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Ms. Peg Henry  
Deputy General Counsel  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

**Re: MSRB Notice 2011-18: Request for Comment on Draft Rule G-43 (On Broker's Brokers) and Associated Amendments to Rules G-8 (On Books and Records), G-9 (On Preservation of Records), and G-18 (On Execution of Transactions)**

Dear Ms. Henry:

Knight BondPoint<sup>1</sup> ("KBP") welcomes the opportunity to comment on Notice 2011-18 (the "Notice") issued by the Municipal Securities Rulemaking Board ("MSRB") in which the MSRB requests comments on draft interpretive guidance on municipal securities broker's brokers ("MSBBs"). KBP is a leading provider of electronic fixed income trading solutions that provides firms with access to centralized liquidity and automated, cost-efficient trade execution services. Founded in 1999<sup>2</sup>, KBP assists the fixed income marketplace through the automation of trading processes, which ultimately increases firms' operational efficiencies. KBP's goal is to create a fully automated electronic fixed income system to connect across the life of a trade to streamline both pre-and post-trade processes.

KBP operates as an SEC registered alternative trading system ("ATS"), where broker dealers and institutional investors ("Subscribers") electronically post offerings or submit request for quotes ("RFQs") in a variety of fixed income securities. Likewise, Subscribers may also electronically place orders and execute trades against prices posted by other participating Subscriber counterparties on the KBP platform. The KBP platform facilitates the posting of prices by participating Subscribers to increase transparency in the fixed income markets in which it operates.

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<sup>1</sup> Knight BondPoint is a division of Knight Execution & Clearing Services LLC, a subsidiary of Knight Capital Group, Inc ("Knight"). Knight, through its subsidiaries, is a major liquidity center for foreign and domestic equities, fixed income securities, and currencies. Each day, Knight executes millions of trades across a wide range of securities. Knight's clients include more than 4,000 broker-dealers and institutional clients. Currently, Knight employs more than 1,300 people worldwide. For more information, please visit: [www.knight.com](http://www.knight.com).

<sup>2</sup> Founded as Valubond, Inc., the firm was acquired by Knight Capital Group, Inc. and re-launched as Knight BondPoint in 2008.

In the context of the MSRB discussions it is critical for KBP to detail the operation and workflow of the KBP ATS and process Subscribers utilize to post fixed income security prices and execute via the platform against another Subscriber's interest that may exist on the platform. The overwhelming majority of transactions on the KBP platform occur between FINRA member firms that have existing trading relationships and hence use the electronic platform to post prices and execute trades. KBP is a strictly electronic platform that does not provide voice brokerage or voice assisted trading<sup>3</sup>. KBP does not act in a principal or agency capacity, but rather as a communications network linking potential buyers and sellers of fixed income securities.

KBP does not provide anonymity to either member firm Subscribers submitting RFQs or Subscribers responding to RFQs with prices. The KBP RFQ process replicates the essential elements of a well conducted RFQ without any means of allowing information leakage to the benefit/detriment of RFQ participants. Furthermore, the KBP platform is designed for firms conducting RFQs to receive responses directly from Subscribers via the platform. Both Subscribers submitting RFQs and Subscribers responding to RFQs have access to information (such as MSRB trade history and other similar offered side markets) that provide price discovery for both parties involved in a RFQ transaction.

Given that the KBP platform is a means for Subscribers to directly post their pricing and transact electronically, and KBP has no capacity to hold positions or inventory, nor trade for its own account, and acts only as a dealer, in a limited riskless principal<sup>4</sup> capacity to facilitate clearance and settlement between institutions and broker/dealer liquidity providers<sup>5</sup>, we question the ability of KBP to conduct the proposed duties described in MSRB Rule G-18. This rule states that a broker's broker must make a reasonable effort to obtain price for the dealer that is fair and reasonable in relation to prevailing market conditions and must employ the same care and diligence in doing so as if the transaction were being done for its own account. To make such a determination would require the firm to know the dealer's client, in addition to understanding their risk tolerance, suitability information and the circumstances which resulted in the decision to buy or sell the security. KBP is of the opinion that Subscribers submitting RFQs would be in the best position to make this determination, as they have access to this information. Furthermore, while KBP does provide its Subscribers with various tools and resources to assist with price discovery, given that KBP does not control or influence the pricing electronically posted by its Subscribers, we cannot see the applicability of this rule to the KBP platform.

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<sup>3</sup> The only time there is human interaction on an RFQ conducted through the platform is as a result of a trade problem that may have occurred after a trade has been consummated (e.g. clearing changes, a retail client sold the wrong bond and both parties to the trade mutually agree to any adjustments).

<sup>4</sup> Riskless Principal Transaction: A transaction in which a broker-dealer, after having received an order to buy a security, purchases the security as principal to satisfy the order to buy or, after having received an order to sell, sells the security as principal to satisfy the order to sell. MSRB Glossary of Municipal Securities Terms, Second Edition (January 2004).

<sup>5</sup> In the case where the two counterparties cannot clear directly, KBP will act as limited riskless principal only for settlement purposes after the purchasing and selling counterparties have been matched and an execution occurs. Transactions effected on the platform, in which KBP is the contra party for settlement purposes, are cleared and settled on a DVP/RVP basis through KBP's fully-disclosed clearing relationship.



KBP does agree with the MSRB's response with respect to the bid-wanted process as outlined in MSRB Notice 2011-18 which states, "draft Rule G-43(b) provides that a bid-wanted conducted in a manner that satisfies the requirements of the rule concerning bid-wanted will generally satisfy the obligation of a broker's broker to use a reasonable effort to obtain a price for the dealer that is fair and reasonable in relation to prevailing market conditions, depending on the specific facts and circumstances of the transaction." While KBP does not operate as a MSBB, the KBP platform operation protocols for its bid-wanted process are generally consistent with the requirements set forth in proposed Rule G-43(c).

In conclusion, Knight BondPoint appreciates effective regulation of the municipal securities market that increases transparency and market efficiency. We respectfully request that further clarification is required by the MSRB on the exact nature of firms that qualify for consideration as a broker's broker.

Thank you for providing us with the opportunity to comment on this rule proposal. We would welcome the opportunity to discuss our comments further.

Respectively submitted,



Marshall Nicholson  
Managing Director, Knight BondPoint

cc Leonard Amoruso, General Counsel, Knight Capital Group