



Oberweis
Securities, Inc.

Sept 28, 2022

Mr. Ronald Smith
Corporate Secretary
MSRB
1300 I Street NW
Washington, DC 20005

Dear Mr. Smith:

As a smaller broker-dealer that has been active in municipal bond trading for the last 20 years, I am writing to provide comment on the proposed MSRB Rule G-14 governing trade reporting. The MSRB initially looked into the compression of trade reporting with a Request for Comment in 2013. With the new Request for Comment, the Board is looking to determine if market practices and technology have advanced to the extent that this may be an appropriate time to shorten the time frame for reporting of trades.

Before going into the current structure of the market and whether the market as a whole would be able to handle a significant change in reporting, we would like to review the data showing the change in the market from 2012 to 2021. In 2012, there were 1,841 registered dealers with the MSRB who executed 9,713,065 trades for a total par amount of 3,225,803M. Of these trades, according to the Request in 2013, 73.4% of trades were reported within the proposed 1-minute time frame. In 2021, there were 1,363 dealers, who have executed 7,647,333 trades for a total par amount of 2,259,105M. According to the new request, 76.9% of trades were reported within the proposed 1-minute time frame. Notwithstanding the changes in market structure and evolving technology from 2012 to 2021, there has been an increase of only 3.5% of trades reported within 1 minute. While that is an increase, that still leaves 23.1%, or 1,766,533 trades, that would not fall within the new time restraint. That is a very large hurdle to overcome, given that in 9 years the increase has only been 3.5%.

The current market participants that are able to report trades within 1-minute are set up around full automation of systems and ticket processing. This can be from a large retail brokerage, where a customer would log into their account, search bond offerings and place an order online, and have this fulfilled by an ATS that is tied in with the firm's systems. This is full automation that does not require human input along the process on a normal trade. Automation can also be provided by full integration, such as Bloomberg TOMS, where different execution venues are all tied together and tickets are processed straight through to clearing companies. This is a very costly system. Many smaller firms do not have full automation and would not be able to economically justify implementing it. Such firms' ability to reliably and consistently report each trade inside of one minute would not be realistic. As a simple example, in a situation where multiple trades are executed at the same time, manually entering each would take longer to process the trade than what would be allowed. The proposed rule would necessarily require a fully integrated and automated trading system with almost no manual input. For a small firm this is a VERY large cost to overcome, and it is an unfair burden. It disadvantages small firms and will likely to lead to fewer small-firm market makers. A reduction in market participants has historically led to less competition, increased spreads and higher transaction costs for the end investor.



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The number of MSRB registered dealers has steadily declined by 4.5%-5% annually in the recent years. The additional cost of integration, automation, and compliance would all but guarantee the number of registered dealers to decline significantly. While, as stated in the Request for Comment, a large portion of trades are done by a small number of larger firms, the smaller dealer network provides a very important part of market liquidity and competition. A smaller number of firms participating in the secondary market will lead to less competition and less fair pricing of bonds. Firms that utilize automated pricing and highly capitalized firms provide a baseline for most bonds out there. Smaller firms are able to concentrate on portions of the market that do not get as much attention and provide important liquidity in times of market turmoil where large market participants may "turn off" trading. The importance of these small firms place in the market cannot go unnoticed and be hardest hit in meeting compliance with the proposed rule.

The purported benefit of the decrease in reporting time is more transparency. It is not our belief that retail clients will materially benefit by having trades posted within one minute as opposed to the current fifteen minutes. How often would a retail customer be looking at previous trading levels that would not show up under the current system? This will have a very small impact on market transparency but will be a very large cost for smaller firms. The obvious outcome of this proposal, if implemented, would be a large increase in operational costs and a decrease in market participants. It is our view if this rule is implemented as proposed, the result will be fewer dealers and therefore less competition, which will lead to wider trading spreads at a net detriment to end customers such as retail participants.

While we share the MSRB's goal of promoting efficient markets through transparency, we urge the MSRB to consider whether implementation of this rule would actually be effective in increasing market efficiency and whether the cost of compliance is reasonable. We also urge the MSRB to consider the relatively unfair burden that this rule will place upon small firms relative to their larger competitors. From our vantage point, due to lower economies of scale, the cost of compliance for a small-firm will be very high in absolute terms and much higher in relative terms than for large firms who are likely to already have in place the systems required to comply.

In short, we believe this rule systemically disadvantages small-firms, which runs contrary to a spirit of promoting fair competition between firms large and small. But more importantly, the retail investor will be disadvantaged. Many small firms will exit the market, reducing market competition and resulting in increased spreads and higher transactions costs to the end investor. While we also favor market transparency, we believe the proposed rule has been weighed against its potential costs, which for smaller-firms will be materially burdensome.

Sincerely,

A handwritten signature in cursive script that reads "James W. Oberweis".

James W. Oberweis
President