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**Via Electronic Delivery**

March 31, 2016

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

Re: MSRB Regulatory Notice 2016-07 - Request for Comment on Draft Amendments to MSRB Rule G-30 to Provide Guidance on Prevailing Market Price

Dear Mr. Smith:

Thomson Reuters appreciates the opportunity to comment on MSRB Regulatory Notice 2015-07 (the “notice”). Thomson Reuters<sup>1</sup> through our Financial & Risk business unit provides buy-side, sell-side and corporate customers with information, analytics, workflow, transaction and technology solutions and services that enable effective price discovery and support efficiency, liquidity and compliance. Our clients are active participants in the municipal market and we provide decision support tools and processing in support of their municipal trading activities.

We applaud MSRB for seeking comment on prevailing market price guidance as requested in our comment letter on MSRB Regulatory Notice 2015-16.<sup>2</sup> The proposed guidance provided in the notice included request for comment on several key aspects of the proposed guidance. Please see our feedback on several of these issues below.

**Hierarchical Approach/Presumption of Contemporaneous Cost**

The notice asks for comment on whether the hierarchical approach suggested for determining the prevailing market price is appropriate for the municipal market. This approach includes a presumption that a dealer will initiate their determination of prevailing market price by considering contemporaneous cost. We believe that a number of factors should be considered in evaluating the appropriateness of the hierarchical approach for a municipal security: (1) trading volume, (2) frequency of trading, and (3)

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<sup>2</sup> See letter from Manisha Kimmel, Chief Regulatory Officer, Wealth Management, Thomson Reuters, dated December 11, 2015

trade size. Given the findings of MSRB's July 2014 report on secondary trading in the municipal market which indicated that 50% of municipal securities do not trade more than once in the same day, we believe that the presumption of contemporaneous cost as the primary method of determining prevailing market price may not be an appropriate starting point for the hierarchical approach.<sup>3</sup> Instead, we would suggest that dealers be allowed to consider trading volume, trading frequency and trade size and then choose the most appropriate methodology.

It is our belief that economic models considering the three factors mentioned as well as other objective and subjective attributes are used during the pre-trade process. The use of economic models at the onset should be recognized as a valid methodology for determining prevailing market price. Firms that trade municipals are often looking for a municipal security that meets a certain set of characteristics including yield, tax treatment and use models to identify and price those securities. Additionally, available liquidity is a determinant of prevailing market price that is incorporated into economic models and may have a material impact on pricing.

To that end, we recommend specific guidance to help firms in determining prevailing market price:

- Establish a rebuttable presumption of contemporaneous cost within reason. For example, allow firms to consider other approaches for municipal securities that have not traded more than once in the same day.
- Allow intervening changes in yield to overcome the presumption of contemporaneous cost. Changes in yield or spread to benchmarks are often associated with interest rate changes but firms may be looking at the benchmark rather than interest rates when determining the prevailing market price.
- Add liquidity measures such as trade size, frequency of trading, and trade volume as considerations for overcoming the contemporaneous cost presumption.
- Acknowledge that firms may use economic models earlier in the process.

### **Other Considerations**

- **Similar Securities:** Given the number of municipal securities and the relative illiquidity of the municipal market compared to other fixed income markets, we suggest consideration of additional attributes in identifying similar securities. These attributes include tax status, obligor, security type, sector, use of proceeds, coupon rate, optionality, and settlement date.
- **Isolated Transactions:** Isolated transactions can include off-market transactions including swaps or other type of derivative-based transactions. We suggest additional guidance or identifiers could reference these types of transactions.
- **Implementation time:** As MSRB seeks to operationalize prevailing market guidance, we would respectfully request that MSRB offer firms sufficient implementation time. While firms are required to determine prevailing market

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<sup>3</sup> MSRB Report on Secondary Market Trading in the Municipal Securities Market, July 2014

price today, the processes for determining prevailing price may require alignment with final guidance. Similar to the changes proposed in MSRB 2015-16, firms will also need time to integrate the policies and procedures developed in adherence with final guidance into trading and ancillary systems. It is worth noting that both institutional and retail trading systems and workflows will need to accommodate changes required by this proposed guidance.

We appreciate the opportunity to provide comments on this important issue and look forward to commenting on future rule-making in this area.

Regards,

A handwritten signature in black ink that reads "Manisha Kimmel". The signature is written in a cursive style with a large initial 'M'.

Manisha Kimmel  
Chief Regulatory Officer, Wealth Management  
Thomson Reuters