



October 3, 2022

Via MSRB Website

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street, NW, Suite 1000
Washington, DC 20005

Re: MSRB Notice 2022-07 - Request for Comment

Dear Mr. Smith,

I am providing these comments in response to MSRB Notice 2022-07 on behalf of InspereX LLC (“InspereX” or “the Firm”), a registered broker-dealer headquartered in Chicago, Illinois. InspereX is responding only to those questions referenced below that are directly applicable to the Firm’s business model.

InspereX appreciates the opportunity to provide comments to MSRB Notice 2022-07 and share the Firm’s perspective on reducing the reporting timeframe for transactions in all municipal securities to the MSRB’s Real-Time Reporting Transaction Reporting System (“RTRS”) to no later than one minute from execution.

Executive Summary

By way of background, the Firm primarily engages in the underwriting, distribution and wholesaling of financial products. While many products distributed by the Firm are geared for retail investors, The Firm’s trading counterparties consist of registered broker-dealers and other financial institutions. The Firm does not solicit transactions for traditional retail customers.

InspereX generally supports the MSRB’s efforts to increase market transparency. However, for the reasons stated in this letter, the current data does not support, and we do not support, drastically reducing the reporting timeframe for municipal securities to no later than one minute from execution.

According to the MSRB’s 2021 trade reporting analysis, 76.9 % of trades that were not exempt from the 15-minute reporting timeframe were reported within one minute of execution. If this one-minute proposal were in effect in 2021, over 23% of trades would have been deemed late. This substantial percentage of late trades does little, if anything, to meet the goal of enhancing market transparency. The proposal also fails to consider the stark disparity in reporting times

200 South Wacker Drive | Suite 3400 | Chicago, IL 60606 | 312.379.3700

between firms. Currently, only ~50% of dealers in Groups 3 and 4 were able to report their trades within one minute of execution. It is unreasonable for the MSRB to impose a one-minute trade reporting timeframe when approximately half of the reporters did not readily meet such reporting timeframe.

MSRB Rule G-14 already requires dealers to report trades “as soon as practicable” and the current proposal does not specify that reporting firms are failing to adhere to this requirement. Moreover, the Firm is unaware of any empirical evidence that shortening the time reporting period to one minute will result in significant benefits for retail investors. Conversely, the costs in making material operational and technological changes to enable firms to comply with a one-minute trade reporting period may well result in a material increase in trading costs to retail investors.

For these reasons, InspereX strongly opposes the proposal and urges the MSRB to abandon this initiative and continue to allow the industry to improve reporting times organically.

Alternatively, if the MSRB a) confirms that retail investors will directly and materially benefit from a reduction in the 15-minute trade reporting timeframe, and 2) deems that regulatory action is necessary and required, we would strongly recommend that any reduction in the 15-minute trade reporting period be done so incrementally, over a period of years.

InspereX Request for Comment Responses - Benefits

MSRB Request:

1) What benefits would investors gain by the Proposal to reduce the time transactions are reported to RTRS from fifteen minutes to as soon as practicable, but no later than within one minute?

InspereX Response:

InspereX does not believe that the marginal benefits created by timelier dissemination of trade information will justify the challenges that such timelier dissemination for certain securities will impose on broker-dealers. Nearly all fixed income trading currently takes place through a decentralized over-the-counter (OTC) market. This OTC market is comprised of nearly 1 million individual bonds, many of which are traded on an infrequent basis. Shortening the 15-minute reporting timeframe for infrequently traded securities provides no additional benefit to investors since the information available to make an investment decision is often stale and not regularly updated given limited trade histories. Further, these infrequently traded securities are often sold to investors as a “buy and hold” strategy. If the investor needs to liquidate these illiquid securities for any purpose, it is unlikely that the investor will be able to rely upon transaction information when the security has no recent trade data. Therefore, from our perspective, materially shortening the reporting timeframe will provide no additional information or improve the quality of executions benefits for investors that purchase and sell certain illiquid securities.

MSRB Request:

4) What benefits would other market participants gain from more timely trade reporting (i.e., yield curve providers, evaluated pricing services etc.)?

InspereX Response:

The MSRB's stated intent for reducing the reporting timeframe is to "improve market efficiency by providing more immediate trade reporting transparency to the market." InspereX believes that an industry assessment determining which market participants utilize transaction data to evaluate pricing information prior to making investment decisions would be beneficial to qualify and quantify the intended benefits of this proposal.

InspereX Request for Comment Responses - Costs and Burdens

MSRB Request:

1) Would a one-minute trade reporting requirement have any undue compliance burdens on dealers with certain characteristics or business models (e.g., large firms versus small firms, firms with greater trading volume versus lesser trading volume, bank dealers versus broker-dealers, etc.)? If so, please provide suggestions on how to alleviate the undue burdens.

InspereX Response:

In order to comply with the reduced reporting timeframe, there will be a significant increase in technology, compliance, and other costs. First, nearly all municipal trading will have to occur on an electronic platform, instead of through a voice broker, where a trading ticket is auto generated and pre-populated with certain customer information. In order to populate these electronic systems, InspereX will need to hire additional sales assistants and operational professionals to first implement and then maintain ever-changing customer data. Aside from the costs of these additional professionals, these electronic systems charge firms substantial fees for the use, maintenance, and retention of their systems.

Another consideration is that brokers who clear transactions through a third-party clearing firm are currently unable to directly report municipal transactions to RTRS. For transactions in FINRA TRACE-Eligible securities, trades can be directly reported to TRACE through third-party systems such as Bloomberg. When this trade is executed through the third-party system, the transaction is simultaneously reported to TRACE. This is not the reality for municipal trades. Municipal transactions are currently reported through backend systems such as a clearing firm which then reports to RTRS. Unlike TRACE, this chain of events leads to lags in the ultimate reporting time. Unless the municipal transaction can be simultaneously reported to RTRS, such as with FINRA TRACE, there can be no assurance that the trade will be submitted within one minute.

Further, violations for late trade reporting are black and white. Either the trade is reported within the specified time frame, or it is not. Akin to a speeding ticket, there are no other evidentiary measures necessary in order for the MSRB to bring an examination or an enforcement action against the late-reporting firm. Given the operational changes in meeting the one-minute reporting timeframe, the Firm will need to utilize additional compliance resources to monitor systems and procedures and to provide documentation to the MSRB when these examinations arise. This is also likely to increase the costs of any applicable fines for the violations or examination findings.

MSRB Request:

3b) If firms would have to make system changes to meet a new timeframe for trade reporting, how long would firms need to implement such changes?

InspereX Response:

While industry technology and operational capabilities have evolved since the launch of EMMA in 2008, InspereX believes that if the MSRB is to move forward with this proposal a staggered implementation period allows for a qualitative increase in market transparency while simultaneously allowing brokers sufficient time to comply to proposed changes to the reporting timeframe. InspereX believes that a one-year period before implementation and between each potential staggered interval is sufficient for traders, salespeople, operational professionals, compliance professionals, and third-party service providers to effectively comply with these rule changes. Concurrent with such time frame, InspereX also believes further empirical studies need to be conducted to determine the marginal benefits, if any, retail investors will achieve as a result of shortened trade reporting periods.

InspereX Request for Comment Responses - Operational Considerations

MSRB Request:

3) The data in Table 1 above indicates that larger-sized trades take longer to report than smaller-sized trades. What is the reason(s) it takes a firm that reports larger-sized trades more time to report a trade (e.g., voice trades)? Might the reduced timeframe result in increased costs for large trades and, if so, might these costs be passed on?

InspereX Response:

Large volume trades are more likely to be executed through voice negotiations than through automated platforms, leading to longer reporting times. When large trades are negotiated, traders are more likely to execute the transaction with counterparties whom they have a preexisting relationship. This existing relationship helps ensure that the parties are receiving a fair price for the transaction and confirm that the bonds will be delivered on the specified delivery date. These voice trades often require manual ticket entry and processing by both traders and operational support staff. By the time the trader opens the ticket, manually fills out

the necessary ticket information, and confirms the trade with the counterparty the proposed one-minute window has likely elapsed. Another consideration is that these larger transactions are often for various trades at the same time, not just one CUSIP or bond. Therefore, multiple trade tickets need to be executed to memorialize the entirety of the transaction. Even if a trader is diligent in completing these tickets at the time the trade is confirmed, the sheer volume of reported transactions lead to delays in processing that are outside the control of the trading counterparties. Moreover, such activities only take into account the actions of the trading firm and its counterparty and does not account for any operational or other tasks to be completed by the trading firm's clearing broker-dealer (assuming such trading firm does not self-clear its own transactions). Smaller, introducing broker-dealers may struggle more so than larger firms in adhering to a shortened trade reporting period.

MSRB Request:

4) The data in Table 2 above indicates dealers that report a smaller number of trades per year, take longer to report trades than dealers that report a larger number of trades. What is the reason(s) it takes a firm that reports a small number of trades more time to report a trade?

InspereX Response:

A significantly reduced reporting timeframe would likely reduce competition among reporters of different activity levels in municipal securities. As shown in Table 2 of the proposal, 81.2% of all Group 1 trades were reported within one minute while approximately 50% of all trades conducted by Group 3 (48.0%) and Group 4 (52.0%) dealers were reported within one minute. In order to comply with a one-minute reporting timeframe, these firms will have to consider whether their current trading volume justifies the various compliance expenses associated with adhering to the reduced timeframe. If these firms decide that the costs to implement these systems exceed the benefits to the firm, they may very well decide to exit the fixed income market. Fewer market participants will undoubtedly lead to negative pricing and liquidity for retail investors.

MSRB Request:

7) Would reducing the timeframe to as soon as practicable, but no later than within one minute affect the accuracy of information reported and/or the likelihood of potential data entry errors? If so, what is the reason for such impact?

InspereX Response:

InspereX anticipates that reporting municipal transactions within one minute of execution will result in a significant increase in cancellations and corrections for both voice and electronic executions. The current 15-minute reporting timeframe allows for traders to adequately review trade tickets for errors in settlement, price, amount, etc. Even with the 15-minute window, human errors in completing trade tickets often leading to trade cancellations and modifications.

Reducing the trade reporting time to one minute will likely have a detrimental effect on reporting accuracy because market participants will solely be concerned with timely reporting and not reviewing for accurate trade information.

MSRB Request:

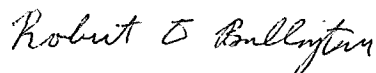
10) Would reducing the reporting timeframe to one minute require additional trade reporting exceptions, other than end of day exceptions, to allow for certain trades to be reported at a different time (e.g., 3 minutes)? If so, please identify the types of trades that would require an exception and why such are believed necessary? For example, do trades executed on swap rather than on a cash basis require more time to report?

InspereX Response:

The majority of industry participants rely upon various third-party vendors, and clearing firms, to report municipal transactions (see Costs and Burdens Request #1 above). When relying upon these vendors, firms often have no ongoing assurance that the vendor will report within a specified timeframe. If a firm performs reasonable diligence and thus reasonably relies upon a third party to report eligible transactions, InspereX believes that there should be a permanent enforcement exception for trades reported late due to a lag in reporting, outage, or other disruption directly caused by the third-party. Enforcement should strictly review only the broker's conduct during the reporting timeframe, and perhaps independently review the conduct of the third-party reporting entities. Further, InspereX believes one-year grace period from any applicable effective date should be granted for late trading enforcement actions to allow the industry the opportunity to process and rectify any unforeseen technological or operational issues.

Thank you for the opportunity to present our views and perspectives.

Sincerely,



Robert D. Bullington
InspereX LLC
Vice President, Compliance Officer