systems. A common reason for delay in reporting is when the indicative data is not in the dealer's system as the security hasn't traded in the past year. Most firms report that it takes almost all of the allotted 15 minutes to query an information service provider to upload the missing CUSIP and indicative data, then submit the trade report.

IV. Allegations in GAO Report

The MSRB is seeking comment on the prevalence of the practices observed by the GAO as mentioned in the Notice. The longer timeframe for reporting of large trades observed in the trade data for the MSRB fiscal year ended September 30, 2012, and in prior years, is in no way related to any of the allegations in the GAO's report or the concerns expressed by FINRA in its 2010 rulemaking. MSRB Rule G-17 on fair dealing presumably prohibits trading ahead of customers. Any accusations of firms trading ahead of customers should be reported to and investigated by the appropriate regulators and all MSRB rules currently in place should be vigorously enforced. To date, no enforcement actions in this area are

known, and the GAO Report on Municipal Securities itself states that regulators have not found any systemic rule violations relating to the pricing, trade reporting clearance or settlement responsibilities of broker dealers.⁴ SIFMA encourages any party with specific information and examples of this activity to report such activity to the appropriate regulators.

In sum, shortening the timeframe for reporting of municipal securities trades will not help to reduce the potential for improper selective disclosure of trade price information prior to its full dissemination through the upcoming CTP, but it will increase costs to the industry, as described in Section III of this letter.

V. Long-Range Plan and Central Transparency Platform

The MSRB is seeking input on certain baseline technology, processes and protocols relating to some of these potential new data elements or data types to assist the MSRB in pursuing a CTP architecture that can support a broad array of data types in a manner that is most efficient for the MSRB as well as for market participants who may have a role in the submission or dissemination of such data. At this time, SIFMA feels it is premature to endorse any particular system architecture. Centralizing disclosure of bids and offers may offer streamlined reporting of this information. However, it could also create a critical bottleneck or failure point in the industry. As the CTP will require significant development costs by both the MSRB and the industry, and the new system's architecture will impact the industry for years to come. SIFMA suggests that the MSRB create a working group to study and develop potential alternatives. In this process, SIFMA suggests that the benefits new transparency initiatives be weighed against the development and ongoing costs to the industry. SIFMA and its members would gladly participate in such an effort to improve trade reporting and disclosure in an efficient manner that follows the principles of straight through processing.

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⁴ U. S. Government Accountability Office, Municipal Securities: Overview of Market Structure, Pricing, and Regulation, GAO-12-265, January 17, 2012, available at <http://www.gao.gov/assets/590/587714.pdf>, at p. 30.

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Page 6 of 6

SIFMA and its members are supportive of additional transparency, but want to ensure that additional costs and burdens are not put upon the industry without commensurate benefits. We do have the specific concerns listed above regarding the draft amendments, and also believe additional study of these issues would be beneficial. We would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at (212) 313-1130.

Sincerely yours,

A handwritten signature in black ink, appearing to be 'L. Norwood', written in a cursive style.

Leslie M. Norwood
Managing Director and
Associate General Counsel

cc: ***Municipal Securities Rulemaking Board***
Lynnette Kelly, Executive Director
Ernesto A. Lanza, Deputy Executive Director
Gary L. Goldsholle, General Counsel
Justin R. Pica, Director, Product Management – Market Transparency
Karen Du Brul, Associate General Counsel