



September 30, 2022

Re: Notice 2022-07, Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14

Dear MSRB,

In response to the MSRB's proposed amendment to Rule G-14, we are respectfully providing comments as to why the amendment, which would change the reporting time from 15 minutes to 1 minute, is not a good idea, not practical, and will have adverse and discriminatory impacts to smaller sized firms and their customers.

There are two adverse consequences that would arise from moving the reporting time to one minute from the time of trade: (1) small to mid-sized firms would be financially harmed and could cease their municipal trading businesses; and (2) retail customers will be harmed through higher costs and less efficient markets for municipal bond transactions. The parties who would benefit from the proposed amendment are the large wire house firms and the vendors who provide automated reporting services and applications. Absent in the list of beneficiaries is the retail customer.

To the first point, while understanding that the MSRB is acting in good faith with their attempt to significantly reduce the reporting time limit (a decrease of 93%) for municipal bond transactions, it is also clear that the MSRB may not be aware of, or appreciate, how adversely this rule change will impact small and medium-sized broker-dealers and the basic dynamics of trading in municipal bonds.

For smaller sized firms, the only practical way that reporting the executions in municipal bonds can be reduced from 15 minutes to 1 minute is if all municipal bond trades completely by-pass human/manual entry and migrate 100% to electronic trading in these securities. This would disproportionately financially injure small and medium-sized firms who would be forced to invest an inordinate amount of capital to comply with the proposed rule. Given the amount of reduction in municipal bond spreads, it is highly unlikely that the smaller-sized firms trading municipals would be able to absorb this additional cost, and in many cases, would have to abandon this line of business. The consequences of such a rule change would be a further concentration of municipal bond trading among the largest firms in the industry.



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From the perspective of someone who actually sits and works on a municipal bond trading desk, the proposed rule provides multiple obstacles when trying to ensure that the execution, and associated reporting of a municipal bond transaction, occurs within 60 seconds. A plethora of issues arise that will inevitably cause firms to report late, beyond the 60-second requirement, making it virtually impossible for most firms to comply with the new rule. Causes of potential late trades (reported in more than 1 minute), arising under the new regime, would include:

- (1) multiple trades occurring simultaneously;
- (2) a CUSIP number not being currently set up on a clearing firm's system; or
- (3) any delay at all from noticing a pop-up confirmation from electronic bidding platform, just to name a few.

Realistically, the only way currently for a trade to be entered within the proposed 60 seconds is if two opposing traders are on the phone at the same time and they agree to drop their tickets at that very moment (and then of course both must be able to input the data within the 60-second time period).

To the second point, regarding harm to the customer, by reducing the execution time from 15 minutes to 1 minute, the proposed transaction reporting obligation change under MSRB Rule G-14 will reduce best execution for retail municipal bond customers, not increase it.

As indicated above, and before association with my current firm, I was employed by two wire houses where I had the opportunity to witness firsthand how large firms significantly widened the spreads between the bid and the ask, much to the detriment of retail clients. Every day, municipal bonds that are put out for the bid or offerings are advertised to the Street. Small and mid-sized broker dealers help provide multiple bids to ensure the market is more vibrant and municipal bond clients receive the best bid and offer sides on any given issue. If you force small and mid-sized firms to comply with the proposed reporting obligations, a significant amount of technology will be the only way to theoretically comply with the new rule. This significant additional cost borne by smaller and mid-sized broker-dealers will have to be passed onto customers or they simply will be forced to avoid doing municipal business altogether. The result will be a much less efficient market and one where the best execution for customers actually deteriorates.

It appears as if the intentions of the MSRB, through this proposed rule amendment, is to make the municipal bond market look and feel more like the equity markets; however, the dynamics do not allow for this without creating/purchasing a mechanism or application that can automate all municipal bond trades, which would come at a prohibitive cost to small and medium-sized broker-dealers. Equities can trade thousands of shares in seconds, making the need for price transparency in an extremely short period of time a necessity. However, specific municipal bond cusips vary



rarely trade twice in the same day or even months let alone multiple times in 1, 5 or 15 minutes. Therefore, unlike stocks, there is no advantage gained by a customer by having a trade reported in 60 seconds versus 15 minutes. Some unintended consequences of this rule change may result in an elimination of this line of business at small to mid-size firms, a higher cost to the end retail investor, and a greater concentration of municipal bond trading at the largest firms in the industry. We do not believe this is the desired outcome of the MSRB and ultimately, not in the retail investor's best interest.

Sincerely,

Scott Hayes, President and CEO
Chris Neidlinger, CCO

Institutional Securities Corporation