



September 13, 2022

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street, NW, Suite 1000
Washington, DC 20005

**Re: MSRB Notice 2022-07 and FINRA Regulatory Notice 22-17 – Requests for Comment
On Proposals to Shorten Fixed Income Trade Reporting Timeframes**

Dear Mr. Smith:

RW Smith & Associates, LLC (“RWS”)¹ welcomes the opportunity to respond to MSRB Notice 2022-07 (the “Notice”). RWS’s position with regard to the Notice is that the proposed changes to MSRB Rule G-14 will have a substantial negative impact on the ability of Municipal Securities Broker’s Brokers (“MSBBs”), which are voice brokers, to comply with their RTRS reporting obligations.

MSRB Rule G-14 currently requires that municipal securities trades are to be reported as soon as practicable, but not later than fifteen minutes from the time of execution. Firms developed technology designed to report trades as quickly as possible – typically reporting trades immediately when processed after execution. The MSRB’s request for comment mentions that the vast majority (more than 97%) of trades are currently reported within five minutes of the time of execution. This observation demonstrates what firms like RWS have been able to accomplish with respect to their reporting obligations using their best efforts to report trades as soon as practicable. There are often times when trades are not reported within five minutes of execution when firms use best efforts to report their trades as soon as practicable. This is especially so when a trade between multiple counterparties (e.g., buyer and seller is intermediated by a MSBB). Processing of such trades is typically manual given the complexities of intermediated institutional transactions. These are voice brokered trades that require manual intervention and processing from the point of execution through the clearance and settlement processes. After many years of operating under the current G-14 requirements, with firms using their best efforts to meet the reporting requirements, the vast majority of trades are being reported within five minutes of execution. It is only logical that a five-minute reporting window should be the revised requirement under G-14. A one-minute reporting requirement is not possible for firms that are not purely electronic trading firms, which are many and include all of the MSBBs which are essential to institutional market liquidity. RWS believes that the analysis presented by the MSRB is incomplete in that it does not make any meaningful distinctions between electronic retail level trading and large volume institutional trading that often involves MSBBs. The data used by the MSRB needs to be properly analyzed so that the differences between institutional voice brokered municipal security trades and retail level municipal security trades are properly identified and accounted for in any decision to modify the requirements under G-14.

¹ RWS has operated as a Municipal Securities Broker’s Broker since 1985, headquartered in Jersey City, New Jersey with offices in California, Minnesota, New Mexico and Illinois. RWS’s primary responsibility is to provide anonymity while facilitating liquidity in the institutional municipal fixed income marketplace. RWS operates as a voice broker and transacts exclusively with broker-dealers, banks, SMMPs and institutional counterparties.

Specifically, the material differences in the volume of trades that are executed in these markets; how trades in these markets are negotiated, executed and processed, and; the contemporaneous execution of multiple transactions in a single CUSIP when a voice broker intermediates a trade. A general observation of the information that was provided in the Notice shows that no such consideration of these factors was made by the MSRB when proposing to amend MSRB Rule G-14. There was also no meaningful discussion of the fact that the vast majority of large volume trades are voice trades.

RWS addresses these points and others in the items, below:

1. **Request for Comment on the Proposal** In 2021, 76.9% of trades that were not exempt from the 15-minute reporting requirement were reported within one minute after a trade execution. By comparison, more than 97.3% of trades required to be reported within 15 minutes were reported in five minutes or less.
As provided above, these statistics should be interpreted to recognize that five minutes is what the majority of the industry is able to do with respect to reporting trades. A one minute reporting requirement is arbitrary and unrealistic and is not supported by the data cited by the MSRB.
2. While 80.3% of trades with trade size of \$100,000 par value or less were reported within one minute, only 40.1% of trades with trade size between \$1,000,000 and \$5,000,000 par value and 25.3% of trades with trade size above \$5,000,000 par value were reported within one minute.
What is demonstrated by this data is that larger trades are generally voice brokered and require more time to negotiate, execute and process. The data also shows that smaller volume trades are executed electronically on ATS platforms, which are similar to equity trades in the manner that these trades are executed and processed (instantaneously with no intervention or complexity in processing).
3. By comparison, the differences in percentage of trades reported within two minutes and five minutes were smaller across the trade size groups, ranging from 49.4% for trades above \$5,000,000 par value to 93.4% for trades at \$100,000 par value or lower for two-minute reporting and 80.3% for trades above \$5,000,000 par value to 98.1% for trades at \$100,000 par value or lower for five-minute reporting.
This data shows the result of firms using their best efforts to report trades as soon as practicable, resulting in the vast majority of trades being reported within five minutes of the time of execution. It logically follows from this data that five minutes should be the new reporting requirement if the time limit under G-14 is to be amended.
4. The main benefit for proposing the one-minute trade reporting would be improved transparency in the Municipal Securities market.
The MSRB has come to this conclusion without providing a complete or meaningful analysis of the data presented. The MSRB's analysis appears to completely disregard the essential role of voice brokers in the institutional (e.g., wholesale) municipal fixed income market. If the MSRB does not believe that voice brokers are essential to institutional market liquidity, then it needs to explain this position in its analysis and let the market participants provide their commentary on this position.
5. Under the proposed change, however, more market-wide trades would benefit from more recent trades being reported, as contemporaneous trades would provide more relevant pricing information than distant trades.
This assumption is not supported by the provided data. As a general matter, yes, transparency benefits the market. However, unrelated contemporaneous trades in municipal securities

represent a tiny percentage of trading in general, and unrelated contemporaneous trades of identical CUSIPs with materially similar par amounts reflects an even smaller percentage of such trades. Trades that are intermediated by voice brokers will always result in contemporaneous trades in municipal securities with identical CUSIPs. This fact was not included in the MSRB's analysis. Such trades would not, in fact, benefit from a reduced reporting time because these trades are components of a transaction that is intermediated by a voice broker (e.g., they are the buy and sell legs of the same transaction).

6. Out of the universe of the trades (251,635 "analyzed trades") with same-CUSIP number matched trades between January and December 2021, where a matched trade was executed before the analyzed trade's execution but was reported after the analyzed trade's execution, 27.9% (100% - 72.1%) of those analyzed trades had at least one matched trade executed more than a minute before the analyzed trade's execution.

The MSRB analysis has provided no consideration for trade size and how these particular trades are likely intermediated (e.g., negotiated) voice brokered trades. Any analysis that does not take this into consideration is incomplete and misleading.

7. By comparison, if the trade reporting requirement were shortened to five minutes, only 7.9% (100% - 92.1%) of analyzed trades would have benefited from the matched trades' execution information; and only 15.5% (100% - 84.5%) of analyzed trades would have benefited if the trade reporting requirement were reduced to two minutes.

The MSRB appears to misinterpret the data in this observation. What the MSRB should take away from this is that reporting trades within five minutes of execution is what most of the industry is able to do when using best efforts to report trades as soon as practicable. To suggest that "since this is already happening, it's not good enough" is obtuse to the reality of what most firms are currently able to do with respect to trade reporting.

8. The percentage of trades reported within five minutes has risen from 86.4% in the latter half of 2005 to 97.3% by 2021, and from 77.9% to 91% for trades reported within two minutes during the same period.

Addressed in item 7, above.

9. One alternative the MSRB reviewed but deemed inferior was to introduce a five-minute trade reporting period. By MSRB's estimates, as shown in Table 1 above, 20.4% (97.3% - 76.9%) of all reported trades in Municipal Securities would have satisfied the five-minute reporting requirement but not the one-minute reporting requirement in 2021.

Again, the MSRB is misinterpreting the data. Five minutes is not "inferior", it is what most firms are capable of doing using best efforts. The MSRB dismisses this reality and proposes an arbitrary one-minute requirement and fails to demonstrate any actual benefit to the marketplace that would result from this revision to G-14. More troubling is how the MSRB simply dismisses the economic hardship, market distortions and likely shuttering of smaller firms that will certainly be caused by this arbitrary reporting requirement.

Operational Considerations

1. The time to report a trade is triggered at the time at which a contract is formed for a sale or purchase of Municipal Securities at a set quantity and set price; is this definition of "Time of Trade" the appropriate trigger? If not, what other elements of the trade should be established before the reporting obligation is triggered?

It is worth considering that the time to report a trade should be related to the market function of the parties to a trade. Under this criterion, there could be a different reporting time requirement for institutional voice brokered trades than there is for fully automated ATS

system trading. Such a criteria would be driven by the complexity of the trading model (e.g. voice brokered/MSBB trades and other trades that are not executed on a fully automated basis by other market participants would have a five-minute reporting window and fully automated trades would have a one-minute reporting window). A uniform requirement works best when it leaves enough room for all participants to be able to comply. A one-minute reporting requirement will not accomplish this.

2. The data in Table 1 above indicates that 76.9% of trades reported to the MSRB were reported within one minute. Are there any commonalities with the trades (other than those noted above) that were reported within one minute or reported after one minute?

The MSRB needs to clarify the information provided in this item. For example, it is necessary to know what the average volume was for the 76.9% of the trades that were reported to the MSRB within one minute. It is likely that these were smaller volume trades since they were clearly executed electronically to have been reported within one minute of execution. Larger volume trades were likely reported later than one minute from execution for reasons described in RWS's response, above. It should also be noted that larger block-sized trades are priced differently than are the smaller retail-sized trades and the dissemination of price data for the institutional block-sized trades does not provide meaningful pricing transparency to retail investors.

3. The data in Table 1 above indicates that larger-sized trades take longer to report than smaller-sized trades. What is the reason(s) it takes a firm that reports larger-sized trades more time to report a trade (e.g., voice trades)?

Larger-sized trades are verbally negotiated and then manually executed and processed. There are often issues to resolve involving clearing firms that the parties to the trade do not control (e.g., when a CUSIP and description of the security are not in the clearing firm's master securities list and need to be added, resulting in the clearing firm having to manually report the trades once the product is set-up). These issues are compounded in a multi-lateral trade environment where there are many variables that can affect trade processing.

4. For dealers that report larger-sized trades, would the process(es) for executing and/or reporting those trades need to change to be able to report those trades in a shorter timeframe? If so, how?

The MSRB needs to acknowledge the unique business model and essential function of voice brokers in the institutional municipal securities market. Voice brokers are essential to enabling wholesale liquidity which ultimately provides liquidity in the retail municipal securities marketplace.

5. Would dealers need retail and/or institutional investors to modify any of their processes so that larger-sized trades could be reported in a shorter timeframe?

The internal processes of counterparties are not what causes a voice-brokered trade to take longer to negotiate, execute and process. The time in which a brokered trade can be reported is driven by the complexity of the trade. Since there are multiple counterparties to an intermediated trade, there is a greater likelihood that there will be circumstances requiring additional time to report the trade.

6. The data in Table 2 above indicates dealers that report a smaller number of trades per year, take longer to report trades than dealers that report a larger number of trades. What is the reason(s) it takes a firm that reports a small number of trades more time to report a trade? For dealers that report a small number of trades, would the process(es) for executing and/or reporting those trades need to change to be able to report those trades in a shorter timeframe? If so, how?

Dealers that report a larger quantity of trades are executing smaller volume trades and dealers that are reporting fewer trades are executing larger volume trades. It is not that dealers that execute larger trades are using inefficient processes. As discussed, such trades are typically executed by institutions using voice brokers to preserve anonymity and manage the complexities of the larger trades which require human intervention for execution, processing and settlement.

7. Based on the MSRB's analysis, trades conducted on ATS platforms are reported to RTRS in less time than non-ATS trades, with 84.4% of inter-dealer trades on an ATS platform being reported within one minute while only 74.9% of non-ATS trades were reported within one minute. What is the reason(s) it takes more time to report trades executed away from an ATS?

The shorter reporting times of the ATS trades are the result of smaller volume trades being executed on a fully automated trading venue. Smaller volume trades on ATS platforms do not require manual intervention and are processed instantaneously. Institutional (wholesale) fixed income markets do not operate this way.

8. Submitting transactions to RTRS using a service bureau appears to result in faster trade reporting time than a dealer using the RTRS Web interface. On average how long does it take a dealer to report a trade through the RTRS Web interface? How could the MSRB improve the process for reporting through the RTRS Web interface? In what instance would a dealer choose to or need to use the RTRS Web interface?

RWS's trades are reported electronically by its clearing firm. RWS does not report trades via the RTRS Web interface.

9. Would reducing the timeframe to as soon as practicable, but no later than within one minute affect the accuracy of information reported and/or the likelihood of potential data entry errors? If so, what is the reason for such impact?

Moving to a one-minute trade reporting requirement would undoubtedly result in an increase in trade reporting errors as firms executing non-ATS trades would be primarily focused on getting trades reported in less than a minute from execution.

10. Are there any necessary process(es) a dealer needs to complete before trading a bond for the first time that could impact the ability to report a trade within a reduced timeframe (e.g., querying an information service provider to obtain indicative data on the security)?

As described above, there are many factors in an intermediated trade that can affect trade reporting that are beyond the control of the counterparties. Among these factors are CUSIPs not being on the securities master list of clearing firms, different technology platforms being used by multiple participants on intermediated trades, trade errors made by counterparties (e.g., settle date, par amount, price). None of these are factors that can be addressed by a MSBB on a pre-trade basis, but all can cause a MSBB's trade report to be initially entered or corrected late.

11. Rule G-14 currently provides exceptions for certain trades to be reported at end of day. Are these exceptions still necessary? If so, is end of day still the appropriate timeframe for reporting these transactions?

RWS rarely executes such trades.


12. Would reducing the reporting timeframe to one minute require additional trade reporting exceptions, other than end of day exceptions, to allow for certain trades to be reported at a different time (e.g., 3 minutes)? If so, please identify the types of trades that would require an exception and why such are believed necessary? For example, do trades executed on swap rather than on a cash basis require more time to report?

As a general matter, MSBBs should have a different reporting requirement that takes into consideration the unique function and essential role that MSBBs provide in the institutional

municipal security marketplace. This is especially so if the MSRB is going to implement the changes to MSRB Rule G-14 as described in the Notice.

In summary, RWS has and will always support efforts to improve the Municipal Securities market. It is not clear, based on the data and analysis provided, that the proposed changes to G-14 will do anything towards this objective. What is clear about this proposal in its current form is that it will force smaller firms and MSBBs (many of which are smaller firms) into an environment where compliance with reporting obligations under G-14 may not be possible. This presents an existential problem for MSBBs, the institutional market participants that depend on the unique services provided by MSBBs, and the broader Municipal Securities market at large that will be impacted by the resulting market dislocation that will impact market liquidity at all levels. The MSRB needs to have a separate dialogue with the MSBB community to ensure that any changes to reporting obligations under G-14 are made on a fully informed basis and acknowledge the essential role of MSBBs in the Municipal Securities market.

Sincerely yours,



Christopher Ferreri
President
RW Smith & Associates, LLC