September 9, 2022

Comments on proposal reducing reporting times under MSRB Rule G-14 to one minute

Dear Board,

I appreciate the ability to enter my comments on the potential changes to reporting times under MSRB Rule G-14. As a person who has been around the municipal industry in many different capacities for close to four decades (think T+5 settlement and manual trade comparison and Monroe calculators), I feel a need to add some comments into the mix from all sides. These comments are not meant to single out any specific facet or member firm, nor will these comments be on behalf of any single member firm. The vision is strictly in an amicus curiae hope to see that all sides and sizes of the industry are represented. The comments are not in any specific order of importance.

The Board has stated on many occasions a directive to protect investors, issuers and the public interest, yet they also seem to discount the smallest 400 member firms and their customers in favor of those customers taking their bond business to larger more "electronically capable" firms - firms that may process more than a couple of trades a month. Some of these larger firms will not give you the time of day if you are a customer with less than half a million dollars in assets. Some of these larger firms may not care to underwrite a new bond issue with less than 8 digits to the left of the decimal. Some of these larger firms may not know the credit worthiness of the smaller issuers and therefore not bid on those items. This is where many of the smaller firms are needed and excel. I suggest there is a reason why some of these smaller firms exist – to protect those smaller investors and issuers and their public interest. Is the loss of 14 minutes time so egregious on reporting a 10M trade as to cause one of these smaller firms a large capital outlay or for them to make a business decision to leave bond markets? How many trades under 100M would even be considered in some firm's algorithms or by the quants? Unless the regulatory bodies prohibit small municipalities from the market or second and third tier banks from buying locally familiar credits, maybe less competition is not such a good idea.

No doubt that certain groups with highly sophisticated price modeling programs might marginally benefit if trade reporting were accelerated in a similar manner to the stock exchanges. Is FINRA and the Board supporting this for the analytics or for the investor? Last time I looked there were under 3,000 issues traded on the NYSE. How many different municipal credits are traded daily? I don't recall many of those stocks having sinking funds or extraordinary call features that had to be researched and verified, let alone adjustable interest rates or factors that even EMMA still does not have available in an easily readable or accessible format. Factored bonds will only be increasing in number. Granted, Bloomberg will <u>usually</u> have up to date factors so those users may have an edge, but where does that individual investor go to verify he/she is being correctly charged for 65% of the principal – instead of 60% because of a recent paydown?

While I don't know of a single person that likes to make a mistake, in a rush to avoid judgement and potential late trades, how many more keypunch and coding errors might occur? This will happen. Price discrepancies on dealer reportable trades would not post to EMMA until the difference was rectified and the trade matched. Erroneous prices on customer facing trades would post to EMMA and might skew the transparency you are trying to create. There is a finite point where expediency and accuracy won't meet.

Certain market inefficiencies to consider: 1) Firms needing or requiring a VCON. 2) Popup indications of a fill or execution – that may not popup or get completely missed by a trader stepping down the hall for a couple of minutes. 3) Some firms requiring a principle's authorization or at least a review by other personnel before a trade can be processed. 4) Other firms that utilize a different front-end system for their records and bookkeeping that inherently causes a minute (or more) delay in reporting to RTTM. This group of trades are not late by today's standards, and most would easily meet a 5 minute requirement.

Additional regulatory cost considerations: 1) My assumption is the allowed time difference to generate a Q22F mismatch will also be reduced to a one minute window from the current 15 minute window. I have no way to project this potential increase in Q22Fs, maybe MSRB would, but would not be surprised to see a five-fold increase in Q22F mismatches. 2) Add this to what may be a ten-fold increase in late trade documentation depending on the firm and their volume. 3) Some firms may not have a dependable automated process to set up new CUSIPs in their systems. 4) More late trade red tape – was a late trade caused by a now very brief outage or a problem in setting up the CUSIP or perhaps it was the 7^{th} item in a 10 item bid list?

Another regulatory cost consideration would be in managing any communications issues along with reporting those real issues to MSRB and FINRA (the "outage") as required. I have in the past told MSRB and DTC and our internal IT groups of potential outages before they knew themselves, yet I have no clue how to determine a potential outage/communications issue in under a minute. I could envision a service bureau sending out several notifications daily – assuming they could identify the outages in a timely manner.

Bid lists pose their own unique problems. Where both sides to the trade are not completely automated it would be highly improbable that even the best keypunch operator/trader could post more than five trades in a minute. What do you do? Limit a bid list to two items and then an additional two items for execution five minutes later? That is not terribly efficient and might be more of a disservice to the customer. What of those trading desks that make a market call on a handful of hedged items in a proprietary or arb account? I could debate the pros and cons of the M020 end of day exemption for syndicate trades – in the end how much does this M020 syndicate premise differ in concept from a trading desk or a trust department selling 20 different bonds at the same time?

With all due respect, I still find it somewhat hypocritical of MSRB/RTTM to deem the trade date as not being criteria for a trade match. Doesn't the actual date a contract is agreed upon have just as much validity as the time the trade is executed? It should certainly hold more weight in a price transparency debate. Maybe this is just me, but I find it absurd to be more worried about the current 15 minute discrepancies, let alone a proposed one minute discrepancy, than a 24 hour discrepancy.

In summation, it is my documented belief that the costs of compliance to the industry, as a whole, to such a proposal far outweigh any potential price transparency benefits. Many smaller firms would have to make difficult decisions on whether a sizable capital outlay makes business sense to them. Invariably some will not, and it is difficult to assess how little or how much impact this might have on market liquidity for certain sectors. My data suggests that "as soon as practicable" without undue burdens or ATS mandates could reasonably mean five minutes. Any less and the associated costs of dealing with the inherent new red tape affects everyone in the business. Be prudent and cautious in these decisions. See how five minutes works, gather that new data. Then maybe we look at two minutes. I believe if you were to look at 2022 data you would see a slight decrease in reporting times already from increased ATS activity, and likely would see a decrease just floating this balloon and causing firms to reassess their processes. Lastly, we need to be cognizant of the impending T+1 settlement cycle, and how much more time (and potentially staff) will need to be dedicated to the clearance of trades during the shortened cycle.

RAPID FIRE RESPONSES TO OPERATIONAL CONSIDERATIONS

1. Time of trade/execution time **and date** is the appropriate measure
2. Perhaps dealer/dealer trades vs. customer trades. I myself would love to see this data broken down in this capacity. If customer trades are included in the data represented, well, most of us know a customer trade should never be reported late. My concern is do the customer trades skew the percentages in the tables shown, and if so, how much?
3. Not necessarily my area of expertise – but it likely has a lot to do with the systems the traders use throughout the day. Busier traders will have access to better faster methods, whereas less active traders may not have access to those or similar methods. In some cases, those less active traders might even have to log on to a system BEFORE they can book a trade. I'd suggest that on a single "voice trade" it should take a trader the same amount of time it would on any other transaction they had to process – regardless of size. When all the trade details are confirmed, you are "done" and the clock starts. One small potential consideration on an institutional trade

might be a trader hoping for an allocation to a single account before they must give in and post to an allocation account. You can discount that possibility if reporting times go to one minute – virtually all institutional trades would have to initially post to allocation accounts.

4. The main reason is likely the sophistication in their method of trade input and familiarity with the screens. If you do something twice a month compared to twenty times a day, it will take longer.
5. The first word is “automated”. For those firms that can afford to use the automation, the processing will always be faster compared to manual input.
6. Purely a guess here, but if you have a firm that is using the RTRS Web interface these days, their volume would have to be minimal. This would mean they’d have to log on to the site every time they did a trade. That takes time. I could envision a firm using the method if they were experiencing a communications issue or other problem with their main system or to report a trade that somehow failed to report. Otherwise, I’d just as soon have a tooth pulled.
7. YES, due to the pressure associated with very little time.
8. Dependent on the size of the firms. Service bureaus should all be set up to automate new CUSIP setup upon entry of a new CUSIP, but you will invariably run across a bond that might have a missing piece of information causing manual intervention and research to complete the process.
9. The M020 end of day exemption was originally put in place for the benefit of the underwriters, many of whom balked at the premise of their firm booking a hundred trades within a short period of time. If this remains a valid concern, then under a one minute requirement, bid lists or simultaneous fills of more than three items in a minute should be given some consideration also.
10. Bid lists, multiple simultaneous fills, swaps. Seems like this would require another “M” code to remember – or, regulator forbid, maybe misuse. In addition, each one of these would require an additional note of explanation on the ticket (or however the individual firms recorded their exceptions).

Thank you for your consideration.

Respectfully submitted,