

BERNARDISECURITIES[®]

MUNICIPAL BOND SPECIALISTS

Submitted Electronically

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

Re: Disclosure of Pricing Reference Information—Regulatory Notice 2014-20

December 26, 2014

Dear Mr. Smith:

Founded in 1984, Bernardi Securities, Inc. (BSI) is a municipal securities dealer providing underwriting, secondary market trading, brokerage, and portfolio management services to our institutional and retail customer base. We appreciate the opportunity to provide the Municipal Securities Rulemaking Board (MSRB) with comments related to the above referenced proposed rule.

BSI strongly supports appropriate transparency in our industry. We currently provide Pricing Reference Information upon request to customers wishing to know our markup or markdown for a trade executed in a principal capacity. Additionally, for customers selling bonds, we disclose the street bid for customer sales that BSI does not reoffer to customers. This is provided through supplemental reporting independent of the confirmation.

It is our understanding that EMMA was created to provide customers with prior trade information on bonds offered by broker-dealers. Dealer executions are disclosed in EMMA. These executions form the basis for the mark up/mark down. All customers should be aware of EMMA, as the EMMA website URL is disclosed on each customer confirmation. We believe that disclosing this information both in EMMA and on a customer confirmation is duplicative and possibly confusing.

BSI disagrees with the premise that all principal trades, where both sides of the market are executed in the same trading day, are “riskless.” In fact, trades executed in this scenario can carry significant risk depending upon timing of the executions. Quite often BSI purchases positions without a customer order in hand. In this situation, the markup or markdown does not reflect “riskless” remuneration.

We believe dealers such as BSI provide valuable liquidity to the municipal marketplace. This liquidity is provided by placing our own capital at risk. Providing liquidity is especially important during periods of high volatility (i.e. fall 2008, fall 2010, spring 2013). During these time periods BSI provided liquidity to sellers of municipal bonds without holding a corresponding customer purchasing order. Some of these positions were reoffered during the same trading day, but none would be considered “riskless.”

We recommend that the MSRB consider amending the proposed rules to require disclosure of Pricing Reference Information on trades where a customer order is obtained prior to the execution of trades for both sides of the market. This is a “near riskless” transaction.

We also wish to remind the MSRB that, while Pricing Reference Information may disclose the gross profit or loss on a firm trade, there are many other significant costs, both direct (technology, regulatory, clearance, financing) and indirect (personnel, occupancy, insurance) that a dealer has. Providing Pricing Reference Information without mention of these other costs provides an incomplete picture as to the remuneration that a dealer receives.

The rule proposal describes several disclosure formats and requests dealer input. For “riskless principal” trades described above, a number of disclosure formats are discussed. We believe that no specific or fixed format should be prescribed. We believe that the broker-dealer should have the option to disclose this information in the format that it determines is best (i.e. absolute dollar amount, execution price differential, percentage difference).

BSI believes that the final rules should be clear regarding customer trades that are executed versus multiple firm executions. It is possible that a dealer may purchase a position in a particular bond and at a later date purchase additional identical bonds. If a customer purchase is executed versus bonds acquired by the dealer on the customer’s purchase date and date(s) prior to this trade date, it is not clear what methodology the dealer is required to use for potential disclosure.

Finally, BSI believes that significant modifications will need to be made to systems and procedures that process any final disclosure rules regarding Pricing Reference Information. These modifications will undoubtedly require a significant investment of time and resources. We hope that the MSRB will weigh the costs required with the liquidity benefits the marketplace receives from dealers such as BSI. We believe the marketplace needs dealers who stand ready to commit firm capital without a customer order in-hand. The marketplace may see the unintended consequences of fewer dealers standing ready to provide liquidity in turbulent markets.

BSI appreciates the opportunity to comment on this proposed rule and we look forward to providing additional feedback that will help the MSRB and the greater municipal bond marketplace.

Sincerely yours,



Eric Bederman
Chief Operating & Compliance Officer