



Via PDF filed at: <http://www.msrb.org/CommentForm.aspx>

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

January 7, 2015

Re: MSRB Regulatory Notice 2014-20, "Request for Comment on Draft Rule Amendments to Require Dealers to Provide Pricing Reference Information on Retail Customer Confirmations"

Dear Mr. Smith:

The members and management of DelphX LLC¹ ("DelphX") appreciate this opportunity to respond to the request for comment issued by the Municipal Securities Rulemaking Board ("MSRB") in Regulatory Notice 2014-20 (November 17, 2014) ("Regulatory Notice"). We are pleased to submit the following comments regarding MSRB's important and timely proposal to increase transparency relating to transactions involving municipal securities ("Proposal"). Specifically, the Proposal would require that a broker, dealer, or municipal securities dealer (collectively, "dealer") for same-day, retail-size principal transactions, "disclose on the customer confirmation the price to the dealer in a 'reference transaction' and the differential between the price to the customer and the price to the dealer."

As reflected in many recent commentaries, pre-trade pricing and transaction costs in the vast fixed income market continue to be opaque.² This lack of transparency materially limits the ability of

¹ DelphX is an unbiased pricing-service provider dedicated to promoting efficiency, liquidity and broad pre-trade price transparency for corporate bonds and other fixed income securities by delivering validated continuous forecasts of the price at which each such security would currently trade. The undersigned, Larry Fondren, is the founder and CEO of DelphX. For more information about Larry Fondren, please visit http://en.wikipedia.org/wiki/Larry_Fondren. For more information about DelphX, please visit www.delphx.com.

² See, e.g., Securities and Exchange Commission ("SEC") Chair Mary Jo White, "Intermediation in the modern securities markets: putting technology and competition to work for investors" (June 20, 2014), 5-6; SEC Commissioner Daniel M. Gallagher, "Remarks to the Georgetown University Center for Financial Markets and Policy Conference on Financial Markets Quality" (September 16, 2014), at 5-6; SEC Commissioner Michael S. Piowar, "Remarks at the 2014 Municipal Finance Conference presented by The Bond Buyer and Brandeis International Business School" (August 1, 2014), at 4-5; Director of the SEC Division of Trading and Markets, Stephen Luparello, "Testimony on 'oversight of the SEC's Division of Trading and Markets'" (June 26, 2014), 6-7; Remarks of FINRA Chairman and CEO Richard G. Ketchum, FINRA Fixed Income Conference (March 9, 2010); Legislation: Mark R. Warner (D-VA) and Thomas A. Coburn (R-OK) sponsorship of "Bond Transparency Act of 2014," S. 2114, 113th Cong. § 3.

investors to discern the remuneration retained by their dealers in fixed income trades,³ and investors' ability to determine if their dealers fulfilled their obligation to seek the "best execution" of such trades.

Based upon our experience and the insights received from an array of market participants, we believe there is a critical need for increased pre-trade price transparency in relation to transactions involving fixed income securities, particularly those issues that are traded infrequently. We, therefore, applaud MSRB's initiative to enhance municipal bond market transparency for investors.⁴

A. Scope. The comments contained herein are principally focused on MSRB's request regarding "alternatives that could similarly increase price transparency, particularly for retail customers" or otherwise achieve or serve to better facilitate the objectives of the Proposal.

B. Summary of Comments. As discussed below, we believe the Proposal could provide useful information to investors that would enable them to make more informed investment decisions and be better equipped to assess the quality of their trade executions by dealers. Moreover, in response to MSRB's request for comments regarding potential "viable alternatives to the proposal" and "more principles-based approach that would achieve the objectives of the proposal"⁵ we believe that an alternative means of providing pricing reference information, namely, the recognition of "**Accredited-Benchmark**" prices that accurately forecast the current market price ("Market-Price") of a municipal security continuously throughout each trading day, would provide timely and relevant pre-trade pricing reference information to investors. That contemporaneous pricing information could be used by investors to assess the remuneration retained by dealers when effecting their trades, and to evaluate the performance of dealers in seeking "best execution" of those transactions. We also believe that this approach of employing transparently-validated Market-Price forecasts would provide a comprehensive and cost-efficient means of expanding the scope of the Proposal to include customer transactions for which there is no same-day or recent reference transaction involving the subject security.

C. The Proposal. MSRB states that its goal is to better inform investors, particularly retail investors, with relevant pricing reference information, to provide valuable insight into the market in the context of their securities transactions. Additionally, such pricing reference information may also enable investors to more easily evaluate their transaction costs and the fairness of the price they paid or received for securities they bought or sold.⁶ Accordingly, MSRB is proposing an amendment to Rule G-15, with respect to transactions with customers, that would require a dealer to disclose on the customer confirmation its trade price for a defined "reference transaction" as

³ Because fixed income securities transactions are commonly executed by dealers which act as a principal in the transaction, their remuneration is generally secured in the form of a markup or markdown from the "prevailing market price." The Proposal is intended to address the fact that, currently, the amount of that markup or markdown is not required to be disclosed on the confirmation for fixed income trades executed by a dealer as principal.

⁴ As the Regulatory Notice notes, MSRB has coordinated with the Financial Industry Regulatory Authority ("FINRA") which issued a similar proposal relating to transactions in corporate bonds and agency debt securities: FINRA Regulatory Notice 14-52, "Pricing Disclosure in the Fixed Income Markets" (November, 2014).

⁵ See, e.g., Regulatory Notice, Request for Comments, No.5.

⁶ Regulatory Notice, at 8.

well as the difference in that price and the customer trade price. A reference transaction is defined in the Notice as “generally one in which the dealer, as principal, purchases or sells the same security that is the subject of the confirmation on the same date as the customer trade.”

Specifically, “The proposal would require dealers to calculate and disclose the difference in price between a reference transaction disclosed on the confirmation and the price to the customer receiving the confirmation. Thus, for example, if a dealer purchases 50 bonds in XYZ securities at a price of 100 for \$50,000 and, on the same day, sells 50 bonds in those same securities to a customer at a price of 102 for \$51,000, the dealer would be required to disclose on the customer’s confirmation both the price of the reference transaction (100), which is currently available to the customer on EMMA, as well as the differential between the price of each trade (2).”⁷

While this additional disclosure could enable investors to “gain valuable insight into the market for the securities they trade,”⁸ it has a variety of limitations. Because many of these considerations are recognized and discussed in the Regulatory Notice, we touch upon them only briefly in our comments below.

D. Response to Selected Request-Questions.

We refer to specific requests for comment as numbered in the Regulatory Notice.

[Question 1. Would the proposed disclosures provide investors with greater transparency into the compensation of their brokers or the costs associated with the execution of their municipal securities trades?](#)

Response: Economic studies have shown that investors benefit from increased price transparency through material reductions in their transaction costs.⁹ Currently, dealers are not required to disclose their markups or markdowns to investors on fixed income trade confirmations when the dealer acts as a principal in the transaction.¹⁰ Therefore, we believe additional relevant and meaningful reference information about current Market-Prices would assist investors in understanding the remuneration retained by their dealers, and help investors evaluate the services they receive. Providing pricing reference information relating to similar same-day trades, as the Proposal contemplates, could assist investors in assessing the quality of a dealer’s transaction services. However we believe that same-day prices are less informative than relevant prices that are contemporaneous with the dealer’s trade for

⁷ Regulatory Notice, at 8-9.

⁸ Regulatory Notice, at 8.

⁹ See Hendrik Bessembinder and William Maxwell, “Transparency and the corporate bond market,” J. Econ. Perspectives, v.22, no.2 (Spring 2008), 217, 227 (“Overall, the statistical and anecdotal evidence indicates that the introduction of post-trade transparency in the corporate bond markets has significantly reduced the costs that investors pay to dealer firms for executing their trades in corporate bonds.”); Amy K. Edwards, Lawrence E. Harris, and Michael S. Piwowar, “Corporate bond market transaction costs and transparency,” J. Fin., v.LXII, no.3 (June 2007), at 2. “If transactions costs are a deterrent to retail interest, we would expect retail interest to increase with the lower transaction costs associated with transparency.” Id. at 31.

¹⁰ Regulatory Notice, at 3 (discussing SEC Rule 10b-10).

the investor (i.e., pre-trade pricing) that the alternative Market-Price reference information described in Section E below would provide.

Question 4. For which transactions should pricing reference disclosures be made?

Response: Useful and meaningful price reference disclosure should be made available, where feasible, for all forms and sizes of transactions, rather than be limited to retail-sized or “riskless principal” trades.¹¹ Without meaningful pre-trade price reference disclosure, institutional investors can be as uncertain as individual investors as to the current Market-Price of municipal securities they are considering buying or selling.¹² While it is possible that increased price-transparency may diminish the levels of traditional dealer-sourced liquidity, increasing the ability of investors of all sizes to more confidently assess the current pricing levels of securities will potentially increase investor-sourced liquidity and the ability of dealers to more-readily facilitate “matching” or “pairing” of contra-trades among investors – further promoting increased liquidity.

Question 5. What are the viable alternatives to the proposal?

Response: We believe that, by creating an environment in which independent pricing-service providers are incentivized to develop and continuously publish precise forecasts of the current Market-Price of outstanding municipal securities in real-time, investors would gain access to a transparent and demonstrably accurate pricing reference for assessing the current Market-Price of securities they are considering buying or selling. Such a transparent environment, as described more fully in Section E below, would also enable investors to independently assess the remuneration retained by their dealers, and more efficiently determine the quality of executions they receive from their dealers.

The SEC’s 2012 “Report on the Municipal Securities Market” (“SEC Report”) recommended that the MSRB “consider encouraging or requiring municipal bond dealers to provide retail customers relevant pricing reference information” in connection with their trades.¹³ The SEC Report suggested that the information might include recent transactions in the same or comparable securities, and current market information, such as quotations.¹⁴

The Accredited-Benchmark utility described in Section E below would help investors realize many aspirations of the SEC Report, by providing accurate to-the-second forecasts of the current Market-Price of thousands of municipal issues, including those for which no contemporaneous transaction pricing is available. It also would benefit investors by fostering a transparent market facility through which independent pricing-service providers are incentivized to publish the most accurate Market-Price

¹¹ According to the Regulatory Notice, only approximately 21.32% of retail-sized trades during a recent one-year period had relevant same-day trades by the dealer that would require disclosure under the Proposal. Regulatory Notice at 10 n.22. That means that nearly 80% of retail trades would not benefit from the Proposal’s pricing information.

¹² Accordingly, we do not believe that it would be beneficial to exclude “sophisticated municipal market professionals” from receiving reference price information, as suggested in the Regulatory Notice at 10.

¹³ SEC Report at 147.

¹⁴ Id.

forecasts possible, and to continually strive to improve the scope and cost-efficiency of their pre-trade pricing utilities.

The idea of providing investors with current Market-Price forecasts and other benchmark prices is not a new one. The need for investors to receive relevant information immediately prior to buying or selling a bond was recognized by the Corporate Debt Market Panel (“Panel”) established by FINRA’s predecessor.¹⁵ The Panel stated that an important part of increasing investors’ ability to “understand the detail of their investment choices, risks and return” is the “ability to link aspects of recent improvements in transparency with actual transactions so that individual investors can determine the quality of execution they receive from their brokers.”¹⁶ The recommended pre-trade information included “[w]here the customer can get information on recent transactions in this or similar bonds.”¹⁷ The Panel also observed that “it would be very helpful for investors to be able to compare the price and yield they receive for a bond against industry benchmarks.”¹⁸

We believe it would be appropriate to allow dealers to establish their own methodology, consistent with the objectives of the Proposal, provided that methodology is developed employing an objective rationale acceptable to MSRB, is clearly described to investors, and is consistently applied in all transactions. For example, should a firm choose to display Accredited-Benchmark pricing in its confirmations, it would be required to implement written policies and procedures to: (a) identify the Accredited-Benchmark as defined by criteria in a MSRB rule; (b) use a consistent methodology to disclose the Accredited-Benchmark’s Market-Price forecasts to customers; (c) periodically review the performance of the Accredited-Benchmark to verify that it continues to satisfy the accreditation criteria specified by MSRB and provides meaningful information to customers; and (d) retain all documentation and data required to demonstrate the foregoing. Dealers could thus optionally disclose on customer confirmations the price to the customer, the Accredited-Benchmark price of the subject security at the time of the trade, and the differential between those two prices.

Question 8. When a firm executes multiple municipal securities transactions as principal, what should be the appropriate methodology or methodologies to use in determining the reference transaction price and differential to be disclosed on the confirmation? Are there other methodologies that may be more appropriate?

Response: As noted above, we believe a firm should be allowed to use an Accredited-Benchmark as the determinant of Market-Price at the time of each trade, and to consistently include such reference pricing in its confirmations. Given the transparency, validation and documentation of every Accredited-Benchmark price, the firm would have ready access to all documentation required to justify its use of Accredited-Benchmark prices. Use of objectively-derived Accredited-Benchmark prices would thus avoid the subjective pricing difficulty described in this question.

¹⁵ National Association of Securities Dealers, “Report of the Corporate Debt Market Panel”, at 2, 9 (September 2004) (“Debt Market Panel Report”).

¹⁶ Debt Market Panel Report, at 9.

¹⁷ Debt Market Panel Report, at 12.

¹⁸ Debt Market Panel Report, at 3.

Question 11. What information should be required to be disclosed on the customer confirmation?

Response: While some firms currently provide markup (markdown) information to their customers, we believe investors would materially benefit from dealers using a consistent standard to include information regarding the current Market-Price forecasts of one or more Accredited-Benchmarks for the subject security. Accordingly, we believe that Rule G-15 should permit the disclosure of Accredited-Benchmark pricing as an acceptable alternative to the reference pricing disclosures discussed in the Proposal, particularly where same-day transaction pricing for the security is not available. To provide additional transparency, we believe firms should be required to provide customers with an explanation of all pricing information they use (including Accredited-Benchmark prices) on trade confirmations, customer statements, and/or the firm's website.

Question 13. Would a requirement to disclose pricing reference information on the confirmation cause any problematic delays in sending the confirmation to a customer?

Response: We believe that electronically-delivered real-time Accredited-Benchmark prices could be integrated readily into a dealer's system that generates confirmations. We also suspect that incorporating Accredited-Benchmark reference prices would be technologically simpler than retrieving and recording a dealer's same-day prices pursuant to the Proposal.

E. Enhancing Pre-trade Price Transparency Through "Accredited-Benchmarks".

DelphX agrees with MSRB that investors in fixed income securities are currently limited in their ability to understand and compare transaction costs. However, we believe "understanding" and "comparing" are separate, but related, challenges. The Proposal would help with the former, but have limited impact on addressing the latter - as investors' comparative-pricing information would be limited to only the prices of same-day transactions executed by their dealer.

Because the vast majority of outstanding municipal bond issues will likely not be traded on any given day, the transparency fostered by the Proposal will apply to only a small portion of the total universe of such securities. We believe MSRB's recognition of an additional form of pre-trade price transparency, which also encompasses the larger group of securities for which no readily-observable current transaction pricing is available, would expand the utility and benefit of the confirmation disclosure contemplated in the Proposal.

To provide that additional comparative-pricing information to investors, we propose that MSRB foster the development and ongoing refinement of historically-accurate, continuously-updating forecasts of the current Market-Prices for a broad array of municipal bond issues, including those for which no recent transaction information is available. Specifically, we encourage MSRB to:

- 1) Establish an environment in which independent pricing-service providers are encouraged to calculate, validate and publish in real-time continuously-updating forecasts of the Market-Price at which each of a broad universe of outstanding municipal securities would currently trade;
- 2) Prescribe a standard protocol for measuring the accuracy of such forecasts, and definitive qualification parameters, that all pricing-service providers could employ to uniformly

determine the accuracy with which their Market-Price forecast for a subject security predicted the actual price at which that security traded (“Trade-Price”);

- 3) Specify the minimum acceptable level of historical accuracy that the Market-Price forecasts published by a pricing-service provider must continually meet to qualify as an “Accredited-Benchmark”; and
- 4) Amend Rule G-15 to provide guidance to dealers, that the price of an Accredited-Benchmark is an acceptable reference source of the current Market-Price of the subject security for disclosure on customer confirmations.¹⁹

By establishing a standard protocol for calculating the accuracy of security-specific, time-specific Market-Price forecasts published by independent pricing-service providers, MSRB could provide a compelling incentive to current and future pricing-service providers to publish demonstrably accurate Market-Price forecasts. Moreover, competitive pressures would likely also encourage those providers to continually strive to increase the accuracy of their forecasts and to deliver those forecasts on increasingly competitive terms.

It is anticipated that the cost of accessing Accredited-Benchmark pricing references would be based upon the number of subject securities, timing of updates (real-time or delayed), frequency of updates (end-of-day or intra-day) and other factors. It is also possible that an Accredited-Benchmark pricing service provider, like DelphX, would provide free public access to Accredited-Benchmark prices for limited-use, time-delayed queries.

EMMA-Enabled Validation. We believe MSRB’s Electronic Municipal Market Access system (“EMMA”) provides a valuable source of timely post-trade pricing information that could be employed to measure and validate the forecasting accuracy of continuous pre-trade Market-Price forecasts published by pricing-service providers. By comparing a given provider’s Market-Price forecasts for a subject security current at the time of each transaction in that security, as reported to EMMA, the accuracy of that provider’s pre-trade Market-Price forecasts can be definitively determined on a security-specific and aggregate basis for use in the benchmark-accreditation process.

Thus, each time a transaction involving a subject security is reported to EMMA, the degree to which the forecasted Market-Price published at the time the transaction was executed deviated from the transaction’s Trade-Price can be definitively measured, recorded and transparently reported to validate the accuracy of the Market-Price forecasts.

Therefore, to provide greater price transparency and facilitate more definitive compliance, we recommend that, in addition to the Proposal’s same-day transaction price, dealers alternatively be permitted to disclose as a pricing reference on confirmations the current Market-Price forecast of an Accredited-Benchmark for the subject security at the time of the transaction with or for the investor.

¹⁹ As we discuss below, the Accredited-Benchmark pricing references used in customer confirmations would also be useful for best execution and other price-related compliance purposes.

Investors and all other market participants and regulators would thus gain an informed and transparent basis upon which to assess the current pre-trade pricing levels of most outstanding fixed income issues.

Minimum Accuracy Standard.

It is suggested that to qualify as an Accredited-Benchmark, MSRB would require a municipal securities pricing service to:

- 1) Publish prices for municipal securities and update them continually, or at least as frequently as MSRB specifies, throughout each trading day;
- 2) Continually meet the acceptable Accuracy-Score levels specified by MSRB (e.g., at least 80.0% of published Market-Price forecasts must possess Accuracy Scores of 98.0% or higher); and
- 3) Continually report the benchmark's current Accuracy-Score, and transparently publish all information required to independently audit the accuracy of its current and prior Accuracy-Scores and its Market-Price forecasts current at each time the issue has been traded.

One approach for determining the accuracy of prior Market-Price forecasts of a municipal securities pricing service is to compare its Market-Price forecast at the time each trade of the security occurred in the past (using the "Execution" date/time of the trade reported to the EMMA system as the trade-time determinant), as DelphX currently does for calculating the Accuracy "Scores" of its MAV \in n[®] (Market-Adjusted Value per congruent nexus) Market-Pricing forecasts. Specifically, the current Accuracy-Score of the Market-Price forecasts generated by MAV \in n is determined by:

- 1) Calculating the Absolute Deviation (without regard for the direction of each deviation to avoid distortions due to "netting" of groups of deviations) of each Market-Price forecast from the actual Trade-Price at which the applicable transaction involving the security occurred;
- 2) Adding the Absolute Deviations of a specified number (e.g., 5) of the most recent transactions involving the subject security;
- 3) Adding the Trade-Prices of the transactions described above;
- 4) Dividing the Total Sum of the Absolute Deviations by the Total Sum of the Trade-Prices, to determine the Absolute Deviation-Quotient of the Market-Price forecasts in the analyzed transactions; and
- 5) Subtracting that Absolute Deviation-Quotient from 100% to determine the Accuracy- Quotient (Score) of the Market-Price forecasts of the subject benchmark.

For example, the Accuracy-Score of the continually-updating benchmark pricing of security A would be calculated as follows:

Calculating Accuracy-Score of Market-Price Forecasts for Security A

Transaction Sequence	Forecasted Market-Price	Actual Trade-Price	Absolute Deviation
Most Recent	112.045	112.392	0.347
2 nd Most	109.255	109.641	0.386
3 rd Most	110.340	110.950	0.610
4 th Most	110.654	109.894	0.760
5 th Most	110.873	<u>111.055</u>	<u>0.182</u>
		553.932	2.285

Absolute Deviation Quotient = 0.413% (2.285 ÷ 553.932 = 0.413%)

Accuracy-Score = 99.587%²⁰ (100% - 0.413% = 99.587%)

Employing Accredited-Benchmarks. We believe that permitting dealers to display an Accredited-Benchmark price on a trade confirmation would be an excellent example of “principles-based regulation” - rather than specifying a solitary method to provide pricing information to achieve its regulatory objective, the rule would allow firms to decide which acceptable method best fits their business model and customer base. Under this approach, a firm would be required to have written policies and procedures reasonably designed to identify an Accredited-Benchmark, provide contemporaneous Accredited-Benchmark pricing information to customers, and periodically review the performance of the Accredited-Benchmark to verify that it continues to satisfy the required criteria and provides meaningful information to its customers.

Accordingly, we recommend that MSRB amend Rule G-15 to permit dealers to disclose as a pricing reference on customer confirmations the Accredited-Benchmark price published for the subject security at the time of the transaction. By including Accredited-Benchmark prices as pricing references on customer confirmations, dealers could thus provide meaningful and useful information to investors.

Recognition by MSRB of Accredited-Benchmarks may also tend to increase the frequency with which currently-illiquid issues trade as, by informing investors of the likely current Market-Price of each of a broad range of securities they may have interest in buying or selling, those investors may be more inclined to trade attractively-priced securities with greater confidence and frequency.

Best Execution and Fair Prices. MSRB recognizes that retail investors “may not be able to effectively evaluate the market for their securities or the transaction costs associated with their securities.”²¹

²⁰ More than 94.0% of MAV=n forecasts published by DelphX currently possess Accuracy-Scores higher than 98.0%.

Similarly, SEC Commissioner Gallagher has stated: “Notwithstanding these recent initiatives in post-trade price transparency²² retail investors continue to face significant market headwinds. They simply cannot be sure that they receive best execution and a fair price.”²³ There is a growing consensus that “meaningful pre-trade pricing information” is key to addressing concerns about best execution and markup and markdown disclosure in the fixed income markets.²⁴

As described below, there is a close association between the objectives of the Proposal and a dealer’s obligations to seek “best execution” in executing customer orders, and to charge reasonable markups and markdowns on customer trades. Providing investors with Accredited-Benchmark Market-Pricing could enhance best execution and markup/markdown information and compliance.

Best execution. MSRB Rule G-18 will require a dealer to “use reasonable diligence to ascertain the best market for the subject security and buy or sell in that market so that the resultant price to the customer is as favorable as possible under prevailing market conditions,” and indicates that an essential element in assessing the “character of the market for the security” is price.²⁵ In the fixed income markets, where many if not most securities trade infrequently, determining whether a price offered in the market is reasonable can be difficult and time-consuming. However, a price generated by an Accredited-Benchmark could greatly assist the dealer in assessing whether an offered price is fair. That, in turn, can be incorporated into the other prevailing market factors in satisfying the dealer’s best execution obligation. In addition, if the Accredited-Benchmark price were included on the customer’s confirmation, the customer would have highly relevant, accurate and reliable information to use in evaluating the dealer’s satisfaction of its best execution responsibilities.²⁶

The use of Accredited-Benchmark prices could be used by a dealer to fulfill its obligations under Supplementary Material .06 of Rule G-18. For securities where there is limited pricing information, the dealer must have written policies and procedures to show how it fulfilled its best execution responsibilities. Among other things, the dealer should “analyze other data to which it reasonably has access.” We believe that Accredited-Benchmark data that is available on reasonable terms would be highly relevant in this context.

Markup policy. MSRB Rule G-30, among other things, requires that a dealer trade as principal with a customer at “an aggregate price (including any mark-up or mark-down) that is fair and reasonable.” Supplementary Material .01 discusses MSRB’s policy on dealer compensation, and provides that the mark-up or mark-down is computed from “the inter-dealer market price prevailing at the time of the

²¹ Regulatory Notice 2014-20, at 13.

²² Referring to FINRA’s Transaction Reporting and Compliance Engine and the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system.

²³ Remarks by Commissioner Gallagher, *supra* n.2, at 4.

²⁴ *See, e.g.*, Speech by Chair White, *supra* n.2, at 6; Remarks by Commissioner Piwowar, *supra* n.2 at 4-5; Remarks by Commissioner Gallagher, *supra* n.2, at 4.

²⁵ MSRB Rule G-18(a)(1). Rule G-18 becomes effective on December 7, 2015. See MSRB Regulatory Notice 2014-22 (December 2014).

²⁶ We note that MSRB Rule G-48 disappplies the best execution obligations of MSRB Rule G-18 to dealer transactions with “sophisticated municipal market professionals.”

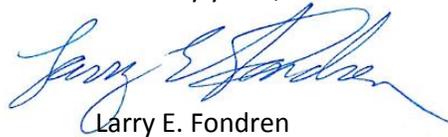
customer transaction.” Fair pricing requires the dealer to “assess the market value” of the security, and may not pass on the dealer’s cost if the dealer paid a price well above market value.

We believe that Market-Prices generated by Accredited-Benchmarks could substantially contribute to the dealer’s assessment of market value at the time of its trade with or for a customer. Accredited-Benchmark prices could be used by a dealer in evaluating one or more dealer prices, or in determining the prevailing market price for a sale out of the dealer’s inventory. If disclosed on the confirmation, the customer would have useful and meaningful information to assess the price obtained by the dealer and the remuneration retained by the dealer on the trade.

As stated above, we believe that all customers, retail and institutional, would benefit from the timely and historically-accurate Market-Price information provided by Accredited-Benchmarks.²⁷

Conclusion. DelphX applauds MSRB for its initiative and is grateful for the opportunity to present an ancillary means of increasing pre-trade price transparency and enhancing achievement of the proposal’s objective. We would be pleased to meet with MSRB Staff to provide additional information or answer questions regarding the Accredited-Benchmark utility. Please contact me at (610) 640-7546 (lef@delphx.com).

Sincerely yours,



Larry E. Fondren
President and CEO

cc: Marcia E. Asquith, Office of the Corporate Secretary, Financial Industry Regulatory Authority
Larry E. Bergmann, Murphy & McGonigle PC

²⁷ Cf. Hendrik Bessembinder, William Maxwell, and Kumar Venkataraman, “Market transparency, liquidity externalities, and institutional trading costs in corporate bonds,” Initial Draft: November 2004, Current Draft: October 2005, J. Fin. Econ., forthcoming, at Abstract, 2, 35-36 (study of the “effect of transaction reporting on trade execution costs ... using a sample of institutional trades in corporate bonds, before and after the initiation of public transaction reporting through the TRACE system. ... These results reinforce that market design [i.e., decisions as to whether to make the market transparent to the public] can have first-order effects [a reduction of approximately 50% in trade execution costs for bonds eligible for TRACE reporting], even for sophisticated institutional customers.”]