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June 14, 2010

Ernesto A. Lanza
General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, VA 22314

Re: MSRB Notice 2010-10: Request for Comment on Draft Interpretative Guidance on Prevailing Market Prices and Mark-ups for Transactions in Municipal Securities

Dear Mr. Lanza:

Citigroup Global Markets Inc. ("Citi") is writing in support of the Securities Industry and Financial Markets Association comment letter dated June 7, 2010 prepared in response to the above referenced Notice. In addition, we wanted to provide additional feedback on the guidance proposed by the Municipal Securities Rulemaking Board ("MSRB") in the Notice based on our extensive experience in secondary market trading of municipal securities. While we appreciate and applaud the MSRB's efforts to provide municipal securities dealers with further guidance on establishing the prevailing market price for a security, we strongly believe that the approach suggested in the Notice would be at odds with the manner in which dealers must, in practice, make decisions to put capital at risk. We also believe that requiring dealers to contemporaneously document the factors used to make a pricing decision would greatly impede liquidity and efficiency in the municipal securities market and discourage the commitment of risk capital. Alternatively, we would suggest the development of a pricing model that gives traders the latitude to simultaneously consider a menu of factors, in place of the Notice's proposed linear and hierarchical process. Also, in lieu of the contemporaneous documentation requirement, we would suggest that firms be permitted to establish policies, procedures and systems that impose meaningful and auditable constraints on mark-ups and mark-downs, with stringent guidelines for documentation of exceptions.

The municipal securities market is importantly different from other fixed income markets and it would not be appropriate to try to fit it into other markets' existing mark-up or pricing models. While it is the third largest debt market in volume (approximately $2.8T) the municipal market is comprised of many more issuers (approximately 50,000) than are found in more traditional fixed income markets.[1] These factors have created approximately 1.6 million different cusips with a wide spread of maturities extending out over 50 years.[2] While the mean size of a cusip in the municipal market, based on the numbers above, is around $1.13M, any practitioner would observe that this number is skewed to the high side because of the volume of the largest issuers. Hence the median size of all cusips is likely a fraction of the $1.13M mean, which contributes to the market's particularly nuanced nature. Many of these cusips rarely trade, leaving a contextual void and a heightened risk of illiquidity.

The municipal market is further textured because it exhibits the credit differences of its vast array of issuers. Any particular municipal security suffers the volatility of the single issuer's economy and the nation's. It is buffeted by the vagaries of political will, both national and local. Parts of the market suffer the repayment indeterminacies of the asset-backed market. Parts are secured by corporate credits. An increasing volume of securities track the Treasury market lock-step. All the while, securities must trade on the basis of their many varied tax treatments. These are some of the differences that make the municipal securities market arguably the most complex and qualitative debt market. A rigid mark-up system, such as is currently proposed, would not appropriately embrace the textural aspects of these securities. Instead, it will only serve to impede the market's efficiency and liquidity, thereby disadvantaging its direct or end investor: the individual.

Citi is among the most active traders of municipal securities in the financial services industry with an average trading volume of approximately 30,000 customer and 39,000 dealer trades per month, or 1,400 customer and 1,800 dealer trades per day in 2009. Most of our senior traders have over a decade of experience trading municipal securities and are intimately familiar with the multitude of factors that can influence the price of such securities. The decision making process that they undertake prior to executing a trade cannot be set forth in a simple hierarchy or flow chart. Each trade often requires these professionals to consider a broad array of factors including, but not limited to, trades recently executed by Citi and other market participants, bids and offers in the market, current levels of market indices (e.g. – Municipal Market Disclosure and SIFMA indices), market data about the issuer, whether a trade counterparty or bidder/offeror is retail or institutional, the size of the trade, call features, supply and tax treatment. To facilitate an orderly and efficient market, decisions based on these factors must be made quickly and decisively. Traders use their extensive experience in the market to prioritize these factors for any given trade and their judgment is critical to ensuring fair pricing for investors and profitability for the firm. Citi does not argue with the importance of the factors that the MSRB has set forth in the hierarchy, but we strongly disagree that they should have to be considered in any particular

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[1] Bond Buyer and testimony of SEC Commissioner Elisse Walter on October 28, 2009.
[2] JJ Kenny database.

order. The MSRB should recognize that there may be many other factors that they have not listed that should also be considered.

Certain municipal securities, such as Build America Bonds ("BABs"), are a good illustration of why the proposed pricing hierarchy in the Notice is not practical. BABs are not amenable to price discovery on the basis of the MSRB's proposed hierarchy alone because they are taxable municipal securities that are traded by municipal and corporate investors on the basis of a number of different factors, the most significant of which include: (i) the yield curve for Treasury bonds against which BABs are quoted and traded on a real-time basis, (ii) the constellation of credit spreads to Treasuries in the taxable bond market, and (iii) the credit spread of a particular issuer relative to that constellation. Given how dynamic and active the Treasury market is at any given time, use of the most recent Citi trade in the BAB or a trade by another dealer in the same cusip without regard to Treasury rates would likely lead to an incorrect price determination. Therefore, given that "contemporaneous cost" may rarely be used to determine prevailing market price, we would find ourselves frequently needing to rebut the presumption of contemporaneous cost whenever a movement in credit or Treasury spreads occurred with respect to a BAB. The administrative burden associated with having to contemporaneously document each move in the Treasury market would substantially slow the ability to execute trades in BABs on a real time basis. While BABs are a crystalline example of why several factors must be considered in parallel rather than one at a time through a hierarchy, the basic tenets of this analysis apply to all municipal securities.

In addition to concerns about the determination of prevailing market price, the need to contemporaneously document such a determination would also pose a tremendous administrative and compliance burden for dealers. Many firms already have in place pricing and supervisory policies and/or pricing systems that address mark-ups and mark-downs. Citi has spent a significant amount of time, effort and resources in creating a price control system that we believe truly reflects the municipal market's dynamics. The system identifies the current yield curve for AAA rated municipal securities and the current institutional bid-offer spread to help establish a baseline for the prevailing market prices of municipal securities. The pricing system compares the mark-up or mark-down in each trade to a pre-existing limit that Citi has established for different categories of trades relative to the institutional bid or offer levels. Our system allows traders the independence to establish appropriate trade prices as long as they stay within the hard constraints of the pricing system. Any deviations from these constraints require documentation at the end of the day to justify such deviations. Our pricing system's yield curve is readjusted throughout the course of the day to reflect movements in the market, thereby avoiding the need for individual traders to have to monitor such movements. Comparisons of aggregate trade prices to bid-offer levels in the price control system would catch any mark-ups or mark-downs that appear excessive in light of such market movements.

Citi believes that its price control system accomplishes the goals of the MSRB's Notice by establishing an objective measure of contemporaneous price, placing constraints on a trader's ability to deviate from that price, and requiring documentation if there is such a deviation. The Citi system, however, differs significantly from that proposed by the Notice in that it allows traders the freedom to use their own judgment to determine which factor is most critical for a given security or trade, it provides an objective measure of the movement in the municipal securities market over the course of the day so traders do not have to follow each such movement, and it allows traders to use different pricing factors to justify a deviation from the pricing system (and this can take place at the end of the day). These differences significantly lessen the administrative burden during the course of the day, thereby giving traders the freedom to make rapid decisions while not undermining their obligation to commit the firm's capital wisely. Such a system provides for the greatest market liquidity while also protecting the best interests of the market's investors. We believe it would be prudent for the MSRB to consider permitting such a system, or policies and procedures that implement a similar approach, as an alternative to the proposal set forth in the Notice.

The inability to rely on our existing price control system and the need to contemporaneously document pricing decisions would create regulatory uncertainty that would likely discourage dealers from taking risk positions, particularly in high yield and other illiquid or infrequently traded municipal securities. Dealers would be encouraged to trade such instruments primarily on a riskless principal basis rather than risk having a trade reversed or face regulatory penalties on the basis of inadequate documentation. This would adversely impact dealers' willingness to act as market makers in infrequently traded securities which could have a dramatic impact on the liquidity of such instruments.

Citi also strongly believes that Sophisticated Municipal Market Participants ("SMMPs") should not be considered "customers" for purposes of all securities, rather than just non-investment grade securities, given their extensive resources and access to information and that the MSRB should consider lowering the SMMP threshold from its current $100M level.

In conclusion, we would reiterate our suggestion that, in lieu of relying on the rigid hierarchy of pricing factors set forth in the Notice, dealers be permitted to consider a limited menu of factors when reaching a prevailing market price determination. We would also request that dealers be permitted to implement policies, procedures and systems to capture changes in the market and identify prevailing market prices that differ from contemporaneous cost without the burden of concurrent documentation as proposed in the Notice. Citi believes this will encourage dealers to risk their capital in a judicious manner while continuing to provide the market with needed liquidity.

We appreciate this opportunity to comment on the proposed Notice. If you have any questions regarding our comments or wish to discuss this further, please contact the undersigned at 212 723-5373. We also welcome the opportunity to speak with the MSRB in person about this proposal.

Respectfully,

Citigroup Global Markets Inc.

By: ______________________
Howard Marsh