

Comment on Notice 2013-14

from Cate Long,

on Friday, November 01, 2013

Comment:

I posted my comments on my Reuters blog:

<http://blogs.reuters.com/muniland/2013/11/01/munilands-central-transparency-platform-my-survey/>

This is so exciting!

all best, Cate

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.

Muniland's Central Transparency Platform: My survey

November 1, 2013 @ 2:37 pm

By Cate Long

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 ⁵	\$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 ⁵
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]

The MSRB has published a [concept release](#) ^[2] about how it should design the new Central Transparency Platform (CTP). For the first time ever in muniland it will also gather and collect information on bids and offers before bond transactions occur (pre-trade). This information will be made available to the public. Here is how the MSRB describes the project:

With respect to pre-trade price transparency, there is currently no central location in the municipal market through which such pricing information is made broadly available to the public in a comprehensive manner. To the extent that pre-trade pricing information is available, it is typically provided by electronic networks operated by broker's brokers, alternative trading systems (ATS) and other similar systems, [\[7\]](#) ^[3] although such information also has sometimes been provided through non-electronic venues as well.

Typically, access to pre-trade pricing information is limited to market participants engaging directly with such venues and may be further limited to information regarding only those potential transactions involving the particular market participant, with information consisting of some or all of the bids and offers entered for a potential transaction.

The MSRB's Long-Range Plan envisions that the CTP would serve as the next-generation of RTRS and would include, in addition to enhanced public access to

real-time post-trade pricing information, new centralized public access to pre-trade pricing information, as well as related disclosure information, yield curves and other utilities for public users of the information.

This development is revolutionary for the municipal bond market. It will help non-dealer investors assess the fairness of prices they are being offered on a security. This will be the most significant step for municipal bond trading since the [MSRB RTRS trade reporting system](#) ^[4] was established.

Here are my responses to some of the questions in the Concept Release (in bold):

Consistency of Transaction Price Reporting

Currently principal trades (with the dealer markup included) are reported to the MSRB at the price they are done. Agency trades are reported as the trade price plus the dealer commission. The MSRB then calculates the yield for these trades.

Should the MSRB require trades done in wrap accounts (annual maintenance fee accounts, often investment advisor accounts) to be reported with a special indicator? **Yes.**

Should MRSB require disclosure of wrap fees? **Yes, but it would not be possible to extrapolate the fee to individual bond trades.**

Market of Execution

The MSRB currently identifies all transactions executed by a broker's broker [aka interdealer brokers]. This identifier is applied based on the broker's broker informing the MSRB that it acts in such capacity. The MSRB does not currently identify trades executed through an ATS [alternative trading system like Bonddesk or The MuniCenter].

- Should the MSRB require dealers effecting transactions through an ATS to include an indicator to that effect? **Yes.**
- Should such indicator be included in the information disseminated publicly? **Yes. If trades done on an ATS gave investors better prices they could request their order be routed there.**
- Are there other venues through which dealers effect transactions that should be reflected by an indicator? **OTC trades (dealer to dealer) should be identified.**
- For any trades subject to a venue indicator, would it be sufficient to indicate the type of venue or should dealers be required to identify the specific venue? **The specific ATS or venue should be identified. The information should be collected for compliance (best execution) and eventually for transparency purposes.**
- What would be the benefits and burdens of establishing such a requirement? **It is always done on equity trades and would be easily possible to collect and disseminate for bond trades.**
- Is the existing broker's broker indicator included on disseminated information useful? **Yes, some market participants use it to gauge dealer trading book changes.**
- Would a greater level of precision in the application of the broker's broker identifier be appropriate such that the dealers transacting with the broker's broker and/or the broker's broker itself include an identifier on the trade report to signify that the transaction was executed by a broker's broker in its capacity as such? **Yes.**

Transactions with Affiliated Entities

In recent years, some dealers have informed the MSRB that new corporate structures have been formed whereby some dealers establish several distinct corporate entities to perform specific functions.

For example, some corporate structures involve one corporate entity that holds inventory and another corporate entity that transacts with customers [see Fidelity]. In these cases, the corporate entity that transacts with customers will acquire bonds from or sell liquidated positions to the corporate entity that holds inventory

on an exclusive basis. Given the mechanical nature of these intra-corporate entity transactions and the fact that the prices at which these transactions occur are based on set arrangements raises questions about whether such transactions reflect negotiated arms-length transactions priced based on current market conditions. The MSRB seeks comment on the following:

- To what extent have dealers employed such corporate structures where transactions occur between two separate legal entities on an exclusive basis at prearranged pricing arrangements? **Unknown.**
- Are there other arrangements among dealers that present similar transaction reporting issues? **Any dealer internalization of order flow.**
- Should transactions arising from these corporate structures be identified as being "away from market" transactions or should a new indicator be used for identifying such transactions when they are reported? **A new indicator should be used so the MSRB can track the frequency and fairness of these transactions.**
- If a new indicator is used, should such transactions continue to be disseminated publicly and include this new indicator? **Yes, investors should be able to locate a trade they made on the trade tape even if done between two entities of the same corporate structure.**

Potential collection and dissemination of pre-trade information

- Would collection and public dissemination of additional pre-trade transparency by the MSRB improve pricing efficiency, investor confidence and liquidity in the market place? **Hallelujah. Angels will be singing.**
- Would providing such information publicly have any negative impacts on market participants or the marketplace in general? **Yes, over time dealer mark-ups will be reduced.**
- As an alternative to the MSRB collecting such information for public dissemination through the EMMA website, are there existing venues for public access to all or some of this information? **Not really for retail investors.**
- Do daily bids and offers available through these existing venues provide a true and reliable indication of market levels? **Some bids and offers are indicative and not executable.**
- Would providing access to these existing venues through the EMMA website, rather than providing the pre-trade information itself through the EMMA website, meet the MSRB's stated objectives for providing access to this information to the public? **No, the MSRB has the capacity to determine yields and scrub data. Vital for investors.**
- Would any of these venues provide access to issuers and investors, including retail investors, at no cost? **Not if the dealers have their way.**
- Are there other alternatives to achieving the goals of broadly available pre-trade price transparency that would be more effective or less burdensome than those described in this concept release? **No.**
- What types of information or tools should be provided along with the pre-trade information itself to help the public understand the nature and potential uses of the information? **Yield curves are useful.**

Technology and Protocols for Collecting Pre-Trade Information

In the January 2013 Concept Release, the MSRB sought input on certain baseline technology, processes and protocols relating to some of the potential new data elements or data types that might be included in the CTP 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.

In particular, in connection with the potential collection of pre-trade information, the MSRB sought input on the most effective methods currently used to disseminate such information among market participants, and whether such methods would be appropriate for the purposes of the CTP. The MSRB received only limited comments on these issues. The MSRB again seeks comment on these types of technology and protocol issues with respect to pre-trade information. Specifically:

- The MSRB understands that the FIX messaging protocol [20] [5] is commonly used in the fixed income market for purposes of entering bids and offers. Is there any reason why the FIX messaging protocol would not be appropriate for purposes of submitting pre-trade information to the MSRB? **There is no reason not to use this well established electronic trading protocol.** [6] **FIX is perfect for transmitting bids, offers, executions, confirmations and all stages of the trade cycle.**
- Are there alternative messaging protocols, and what are the relative merits of available alternatives as compared to the FIX messaging protocol? **No.**
- If the FIX messaging protocol is the appropriate method of collecting pre-trade pricing information, are there certain data fields, in addition to the ones listed above, that should be required from participants? **You need a working group from Bonddesk, The MuniCenter and anyone else currently using FIX to trade bonds to study this.**
- Are there any specific data transmission infrastructures currently in existence through which pre-trade information customarily is transmitted to trading venues that would be appropriate for the MSRB to consider utilizing if it were to collect pre-trade information? **No, not really. FIX messages can be transmitted in many types of packages or infrastructures. It is technology neutral.**
- If there are no such specific infrastructures commonly used for this type of data, or if such infrastructures might not be ideal for use by the MSRB, are there other technological processes that might be well adapted to the purposes described herein? **Just use FIX. It is battle tested and ready to take muniland to the next level.**
- If pre-trade information is to be provided to the MSRB on a real-time basis, should the MSRB seek to obtain such information after the bid or offer has been placed at the offering venue or simultaneously with the placing of the bid or offer? **Collect simultaneously but initially disseminate with a time lag.**
- If simultaneously, would existing infrastructures support a straight-through process by which the same message transmitted to the offering venue could be routed to the MSRB? **Absolutely. Again refer to how it is done in equity markets.**

Public Dissemination of Pre-Trade Information

The MSRB would display pre-trade information it collects through the CTP in a venue on the EMMA website designed to integrate pre-trade, post-trade and other related information for a particular security. In addition, the MSRB anticipates that such pre-trade information would be made available through paid subscription services through a data feed. The MSRB seeks comment on how such information should be displayed. Specifically:

- For pre-trade price transparency information to be beneficial to investors and market participants if available on EMMA, would such information have to be disseminated real-time, or near real-time, or would dissemination on a delayed basis be appropriate? **Do a phased, multi year roll out. Begin with 5 to 10 minute delay and then progressively shorten the time to dissemination.**
- If delaying the dissemination of the information is appropriate, how long could such information be delayed and still be beneficial to investors and market participants without becoming stale? **An investor could wait 5-10 minutes to see data before completing their transaction. The municipal market does not move that fast.**
- What type of educational material would be appropriate and necessary to accompany the pre-trade pricing information in order to provide a comprehensive guide of the data and its use that would permit non-professionals to make effective use of the information? **A description of the process of pre-trade data collection and dissemination would be most helpful to investors.**

Any interested market participants should forward their responses to this [Concept Release here](#). [7]

Table: [Sifma](#) [8]

[1] Image: http://blogs.reuters.com/muniland/files/2013/11/Long_11-1-13.jpg

[2] concept release: <http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-14.aspx>

[3] [7]: http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-14.aspx#_ftn7

[4] MSRB RTRS trade reporting system: <http://www.msrb.org/Rules-and-Interpretations/Information-Facilities/RTRS-Facility.aspx>

[5] [20]: http://msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-14.aspx#_ftn20

[6] well established electronic trading protocol.:

http://www.fixtradingcommunity.org/mod/file/view.php?file_guid=42631

[7] Concept Release here.: <http://www.msrb.org/Comment.aspx?notice=2013-14>

[8] Sifma : <http://www.sifma.org/comment-letters/2013/sifma-submits-comments-to-the-msrb-on-requiring-dealers-to-adopt-a-best-execution-standard/>

© Thomson Reuters 2011. All rights reserved. Users may download and print extracts of content from this website for their own personal and non-commercial use only. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.