sifma
Invested in America

November 1, 2013

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

Re: MSRB Notice 2013-14: Concept Release on Pre-Trade and Post-Trade Pricing Data Dissemination 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 2013-14[2] (the "Notice") issued by the Municipal Securities Rulemaking Board (the "MSRB") in which the MSRB is requesting comment on the specific data elements the MSRB is considering disseminating publicly through a new central transparency platform (the "CTP") with respect to both pre-trade and post-trade pricing information.

As described in our comment letter[3] on the MSRB's first concept release on the CTP,[4] SIFMA and its members support the concept of transparency, and have been very supportive of some of the MSRB's past transparency initiatives, such as

[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 2013-14 (July 31, 2013).

[3] Letter from Leslie M. Norwood, Managing Director and Associate General Counsel, SIFMA, to Ronald W. Smith, Corporate Secretary, MSRB, dated March 15, 2013.

[4] MSRB Notice 2013-02 (January 17, 2013).

the MSRB's Electronic Municipal Market Access ("EMMA") website, which launched March 31, 2008. There have been a series of initiatives that have brought a significant increase in the amount of information municipal securities brokers, dealers and municipal securities dealers ("broker dealers") are required by the MSRB to report over the past five years, including reset information on variable rate demand obligations and auction rate securities, variable rate securities documents, and new issue security information. These changes each represented monumental increases in transparency in the municipal securities market, particularly when combined with the move to real-time trade reporting on January 31, 2005.[5] SIFMA feels it would be important to document that investors are actually using this vast amount of new information and that it is helpful to their investment decisions. More information for the mere sake of it can actually be harmful by causing investor confusion and obscuring material information.[6]

SIFMA continues to have some specific concerns about these proposals. We believe that some of these proposals will be misleading to investors, potentially harm liquidity and the health of the secondary market for municipal securities, and drive up transaction costs in the industry. We feel the benefits of these proposals do not measure up to the astronomical costs and burdens they will impose upon the broker dealers who will be required to send this information to the MSRB. Each significant change in transparency is driven by a change in reporting which not only costs the reporting dealer time and money to change their systems but also to add personnel to undertake the new reporting, surveillance, and supervision. One set of changes may take years to completely implement and reduce any error or late rates to a minimal number. Over the past few years, however, changes to the information required to be reported to the MSRB on new issues and trades has been continually changing. We suggest that the MSRB allow time for the full impact of the recent changes to be made on the market before making further significant changes to the amount of information required to be reported to the MSRB by broker dealers.

Additionally, there are significant information technology systems changes that are on the horizon, such as the Securities and Exchange Commission's ("SEC's") consolidated audit trail ("CAT") mandate, DTCC's shortened settlement cycle ("T+1") project and the implementation of the SEC's and MSRB's municipal advisor rules. There are too many significant changes going on in the industry at

---

[5] The Bond Market Association's website investinginbonds.com was the first website to offer the MSRB's real-time trade reports. For almost a year it was also the only website that investors could get municipal securities trade information for free.

[6] *See, e.g.,* SEC Chair Mary Jo White discussing investor information overload here: http://www.sec.gov/News/Speech/Detail/Speech/1370539878806#.UnM-Xr7D-1t.

this time and in the near-term to undertake further changes of this magnitude. We don't think it is prudent to implement these changes at this time. Any changes to broker dealer information reporting in the municipal market should be timed to coincide with other large systems changes in the industry for efficiency purposes in programming mainframes, testing data flow and bandwidth, developing new policies and procedures, and retraining staff. We also don't know the full downstream ramifications of these proposals. SIFMA's concerns about certain aspects of this concept release are more fully described below.

It is also important to note that changes to the trade reporting and dissemination systems are not simple and isolated tasks. Any change to one system at one firm many times has consequences that ripple throughout that firm's other systems and out-bound and in-bound processes. Also, the costs for any systems changes do not include other significant costs associated with additional surveillance, personnel, and system-fixes from the unintended consequences of these changes. These changes collectively would cost each member of the broker dealer community at least hundreds of thousands of dollars to make the systems changes proposed, and many millions of dollars industry-wide, not taking into account recurring surveillance, supervision and maintenance. While we cannot precisely report what these changes would cost to implement, we do have some collective experience with other similar changes[7] and this is our best estimate. An effort of this magnitude would also take years to implement after the rule is final. Indeed, some of these changes would require a wholesale change in the way that the municipal securities secondary market functions and therefore its costs to investors and industry are difficult to quantify.

I. Post-Trade Price Transparency

A. Transaction Reporting of New Issues

i. Potential New Indicator for Conditional Trading Commitments

SIFMA and its members recognize that the marketplace may benefit from an MSRB indicator denoting that the post-trade pricing information for a transaction reflects pricing under a conditional trading commitment (a "CTC"). The indicator, however, would be operationally very difficult to implement and may be misleading because it's an indication only of the client's interest at that specific point in time. The date and time of the CTC would only be marginally additive, however, as many

[7] A recent similar change includes adding the reporting of asset-backed securities to Financial Industry Regulatory Authority's ("FINRA") Trade Reporting and Compliance Engine ("TRACE") system.

of these CTCs are also list offering trades made at a price already known to the market and disseminated.

After much discussion, SIFMA and its members have come to the conclusion that, taking into account the current Internal Revenue Code ("IRC") rules with regard to issue price, and the proposed rules, that there is no practicable way to change the trade reporting system to assist with compliance with the issue price rules. Issue price is a term of art in tax law parlance. The current and proposed IRC rules rely on the lead or managing underwriter knowing who the end customer is of a bond in a supply chain. However, many times the lead or managing underwriter does not sell bond directly to the end customer, for a variety of valid reasons, including the inventory being held in one broker dealer and the customer accounts another, distribution agreements, etc. It is common for bonds to make two or more "hops" or trades before they land with the ultimate investor. The lead or managing underwriter does not have control over the bonds once they have traded away from their book, and they cannot "look through" the trades without a significant amount of diligence, research, and potentially certificates from every downstream trading partner. Unless and until the IRC determines issue price to be the prices at which the underwriter actually sold a certain percentage of the bonds, we fail to see how EMMA may help in this regard other than the List Offering Price indicators showing sales from the underwriter to the public at list price during the underwriting period[8].

CTCs should definitely not be reported at the time the commitment is made. The CTC may not turn into an executable trade. Reporting the CTC at the time the investor indicated an interest in the security may lead to an overestimation in the amount of activity in that security. There are also specific operational concerns with respect to trade reporting CTCs. First, the required reporting of a flag on CTCs would require an entire rewrite of back office systems, which are not currently connected to the order entry and front office systems in a way that would easily be modified for this effort. For example, orders may be taken in an order entry system, prior to any CUSIP application for the issuance, but not reported as reporting is currently CUSIP-driven. Requiring reporting of CTCs prior to the Depository Trust and Clearing Corporation ("DTCC") receiving new issue information into its U/W Source[9] file from broker dealers would involve a rebuild of DTCC's Real-Time Trade Matching ("RTTM") system. Second, many firms are not necessarily able to automate the CTC process, thus creating a substantial burden

[8] The IRS uses the term "offering period", which is not defined, and is different than "underwriting period" as used in the MSRB Rules.

[9] U/W Source was formerly called the New Issue Information Dissemination System ("NIIDS").

to manually process these CTCs. These systems changes would be very difficult to implement operationally.

ii. Potential New Indicator for Retail Order Period Trades

An indicator that a trade resulted from a retail order during the retail order period would not provide enhanced transparency benefits to the marketplace. The MSRB has not defined "retail", or the components of a retail order period, if there is one. As "retail" can be defined in many different ways from issuer to issuer, or even issue by issue, the value of collecting and disseminating this information is of no value. Also, a single party can be acting in different capacities, which would further complicate the reporting. It would be impracticable to collect and disseminate this information. It would take an enormous amount of time to collect all this information as it would be a manual process due to the variances in the definition of "retail" from transaction to transaction. Current front office systems also don't capture this information currently, so it would be a significant change to current systems for every broker dealer across the industry. Also, retail order period rule changes are already scheduled to take effect in March 2014.[10] Those rules will likely require information technology systems changes. If the MSRB is already contemplating additional reporting requirements for retail order periods, SIFMA feels that it would be more efficient to defer implementation of the new rules until all the information technology systems work can be done at once.

If enforcement regulators are looking for this information, then this information is already in the internal books and records of each broker, dealer or municipal securities dealer ("broker dealer") for the purposes of compliance with Rules G-11 and G-8. The regulatory audit trail already exists for enforcement authorities to examine during their routine examinations of broker dealers.

iii. Existing Indicator for List Offering Price and RTRS Takedown Transactions

SIFMA and its members feel the current List Offering Price/RTRS Takedown Transaction indicator a useful indicator for users of disseminated pricing information. The price at which List Offering Price trades occur are now known to the public on a timely basis through the basic security information reported by broker dealers to the DTCC's U/W Source system, and the initial offering scale is published on EMMA after the formal award of the bonds. SIFMA does not feel that any delay in reporting the principal amount and number of trades sold at the

[10] 78 Fed. Reg. 60,956 (2013).

List Offering Price until the end of the trading day adversely affects transparency or otherwise negatively impacts some market participants during the first day of trading in a new issue. Any negative impact on market transparency is negligible. Changing this rule to shorten the end-of-day exception on List Offering Price trades would greatly increase the technology needs and electronic throughput of broker dealers, as the new issue process requires the processing of a large amount of trades on the first day of trading. As described in our prior letter, if this end-of-day-reporting exception is 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. 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"). It can take hours for orders to process out of a book running system alone and make it to a broker dealer's middle and back office systems for reporting to the MSRB's Real-time Transaction Reporting System ("RTRS"). 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[11] for no perceived benefit.

Broker dealers are already required to report to DTCC's U/W Source[12] system the initial offering scale for new issues. U/W Source was built for the purpose of collecting new issue information including rates. Broker dealers should not be required to indicate the date and time when the scale was established, as this information does not increase transparency in any material way. We also have operational concerns about reporting this information to MSRB or DTCC. For example, it should be noted that there is some ambiguity as to when a scale has been established (e.g. is it the time of the verbal award), or reset.

The List Offering Price indicator and related end-of-day reporting exception should not be subsumed within any new conditional trading commitment

---

[11] The costs include not only more bandwidth for information, but also would require sending more information in each trade report message. As each of these message packets gets larger, bandwidth requirements increase exponentially.

[12] The development of the U/W Source system took over 3 years, a significant spend not only by DTCC but also of the broker dealer community, and was a monumental effort to move data inputting of new issue information from DTCC to the broker dealers.

submission requirement. This information is currently known to market participants.

The MSRB should not establish a requirement that the discount from the published list offering price for RTRS Takedown Transactions also be published to EMMA as a condition to providing dealers with an end-of-day reporting exception for such trades. Takedown discounts for new issues are not structured in a manner conducive to uniform reporting through EMMA. Other market participants are not typically interested in how underwriters are splitting the takedown. SIFMA would like to point out that the MSRB already collects this data, so it may decide to publish this data without additional direct burden on the broker dealers.

If dealers were required to report any such additional items of information regarding List Offering Price/RTRS Takedown Transactions, we feel the costs and burdens would outweigh any benefits of such additional information. This change to the systems would require resources and investment in infrastructure that may marginally benefit market participants, if at all, and may potentially have a negative impact on market liquidity.

Also, distribution arrangements or marketing agreements in the primary space are being used with increasing frequency. Broker dealers do not get an end-of-day reporting exception for primary offering trades to distribution partners if the distribution partner is not technically a primary offering participant in the syndicate. Therefore, broker dealers need to report certain trades with distribution partners within 15 minutes while all other primary allocations get the end-of-day exception. SIFMA and its members feel these trades should get the same end-of-day exception as other List Offering Price trades. As described in our prior letter, 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 RTRS Procedures section (d)(ii).

B. Transaction Yields

In the Notice, the MSRB seeks comment on whether to modify the yield reporting components of trade reporting. SIFMA feels that although in theory it would be helpful to eliminate dealer yield to worst reporting for customer trades in an effort to harmonize the reporting paradigm with FINRA's TRACE system, in practice this is not practicable. The broker dealer is that party that has calculated the yield upon which the security has traded with the customer, communicated that information to their customer, and put that yield on the customer's G-15 confirm.

There are many reasons and scenarios why the dealer calculated yield and the MSRB's calculations of yield do not match. These situations include trading based on yield to average life, continuously callable securities, and questionable holidays and market closes, all which cause a significant amount of questionable trades. To calculate yield to worst, the MSRB would need to maintain a security master database, and permit dealers to do additional calculations on the trade reporting screens to determine yield to worst. As yield to worst is required to be on a customer confirm, we question how that yield would get back through the systems onto a customer confirm if the dealer itself didn't calculate that yield. This programming effort would be a significant rebuild from the current system on both the MSRB and dealer sides, and we question the value. Yield to worst is an important data point that customers and other dealers use to calculate various yields they need that provide important price transparency in the market. Broker dealers have a responsibility to report an accurate yield to worst calculation to their clients, so the MSRB should not eliminate this requirement. Also, eliminating the requirement to provide yield to worst would not reduce the burden on the broker dealers, as their systems are currently programmed to provide this information. If the MSRB does decide to compute yield to worst, then it should eliminate the requirement for reporting of yield to worst by the broker dealers in these customer transactions to avoid redundancy.

The MSRB queried whether it should require dealers to include in their trade reports, and should the MSRB disseminate publicly, the date and redemption price to which yield is calculated if other than the nominal maturity date and value. SIFMA and its members feel that call date and redemption price might be interesting data point for additional transparency. However, broker dealers currently report yield to worst, which is sufficient information for market participants to calculate other information that is it needed. Any change to this requirement would create unnecessary burdens and costs on dealers and outweigh any potential benefits.

The MSRB also asked if the MSRB should require dealers to include in their trade reports for trades effected based on a yield other than yield to worst, and should the MSRB disseminate publicly, the yield at which such trade was effected and the date to which such yield is calculated. There are scenarios when a broker dealer is trading on yields other than yield to worst, such as yield to average life. However, yield to worst information should be the only yield calculation required to be reported as it can be used to calculate the yield to maturity and yield to call. Any change to this requirement would create an unnecessary burden on dealers in terms of the resources, infrastructure and data sources needed to build out new systems when such information can be easily calculated or known by market participants. There are no additional yield calculations that the MSRB should be considering or should be calculating itself.

Finally, the MSRB asks whether having multiple yields publicly disseminated for some or all trades would be confusing or misleading to users of this information, or would it provide greater price transparency that would outweigh any potential confusion. SIFMA and its members feel that having multiple yields publicly disseminated for some or all trades could potentially cause more confusion as market participants currently have the information they need to calculate all the yields they need. Any such additional information should be on a "drill down" screen that is not on the face of the transparency system.

C. Consistency of Transaction Price Reporting

With regard to the consistency of transaction price reporting, the MSRB asks what would be the best approach for handling trades with non-transaction-based compensation arrangements, and should the MSRB require dealers to report the nature of such compensation arrangements? SIFMA and its members feel that in order to provide the users of trade transparency products information about valid reasons for variations in trade prices, there should be an indicator to indicate trades with non-transaction-based compensation arrangements. We feel that it would be sufficient to require dealers to report this indicator and for the MSRB to disseminate this indicator. It should be noted, however, that there will be a cost associated to the entire industry to build out this field.

SIFMA and its members feel that disclosing the exact nature of such non-transaction-based compensation arrangements is extremely burdensome, as they can be variable, individually tailored, and the terms not readily input into the trade reporting system. These non-transaction-based compensation arrangements are private agreements between the investment manager and their client. The terms of these arrangements have little transparency value to other market participants. The infrastructure cost to provide such information would vastly outweigh any potential benefits, and thus we recommend only the inclusion of an indicator denoting that a trade was subject to a non-transaction-based compensation arrangement, without requiring the reporting of the exact nature of such arrangement.

D. Market of Execution

In examining transparency of information relating to market of execution, the Notice asks if the MSRB should require dealers effecting transactions through an ATS to include an indicator to that effect and if such indicator should be included in the information disseminated publicly.[13] Are there other venues through

[13] It is interesting to note that not all ATSs are the same. At least one ATS acts as a principal. Other municipal ATSs act as agents, and once a contract to purchase a security has been formed, they step aside and the

(Continued)

which broker dealers effect transactions that should be reflected by an indicator? 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? What would be the benefits and burdens of establishing such a requirement? SIFMA and its members fail to see the tangible transparency benefits to the market of such an indicator, and thus dealers should not be required to identify the specific venue.

The MSRB asks in the Notice if the existing broker's broker indicator included on disseminated information is useful. They also query whether a greater level of precision in the application of the broker's broker identifier is appropriate, in that the dealers transacting with the broker's broker and/or the broker's broker could be required to include an identifier on the trade report to signify that the transaction was executed by a broker's broker in its capacity as such. SIFMA and its members feel that the way the broker's broker identifier is currently applied and displayed is sufficient[14]. We feel that requiring a broker's broker identifier to be used on each such trade adds additional costs for systems programming, and potentially manual processing for those transacting with broker's brokers, but this information would not add significant additional value. If this indicator is added at all, it should only be required to be input by broker's brokers to signify transactions that were executed by them in that capacity. This would be the only possible implementation of such a change that would not require widespread manual processing of trades.

E. Away from Market Transactions

The MSRB queried in its concept release that although the price at which "away from market" transactions are effected may not be reflective of current market value, does the failure to report the existence of such trades, including the principal amount and number of trades, adversely affect transparency or otherwise negatively impact some market participants? SIFMA and its members feel that "away from market trades" occur only in exceptional cases. It may negatively impact some market participants if such information is disseminated, as it is not a correct representation or indication of the current market price. The current

---

(Continued)

two counterparties trade directly with each other. SIFMA would like the MSRB to acknowledge these differences between ATSs.

[14] Municipal securities broker's brokers typically facilitate interdealer trades. If a broker's broker is not acting as an interdealer broker and makes a customer trade, that trade would already be marked as a customer trade in EMMA. A broker's broker trade made with a customer would clearly indicate that the broker's broker was not acting as an interdealer broker on that trade.

requirement to report, and the subsequent dissemination of, all executed market trades, is sufficient.

The MSRB also asks if there would be benefits to publicly disseminating the principal amount, without the price, of away from market trades with an indicator that the trade occurred at a price "away from the market"? Would there be any negative implications of disseminating such information? Would delayed reporting of "away from market" trades be appropriate and, if so, what would be the appropriate delay? These trades are required to be reported to ensure completeness for regulatory audit trail purposes, but the prices reported are of no value to market participants. SIFMA and its members are concerned that disseminating such information would be burdensome, not provide additional information of value for transparency purposes, and may provide a false understanding of market levels, even if only released on a delayed basis.

Further, the Notice requests a description of other possible categories of "away from market" trades, in addition to those noted, that should be explicitly recognized by the MSRB as qualifying for the end-of-day reporting exception. SIFMA and its members feel that there are no additional categories of "away from market" trades that should be recognized by the MSRB.

The Notice requests information about any categories of "away from market" trades that should be fully exempted from reporting, even for surveillance purposes. The MSRB questions whether providing such a full exemption has any negative impact on the marketplace, directly or indirectly as a result of potentially impeding the ability of regulators to surveil the marketplace or to enforce applicable MSRB rules and would any such full exemption be consistent with current processes within the broader securities market to develop a consolidated audit trail. It is the understanding of SIFMA and its members that the municipal securities market is the only market that requires the trade reporting of customer repurchase agreement trades, unit investment trust ('UIT") –related trades, and certain tender option bond ("TOB") program-related trades. We feel the reporting of these "away from market" trades should be fully exempted from reporting as it would harmonize the reporting rule to those in other markets creating a uniform consolidated audit trail. Similarly, the MSRB should clarify that creations and redemptions of exchange traded funds are not required to be trade reported,[15] which is the position taken by the SEC regarding TRACE reporting. As noted in our prior letter, as efforts are being made to harmonize the MSRB and FINRA rules, we believe

[15] *See*, letter from David L. Cohen, Managing Director and Associate General Counsel, SIFMA, to Ronald W. Smith, Corporate Secretary, MSRB, dated February 19, 2013 on MSRB Notice 2012-63 (December 18, 2012) relating to G-14.

special attention should be paid to the fact that the TRACE system does not require the reporting of customer repurchase agreement transactions. Also, pursuant to FINRA Rule 6730, list offering price transactions or 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. Consistency with TRACE in trade reporting paradigms would be preferable. The reporting of this information is burdensome upon broker dealers, it has no transparency value and there is no negative impact created by discontinuing the reporting requirement. Regulators needing to surveil the marketplace are able to do so through the audit process as these trades are still captured by MSRB Rule G-8 and a firm's books and records.

F. Transactions with Affiliated Entities

In the Notice, the MSRB asks 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, and if there other arrangements among dealers that present similar transaction reporting issues. In all cases, the movement of securities between affiliated entities is currently captured for regulatory audit trail and transparency purposes, and disseminated.

Some SIFMA members have affiliates that engage in arms-length principal trading with each other, as they would any other counterparty. These trades would not be subject to prearranged pricing arrangements and would be at market rates.

SIFMA and its members also recognize that in some firms, the inventory of securities is held in one corporate affiliate and needs to be transferred to a different corporate affiliate in order to effect a transaction with a customer. These structures exist for valid business reasons including centralization of inventory and risk analysis. We believe that the movements of inventory between these affiliated entities are typically done on an agency or riskless principal basis without a markup or markdown. The reporting and dissemination of these interdealer trades may appear, however, to artificially inflate market volume. Another issue is that for mere movements of municipal securities between related affiliates, broker dealers get charged regulatory reporting fees for these trades, including the MSRB's $1.00 per trade technology fee, the MSRB's .001% of par value transaction assessment, the GASB fee collected by FINRA and the FINRA trading activity fee.

The MSRB next asks if transactions arising from these corporate structures should be identified as being "away from market" transactions or should a new indicator be used for identifying such transactions when they are reported, and if a new indicator is used, should such transactions continue to be disseminated publicly and include this new indicator. SIFMA believes systems changes to include such an indicator would be costly and not be useful for industry members unless it is accompanied by a related waiver of regulatory fees for such trades.

II. Pre-Trade Price Transparency

The MSRB is seeking comment on the potential collection and dissemination of pre-trade price information. SIFMA does not support the collection and dissemination of pre-trade price information at this time. We feel that not all transparency is created equal. The collection and dissemination of pre-trade price information would likely cause a monumental shift in the market, potentially causing wholesale changes to behavior and unintended consequences. We have serious concerns about the potential negative impact on investors and liquidity in the secondary market. Traders invest time and capital in researching, committing capital and putting bids on bid wanted items. Bidding firms feel that bid information is proprietary and should not be publicly disseminated. SIFMA and its members have concerns that the collection and public dissemination of pre-trade transparency by the MSRB would potentially encourage other market participants to use this information to penny up and take advantage of firms who have invested intellectual capital and infrastructure to provide liquidity in the municipal bond market. It may benefit some market participants in the short term but may eventually destroy the whole fabric of the municipal market in the longer term as broker dealers would refuse or limit bidding unless there is a firm order. Broker dealer firms would be disincentivized to put in the time and investment to continue providing liquidity in the municipal securities secondary market. SIFMA members believe that only a small percentage of the bid wanteds offered for sale every day actually trades. Many dealers feel that this proposal will create a significant impact on liquidity and investor's willingness to commit capital to this comparatively illiquid market.

SIFMA and its members feel that requiring dealers to individually report pre-trade information would be creating a completely new process and set of systems that will be almost impossible to implement with astronomical costs. We have concerns that such reporting would necessarily be a highly manual and thus expensive process. It is unclear as to who is the appropriate party to supply this information and report it to the MSRB. Based on price valuations and price changes, it would put an enormous burden on a broker dealer's infrastructure, vis a vis increased traffic flow, to route all offerings to the MSRB every time a trader clicks on the offerings. Managing the reporting of this much data daily in a practicable way is an almost insurmountable implementation issue for a market that has over 1.1 million outstanding securities of which it is estimated that 20,000 different items commonly go out to bid daily. Traders would spend time doing data entry instead of the core function of trading and providing liquidity to clients. Firms would need to build out systems to record such one-to-one communications for dissemination. A lot of the systems that support bids and offers are supported and run by outside vendors. The fact that the information is not in-house adds to the complexity of implementing this proposal. Requiring that bids be matched with

executed trades would essentially require a rebuild of RTTM. All firms would need to technologically house thousands more items in their security master databases then they currently do, as they would need to have the information on hand for any securities that were the subject of a bid wanted, and not just securities that traded. Firms periodically cleanse their security master databases to eliminate items that have not traded recently to ensure reasonable search cycles and processing times. As databases grow increasingly large, search and retrieve cycles slow and the incidence of problems with database integrity increase. It may cause stability and performance issues on a broker dealer's technology infrastructure if they are required to transmit hundreds of thousands of records containing pre-trade price information, in addition to storing that information for books and records purposes. Any systems build of this nature will be extremely expensive, which we feel vastly outweighs the perceived benefits.

It would be impossible for the MSRB or other market participants to distinguish and filter out throw-away bids. This is a reason why only executed trades are truly indicative of market levels. Executed trades are already reported within 15 minutes, and these trades give investors to best indication and color of the market. Any information on executed inter-dealer transactions is already being matched at DTTC's RTTM for price confirmation. It would be a duplicate effort for MSRB to match bids and offers to a particular executed transaction as this information is currently available in the market.

There is currently no central repository that contains pre-trade information. There are no alternatives that would achieve the goals of making broadly available pre-trade price transparency that would not hurt the municipal market in the long term. SIFMA believes partial pre-trade price information may be available on a consolidated basis through current and future information service providers. SIFMA believes information from these sources would meet the MSRB's stated objectives for providing access to this information to the public. Utilizing these sources for information may serve the needs of the MSRB without unnecessarily burdening the entire market.

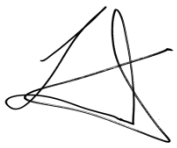
However, there are also issues with the MSRB providing this information directly to the public, regardless of its source. Members of the public will be under the false impression that they can click through to execute a trade on this system. Assuming the MSRB is not planning on starting an exchange, investors would need to set up accounts with each dealer they wanted to trade with that had an offering shown on the system, a process that takes days to weeks to complete. Client on-boarding is not a fast and simple task as there are many regulatory steps a dealer must complete, including "know your customer" rules, anti-money laundering rules, and investment suitability determinations. Educating the public about how over the

counter markets like the municipal bond market work would be helpful to increase the general public's level of understanding about trading municipal securities.

*** * ***

SIFMA and its members are supportive of additional transparency insofar as additional costs and burdens are not put upon the industry without commensurate benefits. As discussed above, we do have that the costs for implementing these proposals vastly outweighs any perceived benefits. 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,



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
Marcelo Vieira, Director of Research