
From: Bob Barnette
Sent: Thursday, April 21, 2011 12:44 PM
To: Comment Letters
Subject: Notice 2011-18

I would like to submit comments on portions of the draft rule G-43.....I work for a municipal bond dealer as a trader, so I interact with Broker's Brokers on a daily basis. The proposed rules seem to add tremendous unfair and unreasonable burden to the Broker's Brokers, with little or no value added to the process. Specific comments below, in red font:

G-43(a)(iv)

The Broker's Broker is required to determine if a high bid does not represent a fair and reasonable price and to inform the selling dealer if such a determination is made. If the selling dealer desires to execute such a sale they must provide a WRITTEN ACKNOWLEDGEMENT that they understand our assessment and still want to sell the securities. If they do not, we are prohibited from buying the securities.

Comments: Broker's Brokers (I will hereafter abbreviate this as BBs) are not tuned-in to the market enough to determine on a real-time basis if bids are reasonable. They handle too high of a volume of bids to be reasonably expected to provide this advice in a timely manner. BBs cannot be expected to anticipate what prices the buying dealer would be able to sell a bond for, which is a huge factor in their bidding analysis. As a veteran trader that deals exclusively with the street, I am well aware that the bidding process involves many inconsistencies. Some bids are even generated by algorithms and submitted via computer. Is the BB supposed to go back and critique the algorithm that generated that bid? Conversely, what if a bid is much higher than other bids submitted, which of course would benefit the seller. Is the BB supposed to tell the seller that this is not a fair & reasonable price too????

Bottom line, the market is made up of buyers and sellers. Each side of the trade must bear the responsibility and fiduciary duty to judge the appropriateness of prices. There is plenty of analytical information available, such as up to the minute MSRB trade data, for them to utilize in this process. Nobody forces them to accept a bid and sell bonds if they don't like the bid. It is completely unreasonable to expect BBs to get in the middle of this process and provide guidance as to reasonableness of a given bid. Likewise, requiring a selling dealer to provide written acknowledgment of a BBs assessment is also completely unreasonable – what would this process be????? What documentation would be required? Who would have to be authorized to make the acknowledgment?? This would be a complicated, unnecessary mess of red tape that would add NO VALUE to the overall process. Plus, with the sheer volume of bids handled by BBs, requiring them to adopt such a process would be cost-prohibitive. In fact, they would likely have to increase their commissions to pay the labor involved, resulting in lower yields to the sellers.

G-43(c)(vi)

If a Broker's Broker believes that a bid has been submitted in error, they may only contact the bidder if they have WRITTEN PERMISSION from the seller to do so (or given the seller advance disclosure of their procedures to contact a bidder in such instances) AND GIVE ALL BIDDERS THE OPPORTUNITY TO ADJUST THEIR BIDS.

Comments: Another problematic idea. What if the bidder makes a typographical error when entering the bid online, and a simple correction is needed to keep the bidder from over-paying for the bonds? In this situation, is the BB really required to go back to all the other bidders and give them a chance to adjust bids? TOTALLY UNECESSARY!!! Again this places an onerous

administrative burden on the BB. If the bid is judged to be a likely error, what would be the point of notifying the other bidders????? If the bid “stands out” and is noticed, that means it is either too low, or too high. If it is too low, what purpose is served by going to the other bidders? Their chances of buying the bond are improved if someone is too low. If the bid is judged too high, the other bidders are unlikely to want to increase their bids to chase this one – no one wants to chase someone who is clearly overpaying. If a bid seems to be an error, all that should be required is for the BB to be allowed to contact the bidder and confirm their bid. This is by far the most fair way to handle the situation. Keep it simple!

Sincerely,

Bob Barnette
Municipal Trader
National Alliance Securities
Dallas, TX