



October 7, 2013

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

Re: **MSRB Notice 2013-16(August 6, 2013):
Request for Comment on Execution Standard**

Dear Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates the opportunity to comment on the Municipal Securities Rulemaking Board’s (“MSRB”) Request for Comment on Whether to Require Dealers to Adopt a “Best Execution” Standard for Municipal Securities Transactions² (the “Concept Release”). Earlier this year, SIFMA met with certain MSRB and Securities and Exchange Commission staff to present its “Execution with Diligence” proposal to improve the execution standard in the municipal market (the “SIFMA Proposal” or “Proposal”).³ SIFMA’s Proposal, suggesting revisions to MSRB Rule G-18, is attached hereto, and incorporated herein, as a part of SIFMA’s response to MSRB Notice 2013-16. SIFMA feels strongly that raising execution standard provides an opportunity to improve public trust and confidence in the municipal securities market. More important than a rule’s label, is the process that dealers would have to undertake.

SIFMA agrees with the MSRB that “execution” targets the process by which firms handle orders and is complimentary to existing MSRB rules and interpretive guidance

¹ 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).

² MSRB Notice 2013-16 (August 6, 2013) available at <http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-16.aspx?n=1>

³ See letter from David L. Cohen, SIFMA, to Lynnette Kelly, MSRB, dated June 24, 2013, available at <http://www.sifma.org/issues/item.aspx?id=8589944578>, proposing an “execution with diligence” standard for the municipal securities market and detailing unique attributes of this market.

governing fair pricing obligations. This standard appropriately balances investor-protection interests with the need for efficient municipal markets. SIFMA is also in agreement with the MSRB that copying the existing standards from the equity and corporate fixed income markets may not be the optimal manner to promote fair pricing in the municipal market. We concur with the MSRB that any new execution requirements should be uniquely tailored to the municipal securities market. Any divergence from existing equity and corporate debt securities execution requirements should not be intended to dilute them, but to impose requirements that are properly tailored for the municipal market. SIFMA's Proposal moves the industry forward in a robust way that further enhances standards so that customers receive fair and reasonable prices. While the market may evolve to a central trading platform over the next several years, SIFMA's Proposal advances the industry towards a higher execution standard, in a way that is achievable, in the near term.

I. Market Structure

There are significant municipal market structure barriers to “best execution” – as it is commonly perceived to operate by investors. Many investors are familiar, at least at a high level, with equities market structure – they are traded on exchanges with constant liquidity and a view into the entire market. Since municipal bonds are not traded on a central exchange and there is no central aggregator of bid/offers, execution in the municipal market cannot be mirrored on either an equities or corporate debt “best execution” standard. As detailed in the charts below, the municipal securities market has fundamental differences from other markets, including other fixed income markets⁴. These differences include its diverse and fragmented nature, small securities trade sizes and far less liquidity than corporate bonds. SIFMA supports efforts to improve trade execution standards while noting that the inherent unique characteristics of the municipal market do not lead to a simple one size fits all solution. Accordingly, SIFMA's Proposal is structurally similar to FINRA 5310⁵ but modified to reflect the unique characteristics of the municipal securities market.

⁴ See *Corporate Bond E-Trading: Same Game, New Playing Field* by McKinsey & Company and Greenwich Associates (August 2013).

⁵ In absence of written guidance from FINRA regarding the application of FINRA 5310 to other fixed income securities markets, municipal securities dealers are concerned how such a rule could be enforced in the municipal market in light of these significant market differences.

MARKET STRUCTURE COMPARISON

	EQUITIES MARKET	CORPORATE DEBT SECURITIES MARKET	MUNICIPAL SECURITIES MARKET
Multiple Trading Centers: E.g. Exchanges, ATSs	Yes	No (Non-NMS OTC Market)	No (Non-NMS OTC market)
Access to Quotations: Anti-discrimination rules that provide exchanges can't put forth unfairly discriminatory terms that prevent access to their displayed quotations (Reg. NMS Rule 610)	Yes	No	No
Order Protection Rule: Requires that trading centers match best quoted prices or route orders to the best price (Reg. NMS Rule 611)	Yes	No	No
Pre and Post Trade Transparency: Direct Data Feeds & Security Information Processors (Public Distribution of Bids/Offers, NBBO, Last Sales)	Yes	No (Disseminated TRACE transaction data includes price, time of execution, size and other information. The size disseminated is the total par value of the trade, subject to the limits of the applicable dissemination cap. For investment grade TRACE-eligible securities and agency debt securities, the current dissemination cap is \$5 million, and a transaction in excess of \$5 million is disseminated as "\$5MM+." For non-investment grade TRACE-eligible securities, the current dissemination cap is \$1 million, and a transaction in excess of \$1 million is disseminated as "\$1MM+.")	No (Disseminated EMMA transaction data includes price, time of execution, size, yield, interest rate and other information. The size disseminated is the total par value of the trade. Trades with a par value greater than \$5 million are disseminated with an indicator of "MM+." The exact par value of transactions where the par value is greater than \$5 million are disseminated on EMMA five business days later.)
Daily Liquidity	Regular and continuous market: Multiple bids and offers on each CUSIP daily. Average US stock traded around 3,800 times per day in 2012. ¹	Limited Liquidity: 38% of TRACE-eligible securities did not trade even once, with another 23% trading only a handful of times, as compared to 1% that traded every day. ¹ The 13 most liquid US investment grade and 20 most liquid high yield corporate bond issues traded only about 85 times and 65 times per day on average. ¹	Limited Liquidity: Municipal bonds are even less liquid than corporate bonds. For example, in 2011, 99% of municipal bonds did not trade on any given day. ²

1. Corporate Bond E-Trading: Same Game, New Playing Field by McKinsey & Company and Greenwich Associates (August 2013)
2. U.S. Securities and Exchange Commission, Report on the Municipal Securities Market (July 2012)

MARKET COMPARISON

	EQUITIES MARKET	CORPORATE DEBT SECURITIES MARKET	MUNICIPAL SECURITIES MARKET
# CUSIPS	N/A	55,000 ¹	1,100,000 ¹
# Issuers	6,775 ²	5,500 ³	55,000 ¹
\$\$ Outstanding (\$ bln)	\$22,211 ²	\$8,325 ⁴	\$3,719 ⁴
Trading volume (unique) CUSIP (Average daily)	5,766 ²	28,097 ⁵	15,217 ⁶
Par Amount (\$ mln, average daily)	\$110,560.00 ²	\$13,011.00 ⁵	\$13,038.80 ⁶
Number of Trades	17,926,919 ² (Average daily - NYSE Only)	41,307 ⁵	41,257 ⁶
# of CUSIPS that don't trade on a given day		~26,903	~1,084,783
Retail customers (Direct holdings, \$ bln)	8,140.2 ⁴	N/A	1,657.7 ⁴
Institutional customers (Direct holdings, \$ bln)	14,071.2 ⁴	N/A	2,061.7 ⁴

1. Bloomberg
2. NYSE, NASDAQ, AMEX
3. Thompson Reuters
4. Federal Reserve
5. FINRA
6. MSRB

II. Focus on the Process

SIFMA's Proposal is principles based. Additionally, it does not favor one execution venue over another. Similar to FINRA 5310, dealers would be required to "use reasonable diligence to ascertain the market for the subject security so that the resultant price to the customer is fair and reasonable⁶ under prevailing market conditions." We believe it is more productive to focus on the actual process that dealers would have to undertake rather than the label, as "best execution" is a term of art and will have a different meaning in each market as each market functions differently. The SIFMA Proposal contains a non-exhaustive list of factors that may be considered in determining whether a dealer has used

⁶ "Fair and reasonable" is the current MSRB pricing standard. See MSRB Notice 2013-15 (August 6, 2013), available at <http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-15.aspx?n=1>.

reasonable diligence. SIFMA encourages the MSRB to include statements in subsequent regulatory notices that a dealer's obligation is inherently one to observe a reasonable / quality process -- a process that may or may not ultimately lead to an execution price that is incrementally away from some other reported trade on the day. Certainly other reported trades are relevant -- for surveillance, for compliance, for supervisors, for customers -- but the rule and guidance ought not to lead regulatory staff to form an inflexible view that the low price on the day, without more, is necessarily the product of deficient execution assuming a sound process is in place.

III. One Execution Standard for All Customers

MSRB rules exempt dealers from certain obligations when dealing with sophisticated municipal market participants ("SMMPs"). Accordingly we believe this would be the logical dividing line consistent with the current MSRB rule structure for a different execution standard for retail versus institutional customers. However, SIFMA believes there should be one execution standard for all customers for the following reasons:

- Many institutional customers have a view of the depth of market and can direct trades to a particular counterparty (See SIFMA Proposal (a)(1)(E));
- Absence of a rationale for a different standard for institutional investors;
- Distraction from main goal of improving the execution standard; and
- FINRA 5310 does not differentiate between retail and institutional customers.

IV. Use of ATSs and Broker's Brokers

SIFMA's Proposal supports the consideration of the full range of counterparties and does not favor one execution counterparty over another. SIFMA's Proposal defines "market" or "markets" as encompassing "those brokers, dealers, and municipal securities dealers that are known to transact in a particular security. This interpretation is meant to both inform brokers, dealers, and municipal securities dealers as to the breadth of the scope of counterparties that may be considered in the furtherance of their execution obligations and to promote fair competition among brokers, dealers, municipal securities dealers, such as dealers acting as municipal securities "broker's brokers" as defined in Rule G-43, alternative trading systems or platforms, as well as any other counterparties that may emerge, by not mandating that any trading counterparties have more or less relevance than others in the course of determining a firm's execution obligations."

Any rule that would require dealers to seek quotations from one or more alternative trading systems ("ATS") or municipal securities broker's brokers ("MSBB") would be problematic, and in some cases hinder liquidity:

- Despite G-43's prohibitions, ATSs and MSBBs are often used for price discovery rather than trade execution, so some prices may not reflect market participant's views of true market value;

- Since there is no central trading platform, duplicate offerings for the some bonds often occur, falsely indicating more activity/interest than exists;
- Many bids are not credible;
- May have a chilling effect on market, limiting bids;
- Many bid-wanted do not result in any bids;
- Results from a bid-wanted is one piece of information in deciding whether to execute that sale at that price;
- Since most bid-wanted do not result in any trades, this may reduce incentives to bid aggressively;
- Because the winning bid in a bid-wanted auction may not reflect a fair price, it would be inappropriate for dealers to depend solely on this process;
- A dealer buying or selling from its own inventory is often able to get its customer a fair and reasonable price without using an ATS or MSBB; and
- FINRA 5310 does not have such a requirement, nor does FINRA 5310 require a minimum number of quotations that must be received.

An enhanced MSRB execution rule should be prescriptive as to results instead of prescriptive as to process. Accordingly, SIFMA opposes any rule that would require dealers to seek quotations from one or more ATS or MSBB or mandate a minimum number of quotations that must be received. Each dealer must decide on its own the manner in which it will obtain fair and reasonable prices for its customers.

V. Supervisory Post Trade Review of Execution Quality

The Supplementary Material in FINRA 5310 requires firms to conduct reviews of its execution quality. Similarly, SIFMA's Proposal would require dealers, as part of its system of supervision, to conduct periodic reviews of the fairness of customer execution prices. Firms would also be required to analyze whether the frequency of their reviews are sufficient. To assure that a dealer complies with its obligation to provide fair and reasonable pricing for customer transactions, it should compare, among other things, execution prices that they are obtaining via current execution practices (including the internalization of customer transactions) to the execution prices that the dealer could obtain from alternative practices. SIFMA's Proposal contains a non-exhaustive list of factors that may be considered. This aspect of the SIFMA Proposal would be a new regulatory requirement, as many dealers currently conduct post-trade reviews of execution prices. It, however, would require them to, as described above, consider alternative execution practices, if for example better prices could be obtained from other trading counterparties.

VI. Economic Analysis

SIFMA and its members believe that evaluating the costs and burdens of new regulation, and weighing those costs against any benefits derived from such new regulation, is critical to ensure efficient regulation. An essential component of this

principle is conducting a true, reality-based, (and if possible dollar-specific) cost-benefit analysis of new rule proposals and other initiatives. Fully consider the costs and burdens to both the MSRB and its funders weighed against potential benefits, which we understand are much more difficult to value. SIFMA is pleased that the MSRB has adopted a formal framework for its approach to integrate economic analysis into its proposed rulemaking.⁷

Prior to proceeding to rule making on whether to require dealers to adopt a “best execution” standard, SIFMA urges the MSRB to conduct a cost benefit analysis of all of the components of any future MSRB proposal. There is a concern that imposing an equities-like “best execution” standard on the municipal market would impose undue costs and burdens on dealers (without necessarily resulting in better outcomes) which may result in some discontinuing offering municipal securities to their retail customers negatively impacting liquidity in this market. It is critical that the MSRB strike the appropriate balance between investor protection interests and the efficient operation of the municipal markets.

VII. Conclusion

SIFMA sincerely appreciates this opportunity to comment upon the Concept Release. SIFMA supports raising the execution standard in the municipal market in a way that reflects the current market structure and unique characteristics of the municipal market. We believe SIFMA’s Proposal meets this criteria.

SIFMA looks forward to continuing its dialog with the MSRB on this important topic.

Please do not hesitate to contact me with any questions at (212) 313-1265.

Sincerely yours,



David L. Cohen
Managing Director
Associate General Counsel

Attachments: Letter to Lynnette Kelly, dated June 24, 2013
Proposed Amendments to MSRB Rule G-18: Execution of Transactions

⁷ Policy on the Use of Economic Analysis in MSRB Rulemaking (September 26, 2013) available at <http://msrb.org/About-MSRB/Financial-and-Other-Information/Financial-Policies/Economic-Analysis-Policy.aspx>

Mr. Ronald W. Smith
Municipal Securities Rulemaking Board
Page 8 of 8

CC:

Municipal Securities Rulemaking Board
Lynnette Kelly, Executive Director
Gary L. Goldsholle, General Counsel
Kathleen Miles, Associate General Counsel



June 24, 2013

Lynnette Kelly
Executive Director
Municipal Securities Rulemaking Board
1900 Duke Street
Alexandria, VA 22314

Re: SIFMA Recommendation to Improve Customer Execution

Dear Ms Kelly,

As you know, the U.S. Securities and Exchange Commission issued a Report on the Municipal Securities Market in July 2012¹ (the "SEC Report" or "Report"). Since the Report's release, the Municipal Securities Division of the Securities and Financial Markets Association ("SIFMA")² has been reviewing and discussing the Report and its recommendations. While we believe the municipal market generally operates fairly and efficiently, we also feel strongly that the issues raised in the Report provide an opportunity to improve public trust and confidence in the municipal securities market.

We take particular notice of issues raised in the Report that suggesting that retail customers are disadvantaged in execution, pricing and disclosure as they may not have access to same information as dealers and institutional customers. One recommendation in the Report designed to address this concern is for the Municipal Securities Rulemaking Board ("MSRB") to consider "possible rule changes that would require municipal bond dealers to seek 'best execution' of customer orders [similar to FINRA's approach to corporate fixed income securities]...and provide more detailed guidance to municipal bond dealers on how 'best execution' concepts would be applied in connection with transactions in municipal securities."

¹ U.S. Securities and Exchange Commission *Report on the Municipal Securities Market* (July 31, 2012), available at <http://www.sec.gov/news/studies/2012/munireport073112.pdf>.

² 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).

New York | Washington

120 Broadway, 35th Floor | New York, NY 10271-0080 | P: 212.313.1200 | F: 212.313.1301
www.sifma.org

SIFMA's goals in addressing this recommendation have been to: 1) support effective and efficient regulation of the municipal securities market that aids market liquidity in a manner consistent with investor protection; 2) promote higher standards for brokers, dealers, and municipal securities dealers that would advance public trust and confidence in the municipal securities market; and 3) articulate a principles based rule that does not favor one execution venue or counterparty over another.

To that end, we have engaged in numerous individual and group meetings with our membership over the past months with the goal of producing a recommended policy change, attached hereto, designed to strengthen trade execution in the municipal market. The following discussion is the product of that effort.

I. Background of Current Municipal Market Structure

The municipal securities market has fundamental differences from other markets, including other fixed income markets, yet SIFMA understands the regulators' desire to move the municipal market *towards* a corporate debt execution standard. Some of these fundamental differences include:

- The municipal market is much more diverse and fragmented: over 1.1 million unique CUSIPS issued by over 55,000 state and local government entities.
- Average issue sizes (on average \$27mm),
- Small unique securities trade sizes (< \$50,000) dominate daily trading activity.
- The municipal market is also dominated by odd-lot transactions in thinly traded issues.
- Municipal bonds are less liquid than corporate bonds. For example in 2011, about 99% of outstanding municipal bonds did not trade on *any* given day³.
- Trades involving retail investors necessarily take place directly into or out of dealer inventories or through platforms or voice brokers that facilitate bid-wanted auctions.
- On any given day, a dealer that is active in the market may have between 2,000 to 5,000 items to potentially bid upon, and therefore review, and may eventually bid upon hundreds of these items. That same dealer could also have a number of items out for bid, for which it will need to devote additional attention.
- Role of brokers broker/voice brokers: Municipal securities brokers provide liquidity to the secondary bond market, extend distribution networks, information flow, and anonymity to market participants. Many have a particular local, regional, or market sector expertise.
- Many bid-wanted do not result in any bids; results from a bid wanted is one piece of information in deciding whether to execute that sale at that price. The fact that most bid-wanted processes do not result in trades may reduce incentives

³ SEC Report at 113-114.

for dealers to bid aggressively. A dealer may be buying or selling from its own inventory, seeking bids from other dealers or using the services of MSBBs or ATS. Some bid-wanted don't trade because the seller doesn't like the prices bid, or was just using the process for price discovery.

II. Proposal Summary

Rule Proposal:

SIFMA proposes that MSRB Rule G-18 be amended to reflect an "execution-with-diligence" standard for transactions with customers. Dealers would be required to "to use reasonable diligence to ascertain market so that the resultant price to the customer is fair and reasonable under prevailing market conditions." Similar to FINRA 5310, SIFMA's proposal contains a non-exhaustive list of factors that may be considered in determining whether a dealer has used reasonable diligence.

Proposal for Supplementary Material:

Recognizing that municipal securities trade in an over the counter market without a central exchange, SIFMA proposes defining the term "market" or "markets" to encompass those brokers, dealers, and municipal securities dealers that are known to transact in a particular security. Additionally, municipal securities dealers would be required to conduct a post trade review of execution quality and compare, among other things, execution prices that they are obtaining via current execution practices to the execution prices they could obtain from alternative trading counterparties.

III. Process

Due to the magnitude of this change, we recommend vetting this proposal among market participants through the use of a concept proposal, with an expanded comment period, and opportunity for feedback at round table discussions and educational events. Regulated firms would need an implementation period of at least six to nine months to be able to code for the necessary systems changes, develop policies and procedures and requisite changes in behavior.

IV. Conclusion

Some points emphasized in the Report suggest the transformation of the secondary municipal market to a central trading platform. However, the market is not yet at that stage of evolution. *SIFMA's proposal moves the industry forward in the short-term, in a realistic and obtainable way.* The MSRB should consider the short-term and long-term costs and potential benefit of any rule making before formally proposing any changes.

Ms. Lynnette Kelly
Municipal Securities Rulemaking Board
Page 4 of 4

We look forward to a continuing dialog with the MSRB on this important issue.
Please do not hesitate to call me with any questions at 212-313-1265.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. L. Cohen". The signature is fluid and cursive, with the first name "David" and last name "Cohen" clearly distinguishable.

David L. Cohen
Managing Director and
Associate General Counsel

SIFMA MUNICIPAL MARKET EXECUTION PROPOSAL
"Execution with Diligence"

Rule G-18: [Municipal Market] Execution

(a)(1) In any transaction for or with a customer, a broker, dealer, or municipal securities dealer shall use reasonable diligence to ascertain the market for the subject security so that the resultant price to the customer is fair and reasonable under prevailing market conditions. Factors that may be considered in determining whether a broker, dealer, or municipal securities dealer has used "reasonable diligence" include, but are not limited to:

(A) the character of the market for the security (e.g., demand, availability, price, volatility, relative liquidity, including size of the issue and issuer);

(B) the size and type of transaction;

(C) information reviewed to ascertain the current market for the subject security or similar securities;

(D) accessibility of any quotations¹ and the likelihood of execution at that price;

(E) the terms and conditions of the customer's inquiry including bids and offers, if any, which result in the transaction, as communicated to the broker, dealer, or municipal securities dealer;

(F) the capacity, principal or agent, of the broker, dealer, or municipal securities dealer affecting the transaction; and

(2) In any transaction for or with a customer, no broker, dealer, or municipal securities dealer shall interject a third party between the broker, dealer, or municipal securities dealer and the buyer or seller for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.

(b) Failure to maintain adequate resources such as staff, technology, and market and indicative information necessary to perform reasonable market diligence cannot be considered justification for executing away from a fair and reasonable price.

(c) The obligations described in paragraphs (a) and (b) above exist regardless if the broker, dealer, or municipal securities dealer is acting as agent or principal. Such obligations should be considered in conjunction with MSRB Rule G-30.

¹ MSRB Rule G-13 defines "quotation" as "any bids for, or offers of municipal securities, or any request for bids for or offers of municipal securities, including indications of 'bid wanted' or 'offer wanted'."

SIFMA MUNICIPAL MARKET EXECUTION PROPOSAL
"Execution with Diligence"

• • • **Supplementary Material:** -----

.01 Execution of Customer Transactions. A broker, dealer, or municipal securities-dealer must make every effort to execute a customer transaction promptly in accordance with the terms of the customer's bid or offer and other instructions.

.02 Definition of "Market." Recognizing that municipal securities trade in an over the counter market without a central exchange, for the purposes of Rule G-18 and the accompanying Supplementary Material, the term "market" or "markets" encompasses those brokers, dealers, and municipal securities dealers that are known to transact in a particular security. This interpretation is meant to both inform brokers, dealers, and municipal securities dealers as to the breadth of the scope of counterparties that may be considered in the furtherance of their execution obligations and to promote fair competition among brokers, dealers, municipal securities dealers, such as dealers acting as municipal securities "broker's brokers" as defined in Rule G-43, alternative trading systems or platforms, as well as any other counterparties that may emerge, by not mandating that any trading counterparties have more or less relevance than others in the course of determining a firm's execution obligations.

.03 Execution and Municipal Securities. Rule G-18(a)(1)(D) provides that one of the factors used to determine if a broker, dealer, or municipal securities dealers has used reasonable diligence to ascertain the market for the subject security so that the resultant price to the customer is fair and reasonable is the "accessibility of the quotation." In the context of the municipal securities market, this means that, when "quotations", as defined in MSRB Rule G-13, are available, the appropriate regulatory agencies will consider the accessibility and the likelihood of execution of such quotations when examining whether a broker, dealer, or municipal securities dealer has used reasonable diligence. Accessibility is only one of the non-exhaustive reasonable diligence factors set out in Rule G-18(a)(1). In the absence of accessibility, brokers, dealers, or municipal securities dealers are not relieved from taking reasonable steps and employing their market expertise in conducting reasonable diligence.

.04 Execution and Executing Brokers. A broker, dealer, or municipal securities dealer's duty to use reasonable diligence to ascertain the market for the subject security so that the resultant price to the customer is fair and reasonable in any transaction is, unless otherwise specified in this rule and supplemental materials to this rule, limited to their own customers and not to customers of other brokers, dealers, or municipal securities dealers. A broker, dealer, or municipal securities dealer's duty to use reasonable diligence to ascertain the market for the subject security so that the resultant price to the customer is fair and reasonable in any transaction arises only when a bid or offer is directed to them for the purpose of transaction handling and execution. It does not apply in instances when the broker, dealer, or municipal securities dealer's services with respect to the transaction have been anonymous and explicitly limited to communication, order matching, and/or clearance functions. Additionally, the duties of a dealer acting as a "broker's broker" are defined in MSRB Rule G-43.

.05 Bids and Offers Involving Securities with Limited Quotations or Pricing Information. Although the market diligence requirements in Rule G-18 apply to bids and offers for all municipal securities, markets for securities may differ dramatically. One of the areas in which a broker, dealer, or municipal securities

SIFMA MUNICIPAL MARKET EXECUTION PROPOSAL
"Execution with Diligence"

dealer must be diligent in ensuring that it has met its market diligence obligations is with respect to customer bids and offers involving securities for which there is limited pricing information or quotations available. Diligence in these circumstances shall include a procedure to learn information as necessary to meet the reasonableness standard, even though the means of information gathering may be different than that for other municipal securities. Each broker, dealer, or municipal securities dealer must have written policies and procedures in place that address how they will ascertain the market for such a security in the absence of relevant pricing information or multiple bids or offers and must document its compliance with those policies and procedures.

.06 Customer Instructions Regarding Handling of Bid or Offer. If a broker, dealer, or municipal securities dealer receives an unsolicited instruction from a customer to execute a transaction in a particular manner, the broker, dealer, or municipal securities dealer is not required to make any execution handling determination beyond the customer's specific instruction. Brokers, dealers, or municipal securities dealers are, however, still required to act promptly with respect to that customer's bid or offer promptly and in accordance with the terms of the bid or offer, or any instructions of the customer.

.07 Review of Execution Quality.

(a) No broker, dealer, or municipal securities dealer can transfer to another person its obligation to make use reasonable diligence to provide fair pricing for its customers' bid or offer. As part of its system of supervision, a broker, dealer, or municipal securities dealer must have procedures in place to ensure the broker, dealer, or municipal securities dealer periodically conducts reviews of the fairness of customers' execution prices. Firms should also periodically analyze whether the frequency of their reviews are sufficient.

(b) To assure that a broker, dealer, or municipal securities dealer complies with its obligation to provide fair and reasonable pricing for customer transactions, it should compare, among other things, execution prices that the broker, dealer, or municipal securities dealer is obtaining via current execution practices (including the internalization of customer transactions) to the execution prices that the broker, dealer, or municipal securities dealer could obtain from alternative practices. In reviewing and comparing the execution quality of its current execution practices to the execution quality with other counterparties, a broker, dealer, or municipal securities dealer may consider the following factors:

- (1) price improvement opportunities (i.e., the ability to obtain better prices from alternate counterparties);
- (2) the likelihood of execution of limit orders;
- (3) the speed of execution;
- (4) the size of execution;
- (5) transaction costs; and

SIFMA MUNICIPAL MARKET EXECUTION PROPOSAL
"Execution with Diligence"

(6) customer needs and expectations.

(c) A broker, dealer, or municipal securities dealer that directs its customer transactions to another broker, dealer, or municipal securities dealer that has agreed to handle those transactions as agent, or riskless principal for the customer (e.g., a clearing firm or other executing broker-dealer) may rely on that broker, dealer, or municipal securities dealer's periodic review as long as the results and rationale of the review are fully disclosed to the broker, dealer, or municipal securities dealer and the broker, dealer, or municipal securities dealer periodically reviews how the review is conducted, as well as the results of the review.