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Via facsimile and Federal Express

May 3, 2007

Municipal Securities Rulemaking Board
Mr. Justin Pica
Uniform Practice Policy Advisor
1900 Duke Street, Suite 600
Alexandria, VA 22314

Dear Mr. Pica and Members of the Board,

First Southwest Company (FSC) appreciates the opportunity to respond and respectfully submits the following responses to the MSRB's Notice 2007-10 (March 5, 2007) requesting comments on proposed rule changes to improve trade reporting and price transparency of transactions effected in new issues of municipal securities. For your convenience, please see Attachment A, which sets forth the proposed timeline of events for a municipal new issue.

Proposed Amendments to Rule G-34

CUSIP Application

The proposed draft amendment to MSRB Rule G-34 would require the underwriter in a negotiated sale and a dealer acting as financial advisor on a competitive sale to make an initial application for CUSIP number assignment within one business day of the dissemination of any Preliminary Official Statement (POS) for the issue.

FSC agrees with the MSRB that CUSIP numbers be assigned as early as possible in the underwriting process. However, if the underwriter is not disseminating the POS, it would be difficult for the underwriter to comply with the amendment as proposed. The CUSIP Service Bureau issues in excess of 160,000 CUSIP numbers per year for municipal issuers versus approximately 24,100 for the corporate equity and debt markets. The maturity schedule is not always included in a municipal POS. The underwriter does not finalize the maturity schedule and other features prior to the period between the informal and formal award. This means no CUSIP number can be issued until these features are developed. Consideration should be given to refunding competitive issues, in which case, though the formal award has been made, the final maturity structure may not be completed for several hours.

Also, some thought should be given to the treatment of negotiated underwritings that are awarded when certain parameters, such as net present value savings, have been achieved. In the case of these "parameter sales", the formal award is simultaneous with the final pricing and structuring, making an application for CUSIP number assignment prior to the formal award impossible. Therefore, FSC supports the current requirement of applying for CUSIP numbers as sufficient time to disseminate the necessary and accurate information to NIIDS within the proposed two hour deadline.

The draft amendments to Rule G-34 would require underwriters to provide information specified by NIIDS as required for Trade Eligibility as soon as it is available, with a final deadline for all such information to be provided no later than two hours after the Time of Formal Award, which would be redefined as discussed below.

FSC supports the submission of certain new issue information to NIIDS within the two hour time frame proposed by the MSRB, including the proposed revision to the definition of Time of Formal Award.

Draft amendment to Rule G-34 is an advance notification requirement that would ensure that all dealers have advance notification of the underwriter's planned time for first trade executions and can be prepared to process trade executions by that time.

FSC supports the MSRB's concept of Time of First Execution and that the underwriter's Time of First Execution must be at least two hours after submission to NIIDS. However, FSC believes it is important that this timeframe be reviewed as the industry gains experience with the NIIDS submission process. FSC also supports a practice that would allow for all price reporting to begin at the Time of First Execution, as set by the underwriter, as a means to provide structure to the first day of trading, as well as, give dealers time to retrieve the necessary data from NIIDS.

The schedule for implementing the proposed rule changes is dependent on the operational start date for NIIDS, which at this time is scheduled for August 2007. How much lead time would be necessary for underwriters to implement changes required to use the NIIDS system?

FSC recommends that the NIIDS system be fully tested and operational before dealers are required to comply with the proposed amendments to Rule G-34. System changes usually require six months lead time in order for all dealers to comply.

Conditional Trading Commitment (CTC)

Would the provisions in the draft amendments to Rule G-34 relating to Time of Formal Award be effective in allowing dealers to identify and report CTC transactions?

FSC supports the efforts of the MSRB to further improve price transparency by utilizing a CTC indicator to aid in identifying "stale" transactions being reported on the first day of trading. As defined by the MSRB, a CTC is "any transaction that is based upon a priced trading commitment made prior to the 'Time of Formal Award' for a new issue." FSC would support a rule that requires the use of a CTC indicator on all transactions based upon a priced trading commitment made prior to the Time of Formal Award (revised definition). However, in order for the investing public to derive value from the CTC indicator, it must be displayed along with the pricing information. Currently, this is not the case with other indicators, such as LOP.

Based on the current market practices, what degree of "staleness" exists for transaction prices that are based on trading commitments formed between the Time of Formal Award and the Time of First Execution? Is there a need for a special indicator (not associated with an end-of-day reporting deadline) to identify these trades?

FSC recognizes that there is value in transactions that occur after the Time of Formal Award but prior to the Time of First Execution. However, FSC questions the volume of trades that are occurring during this timeframe, and whether capturing such trade information merits the use of another indicator. Therefore, FSC does not believe an additional indicator for these transactions is necessary. The absence of an indicator identifies them as current market transactions.

The MSRB anticipates that the CTC indicator could be implemented by RTRS in January 2008 in conjunction with other changes such as the expiration of the three-hour exception, assuming that the draft amendments to Rule G-34 can be implemented by that time. What amount of lead time would be necessary for dealers to implement the CTC indicator?

FSC believes that the amount of lead time needed in order that all market participants can comply with the proposed amendments to Rule G-34 and G-14 is approximately six months. Most trading systems will require programming changes and testing in order to comply with the new requirements of Rules G-34 and G-14. The marketplace demands automated electronic trading systems to accomplish real-time price transparency. Most participants have spent a significant amount of time and effort to meet these goals. The marketplace has benefited from these efforts, but the results of such efforts were not realized through increased manual processes.

Another possible approach to CTC transactions might be to reduce existing delays between the informal and formal awards. In effect, this would reduce the chance of the secondary market pricing activity that occurs without being reported in real-time. As a possible example, the MSRB could consider rules that provide for a maximum length of time (e.g., 24 hours) between the formation of an informal agreement with an issuer on pricing and the expected Time of Formal Award. While this would reduce the flexibility that currently exists to time new issue pricing independently of the formal award, it would help reduce the potential for secondary market activity prior to the formal award and thus reduce the number of stale prices that are of the most concern.

While the reduction of the time between informal and formal awards would have the desired effect of limiting the number of "stale" transactions being reported to RTRS, it would, as the MSRB recognizes, reduce issuers' flexibility to price their bond sales in response to changing market conditions. This flexibility is extremely important to all potential issuers. As an example, during the past year (April 27, 2006 through April 26, 2007) the Bond Buyer 20-Bond GO Index moved 5 or more basis points 21 times on a week-to-week basis. The ability to react to these moves in the market and not be restricted to a twenty four hour window can be significant in terms of savings realized by the issuer. In effect, taxpayers would be subsidizing improved efficiency for price reporting that would benefit investors at a direct cost to a taxpayer or user of a municipal service. FSC does not believe that the incremental value of reducing "stale" price reporting is sufficient to justify the potential additional interest costs to issuers.

[20] While complete securities information necessary for a report of a trade execution likely would not be available at the time a CTC report is made, the MSRB could propose that limited information, including the time the CTC was formed, the price, and the CUSIP number, be provided to RTRS. At a minimum, the MSRB's internet portal for reporting transactions, RTRS Web, could be used to manually report CTCs, thus minimizing the amount of dealer system changes needed to advance the timing of reporting CTCs. Once the formal ward takes place, dealers would provide the MSRB with details of trade executions, as is currently required, and identify whether any reported CTCs were not executed to insure that surveillance data is correct.

It is FSC's understanding that RTRS is a trade execution reporting system and not an order reporting system. How would reporting orders manually advance or enhance the trade reporting process? Any concept that utilizes manual submission as a means of accomplishing fifteen minute trade reporting seems counterintuitive to the goals of fifteen minute trade reporting. Therefore, FSC does not agree with the suggestion requiring transactions be price reported prior to Time of First Execution would significantly improve price transparency, as well as, reduce the amount of dealer systems changes needed to advance the timing of reporting CTCs.

Comment is requested from market participants on all aspects of the proposed rule changes, including other measures that could improve the timeliness and quality of price transparency information for new issues.

As a means to improve price transparency, FSC suggests an amendment to Rule G-14 that would require all trades made on the first day of trading after the Time of Formal Award have no indicators, even EOD-LOP/TD transactions that are currently required to have the EOD-LOP/TD indicator. FSC believes this new practice would enhance price transparency in the current market, although such information would be somewhat "stale". The MSRB has acknowledged that some "staleness" exists from the limited number of trades made on the first day of trading between Time of Formal Award and Time of First Execution. Trades made out of the syndicate after the Time of Formal Award are, in fact, at the current market price because usually syndicate trade restrictions have been removed. Eliminating any special condition indicators would end confusion about whether the price being reported reflects the current market.

In summary, there would be four types of transactions at the Time of First Execution by the underwriter:

1. EOD-LOP/TD
2. CTC
3. Both EOD-LOP/TD and CTC
4. No indicator, current market price transactions

Transactions 1-3 would have a reporting deadline by the end of the day, transaction 4 would have a reporting deadline of fifteen minutes.

FSC appreciates the MSRB's consideration of it's comments. Please feel free contact me for further discussion or clarification of these comments.

Sincerely,

Richard A. Delong
Managing Director
Municipal Underwriting and Trading

Attachment

Attachment A

Attachment A

MUNICIPAL NEW ISSUE
Proposed Timing of Events

Conditional Trading Commitment (CTC)

First Day of Trading

Preliminary Pricing

Time of Formal Award

Time of First Execution

EOD-LOP/TD

POS Disseminated

Informal Award (If Applicable)

NIIDS

(2 hours max.)

(2 hours min.)