

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 59	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2012 - * 07		Amendment No. (req. for Amendments *)
Proposed Rule Change by Municipal Securities Rulemaking Board Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	19b-4(f)(1) <input type="checkbox"/>	19b-4(f)(2) <input type="checkbox"/>	19b-4(f)(3) <input type="checkbox"/>
			19b-4(f)(4) <input type="checkbox"/>	19b-4(f)(5) <input type="checkbox"/>	19b-4(f)(6) <input type="checkbox"/>
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
Description Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *). Amendments to the Real-Time Transaction Reporting System (RTRS) Information System and Subscription Service to Enhance Price Transparency for Large Trades					
Contact Information Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change. First Name * Justin Last Name * Pica Title * Director of Product Management, Market Transparency E-mail * jpica@msrb.org Telephone * (703) 797-6600 Fax (703) 797-6700					
Signature Pursuant to the requirements of the Securities Exchange Act of 1934, Municipal Securities Rulemaking Board has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer. Date 08/24/2012 By Ronald W. Smith Corporate Secretary (Name *) (Title *) NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed. Ronald Smith, rsmith@msrb.org					

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change (required)

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”),¹ and Rule 19b-4 thereunder,² the Municipal Securities Rulemaking Board (the “MSRB”) is filing with the Securities and Exchange Commission (the “Commission”) a proposed rule change consisting of amendments to the Real-Time Transaction Reporting System (“RTRS”) information system and subscription service (collectively, “proposed rule change”).

(a) The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in brackets.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the MSRB at its July 25-27, 2012 meeting. Questions concerning this filing may be directed to Justin R. Pica, Director of Product Management, Market Transparency, at (703) 797-6716.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

RTRS is a facility for the collection and dissemination of information about transactions occurring in the municipal securities market. Currently, transaction information disseminated from RTRS includes the exact par value on all transactions with a par value of \$1 million or less but includes an indicator of “IMM+” in place of the exact par value on transactions where the par value is greater than \$1 million. The exact par value of such transactions is disseminated from RTRS five business days later. The proposed rule change would enhance the transaction data publicly disseminated from RTRS in real-time by including the exact par value on all transactions with a par value of \$5 million or less and including an indicator of “MM+” in place of the exact par value on transactions where the par value is greater than \$5 million. The exact par value of transactions where the par value is greater than \$5 million would be disseminated from RTRS five business days later.

BACKGROUND

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

MSRB Rule G-14, on transaction reporting, requires brokers, dealers and municipal securities dealers (collectively “dealers”) to report all transactions in municipal securities to RTRS within fifteen minutes of the time of trade, with limited exceptions. Since the implementation of RTRS in 2005, the MSRB has made transaction data available to the public through subscription services designed to achieve the widest possible dissemination of transaction information with the goal of ensuring the fairest and most accurate pricing of municipal securities transactions.

In addition to subscription services, MSRB makes publicly available for free transaction data on the Electronic Municipal Market Access (EMMA®) website. Since the launch of EMMA as a pilot in 2008, MSRB has incorporated into the display of market-wide and security specific information all transaction data disseminated from RTRS so that transaction information would be available on the EMMA website simultaneously with the availability of information to subscribers to the RTRS subscription service.

LARGE TRADE SIZE MASKING

In connection with the MSRB’s predecessor end-of-day trade reporting system and the subsequent development of RTRS, MSRB received comments that, given the prevalence of thinly traded securities in the municipal securities market, it sometimes is possible to identify institutional investors and dealers by the exact par value included on trade reports. It was noted that, where the market for a specific security is thin and only one or two dealers are active, revealing the exact par amount also may convey information about a dealer’s inventory (*i.e.*, size of position and acquisition cost) and allow other dealers to use this information to trade against the dealer’s position, thus reducing the incentive for a dealer to take large positions in these circumstances.

To address these concerns, transaction information disseminated through RTRS subscription services and displayed on EMMA includes an indicator of “IMM+” for any trade with a par value greater than \$1 million. This indicator is replaced with the exact par value of the trade five business days later. The MSRB implemented this approach to help to preserve the anonymity of trading parties while not detracting in a substantial way from the benefits of price transparency.³ The MSRB noted that it would review this masking policy as it gains experience with real-time transparency.⁴

³ See MSRB Notice 2003-12 (April 7, 2003).

⁴ See MSRB Notice 2004-13 (June 1, 2004). See also Exchange Act Release No. 49902 (June 22, 2004), 69 FR 38925 (June 29, 2004), *approved* Exchange Act Release No. 50294 (August 31, 2004), 69 FR 54170 (September 7, 2004).

In January 2012, the Government Accountability Office (“GAO”) published a report on municipal securities market structure, pricing, and regulation, as required by Section 977 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.⁵ In this report the GAO, among other conclusions, concluded that individual investors generally have less information about transaction prices than institutional investors. The GAO, which had interviewed a broad range of market participants, including institutional investors, observed that: “Some of these [institutional] investors said that even though MSRB’s RTRS system did not disclose total transaction amounts for trades over \$1 million – which the system reports as trade amounts of ‘\$1+ million’ – they typically were aware of the amount and the price of these large transactions through their relationships with broker-dealers.”

A foundational principal of RTRS is that all market participants would have equal access to transaction information. The GAO observation that certain market participants are able to determine, through their relationships with dealers, the par amount of large transactions for which the par value is masked in RTRS subscription services and on EMMA undermines the purpose of masking the exact par value. Further, if certain market participants are able to determine exact par values yet the information disseminated by RTRS masks exact par values, then the foundational principal of RTRS has been compromised since the equality of access to transaction information is lost for the five business day period that certain institutional customers have access to the exact par value while the rest of the marketplace must await the unmasking of such information by RTRS five business days after the trade was reported.

To ensure that as many market participants as possible have access to the same amount of information about each transaction disseminated from RTRS and to further promote price transparency consistent with the MSRB’s intent to review its masking policy as it gained experience with real-time transparency, the proposed rule change would enhance the transaction data publicly disseminated from RTRS in real-time by including the exact par value on all transactions with a par value of \$5 million or less. While the MSRB considered discontinuing masking of the exact par value on transactions where the par value is greater than \$1 million, with the result that RTRS subscription services and EMMA would include the exact par value on all transactions when initially disseminated to the public, as more fully discussed in the MSRB’s statement on comments received on the proposed rule change, dealers and institutional investors oppose eliminating the practice of masking large trade sizes and cited concerns related to adverse impacts on liquidity. However, these commenters stated that raising the par value threshold for masking large trade sizes would provide additional transparency to the municipal market without adversely impacting liquidity. Based upon 2011 trade data, the number of trades that were subject to the over \$1 million trade size mask was 342,906 and, if the trade size mask was raised to par values over \$5 million, this number would have been 97,124 trades.

⁵ U. S. Government Accountability Office, Municipal Securities: Overview of Market Structure, Pricing, and Regulation, GAO-12-265, January 17, 2012.

The MSRB believes that raising the par value threshold to par values over \$5 million would be an appropriate first step to take in the short term as it would greatly reduce the number of trades subject to the par value mask. The MSRB plans to continue to evaluate whether this threshold can be raised further or completely eliminated with a view towards bringing full transparency of exact par values to the municipal market in real-time.⁶ As part of the MSRB's Long-Range Plan for Market Transparency Products,⁷ the MSRB plans to undertake an initiative to reengineer RTRS. Through the RTRS reengineering initiative, additional industry comment will be solicited on long-term measures for increasing transparency of large trade sizes or alternative methods of disseminating such information. MSRB also plans to evaluate any impacts on liquidity from the near-term increase of the trade size mask threshold to \$5 million to assist it in determining whether any future changes to this threshold are merited or could result in unanticipated consequences.

EFFECTIVE DATE OF PROPOSED RULE CHANGE

The MSRB proposes that the proposed rule change be made effective on November 5, 2012 to coincide with other planned changes to RTRS.⁸

(b) Statutory Basis

The MSRB believes that the proposed rule change is consistent with Section 15B(b)(2)(C) of the Exchange Act, which provides that the MSRB's rules shall:

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.

⁶ As part of the proposed rule change, the MSRB plans to use a different indicator for disseminating those par values that are greater than \$5 million. Currently, the MSRB disseminates an indicator of "1MM+" to indicate par values greater than \$1 million. Instead of changing this to "5MM+", the MSRB plans to include an indicator of "MM+" so that the par value threshold could be changed in the future without requiring subscribers to make system changes to accommodate a new indicator.

⁷ See MSRB Notice 2012-06 (February 23, 2012).

⁸ See MSRB Notice 2012-42 (August 10, 2012).

The MSRB believes that the proposed rule change is consistent with the Exchange Act. The proposed rule change would remove impediments to and perfect the mechanism of a free and open market in municipal securities by increasing the number of transactions disseminated from RTRS in real-time that include the exact par value, which would ensure more market participants have equal access to information about transactions disseminated from RTRS. This change would contribute to the MSRB's continuing efforts to improve market transparency and to protect investors, municipal entities, obligated persons and the public interest.

4. Self-Regulatory Organization's Statement on Burden on Competition

The MSRB does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. Information disseminated by RTRS is available to all persons on an equal and non-discriminatory basis. The information disseminated from RTRS real-time, including the exact par value on all transactions with a par value of \$5 million or less, will be available to all subscribers simultaneously with the availability of the information through the EMMA web portal. In addition to making the information available for free on the EMMA web portal to all members of the public, the MSRB makes the information collected by RTRS available by subscription on an equal and non-discriminatory basis without imposing restrictions on subscribers from, or imposing additional charges on subscribers for, re-disseminating such information or otherwise adding value-added services and products based on such information on terms determined by each subscriber.⁹

In addition, the proposed rule change would not impose any burden on dealers or any other market participant in connection with the reporting of data to the MSRB since dealers already are, and would continue to be, required to report the full principal amount of transactions to the MSRB, regardless of trade size. Thus, no change in submitter inputs to RTRS would be required. The large trade size indicator is applied automatically by the MSRB's systems and will require minimal programming efforts on the part of the MSRB. The MSRB estimates that implementing the proposed rule change will require one to two weeks of work for the equivalent of one full time employee. Some subscribers to the RTRS subscription service may bear minimal one-time programming and/or database costs to be able to accept and process a value of "MM+" rather than "1MM+," likely of equal or lesser magnitude than the costs the MSRB would bear in making its own programming changes. The MSRB believes that an effective date of November 5, 2012 will provide subscribers with sufficient time to make any required changes in due course without causing material disruptions to their information technology plans or budgets.

⁹ The MSRB notes that subscribers may be subject to proprietary rights of third parties in information provided by such third parties that is made available through the subscription.

5. Self-Regulatory Organization’s Statement on Comments Received on the Proposed Rule Change by Members, Participants, or Others.

On June 1, 2012, the MSRB published a notice requesting comment on enhancing the transaction data publicly disseminated in real-time from RTRS by including the exact par value on all transactions disseminated (“June 2012 Notice”).¹⁰ The June 2012 Notice solicited input on whether the masking of trade size has been effective at achieving its initial purpose. In addition, the June 2012 Notice sought comment on whether the benefits, if any, of retaining such masking outweigh the potential negative effects of withholding such information known to certain institutional investors from the broader marketplace. Further, the MSRB sought comment on whether other methods exist for market participants to determine the exact or relative size of large trades and to infer the identity of parties to the transaction from the RTRS trade data history, such as through public filings by certain institutional investors through the SEC’s EDGAR system or other sources, that otherwise undermine the effectiveness of trade size masking in achieving its initial purpose. Finally, the June 2012 Notice requested that market participants believing that such masking should be continued should provide justification for doing so in light of the GAO findings and the foundational principles for RTRS, as well as suggestions for alternatives to discontinuing par value masking that would further the initial purpose of such practice while reducing or eliminating the selective dissemination of such information.

In response to the June 2012 Notice, comment letters were received from: Benchmark Solutions, Bond Dealers of America (“BDA”), Government Finance Officers Association (“GFOA”), Investment Company Institute (“ICI”), Securities Industry and Financial Markets Association (“SIFMA”), and Stifel Nicolaus. Summaries of those comments and the MSRB’s responses follow.

All commenters were supportive of providing additional transparency of exact par values of large trades; however, commenters differed on whether the practice of masking large trade sizes should be eliminated altogether.

Benchmark Solutions and GFOA stated support for eliminating the practice of masking large trade sizes. Benchmark Solutions stated that disseminating exact par values in real-time would provide investors with equal access to information and facilitate pricing bonds in the traded security as well as in other comparable securities.¹¹ While GFOA acknowledged the reasons why the practice of masking large trade sizes

¹⁰ See MSRB Notice 2012-29 (June 1, 2012).

¹¹ Benchmark Solutions also provided comments related to shortening the fifteen minute timeframe for dealers to report transactions to RTRS. In the future, the MSRB plans to request comment on shortening the fifteen minute reporting deadline and this comment will be considered with any other comments received at that time.

was originally implemented, it stated that MSRB should “look to developing appropriate guidance to address those concerns rather than using the masking of pricing information as a means to this end.”

BDA, ICI, SIFMA and Stifel Nicolaus stated opposition to eliminating the practice of masking large trade sizes. BDA stated that institutional investors “may materially alter their trading practices” if exact par values are disseminated in real-time, which “may prove disruptive to the municipal markets.” Stifel Nicolaus noted that disseminating exact par values in real-time could “eliminate the anonymity of the buyer and seller ... [which] is valued in the market and assists in the maintenance of liquidity.” SIFMA noted that “a significant portion of trading activity in the municipal market involves dealers taking bonds into inventory with no identified buyers” and without the anonymity provided by large trade size masking, it stated that some dealers that regularly engage in large block trades “may become less willing to bid on investors’ positions.” However, SIFMA acknowledged that other dealers “stated that eliminating the mask would not have an effect on their market activity.” ICI stated that “increased transparency could diminish market liquidity” and noted that “secondary market liquidity for investors is provided by dealers that are willing to risk their capital pending the location of customers who are willing to purchase a block of bonds.”

As an alternative to eliminating the practice of masking large trade sizes altogether, ICI, SIFMA and Stifel Nicolaus suggested that the trade size masking threshold in RTRS be raised from the current \$1 million level to those trades in par values that exceed \$5 million.¹²

DISCUSSION

Representatives of both dealers and institutional investors stated consistent concerns about the potential adverse effects on liquidity that could arise from eliminating the practice of masking large trade sizes. The MSRB notes that these commenters did not refute the GAO observation that certain market participants are able to determine, through their relationships with dealers, the par amount of large transactions for which the par value is masked, but acknowledges the commenters’ view that a certain level of anonymity continues to exist in the reports of large trades for which the exact par value is masked. The MSRB is sensitive to the views of those commenters that argued for eliminating the practice of masking large trade sizes as it would ensure that a foundational principal of RTRS to provide all market participants with equal access to

¹² In response to the question in the June 2012 Notice of whether other methods exist for market participants to determine the exact or relative size of large trades and to infer the identity of parties to the transaction from the RTRS trade data history, SIFMA noted that the SEC’s EDGAR system does not serve as a source of such information and that while there are “publicly available sources of information [that] detail[] portfolio holdings of certain institutional investors ... it is sometimes not possible to reliably determine actual trade sizes for IMM+ trade reports from publicly available information.”

transaction information is achieved. However, the comments received did not provide specific evidence that the benefits to transparency from disseminating exact par values in real-time outweigh potential adverse impacts on liquidity and the MSRB does not currently have its own data to assess any such impact. Thus, while the MSRB continues to believe that the municipal securities market will benefit from full transparency on all transactions, the MSRB has determined that it would be appropriate to take an initial interim step toward that ultimate goal that will allow the MSRB to assess the impact of such transparency on trades in sizes ranging between \$1 million and \$5 million. Information derived from such interim step would assist the MSRB in determining whether increased trade size transparency results in adverse effects on market liquidity.

While dealers and institutional investors oppose eliminating the practice of masking large trade sizes, these commenters stated that raising the par value threshold for masking large trade sizes would provide additional transparency to the municipal market without adversely impacting liquidity. Based upon 2011 trade data, the number of trades that were subject to the over \$1 million trade size mask was 342,906 and if the trade size mask was raised to par values over \$5 million, this number would have been 97,124 trades. MSRB believes that raising the par value threshold to par values over \$5 million would be an appropriate first step to take in the short term as it would greatly reduce the number of trades subject to the par value mask. However, as noted above, the MSRB plans to continue to evaluate whether this threshold can be raised with a view towards bringing full transparency of exact par values to the municipal market in real-time.

6. Extension of Time Period of Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

1. Federal Register Notice
2. Notice Requesting Comment and Comment Letters
5. Text of Proposed Rule Change

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____; File No. SR-MSRB-2012-07)

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing of Proposed Amendments to the Real-Time Transaction Reporting System Information System and Subscription Service

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“the Exchange Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 24, 2012, the Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The MSRB is filing with the Commission a proposed rule change consisting of amendments to the Real-Time Transaction Reporting System (“RTRS”) information system and subscription service (collectively, “proposed rule change”). The proposed rule change will enhance the transaction data publicly disseminated from RTRS in real-time by including the exact par value on all transactions with a par value of \$5 million or less and including an indicator of “MM+” in place of the exact par value on transactions where the par value is greater than \$5 million. The exact par value of transactions where the par value is greater than \$5 million would be disseminated from RTRS five business days later.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

The text of the proposed rule change is available on the MSRB's website at www.msrb.org/Rules-and-Interpretations/SEC-Filings/2012-Filings.aspx, at the MSRB's principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the MSRB included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The MSRB has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

RTRS is a facility for the collection and dissemination of information about transactions occurring in the municipal securities market. Currently, transaction information disseminated from RTRS includes the exact par value on all transactions with a par value of \$1 million or less but includes an indicator of "1MM+" in place of the exact par value on transactions where the par value is greater than \$1 million. The exact par value of such transactions is disseminated from RTRS five business days later. The proposed rule change would enhance the transaction data publicly disseminated from RTRS in real-time by including the exact par value on all transactions with a par value of \$5 million or less and including an indicator of "MM+" in place of the exact par value on transactions where the par value is greater than \$5 million. The exact par value of transactions where the par value is greater than \$5 million would be disseminated from RTRS five business days later.

BACKGROUND

MSRB Rule G-14, on transaction reporting, requires brokers, dealers and municipal securities dealers (collectively “dealers”) to report all transactions in municipal securities to RTRS within fifteen minutes of the time of trade, with limited exceptions. Since the implementation of RTRS in 2005, the MSRB has made transaction data available to the public through subscription services designed to achieve the widest possible dissemination of transaction information with the goal of ensuring the fairest and most accurate pricing of municipal securities transactions.

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LARGE TRADE SIZE MASKING

In connection with the MSRB’s predecessor end-of-day trade reporting system and the subsequent development of RTRS, MSRB received comments that, given the prevalence of thinly traded securities in the municipal securities market, it sometimes is possible to identify institutional investors and dealers by the exact par value included on trade reports. It was noted that, where the market for a specific security is thin and only one or two dealers are active, revealing the exact par amount also may convey information about a dealer’s inventory (i.e., size of position and acquisition cost) and allow other dealers to use this information to trade against

the dealer's position, thus reducing the incentive for a dealer to take large positions in these circumstances.

To address these concerns, transaction information disseminated through RTRS subscription services and displayed on EMMA includes an indicator of "1MM+" for any trade with a par value greater than \$1 million. This indicator is replaced with the exact par value of the trade five business days later. The MSRB implemented this approach to help to preserve the anonymity of trading parties while not detracting in a substantial way from the benefits of price transparency.³ The MSRB noted that it would review this masking policy as it gains experience with real-time transparency.⁴

In January 2012, the Government Accountability Office ("GAO") published a report on municipal securities market structure, pricing, and regulation, as required by Section 977 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.⁵ In this report the GAO, among other conclusions, concluded that individual investors generally have less information about transaction prices than institutional investors. The GAO, which had interviewed a broad range of market participants, including institutional investors, observed that: "Some of these [institutional] investors said that even though MSRB's RTRS system did not disclose total transaction amounts for trades over \$1 million – which the system reports as trade amounts of

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To ensure that as many market participants as possible have access to the same amount of information about each transaction disseminated from RTRS and to further promote price transparency consistent with the MSRB’s intent to review its masking policy as it gained experience with real-time transparency, the proposed rule change would enhance the transaction data publicly disseminated from RTRS in real-time by including the exact par value on all transactions with a par value of \$5 million or less. While the MSRB considered discontinuing masking of the exact par value on transactions where the par value is greater than \$1 million, with the result that RTRS subscription services and EMMA would include the exact par value on all transactions when initially disseminated to the public, as more fully discussed in the MSRB’s statement on comments received on the proposed rule change, dealers and institutional investors oppose eliminating the practice of masking large trade sizes and cited concerns related to adverse

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The MSRB believes that raising the par value threshold to par values over \$5 million would be an appropriate first step to take in the short term as it would greatly reduce the number of trades subject to the par value mask. The MSRB plans to continue to evaluate whether this threshold can be raised further or completely eliminated with a view towards bringing full transparency of exact par values to the municipal market in real-time.⁶ As part of the MSRB's Long-Range Plan for Market Transparency Products,⁷ the MSRB plans to undertake an initiative to reengineer RTRS. Through the RTRS reengineering initiative, additional industry comment will be solicited on long-term measures for increasing transparency of large trade sizes or alternative methods of disseminating such information. MSRB also plans to evaluate any impacts on liquidity from the near-term increase of the trade size mask threshold to \$5 million to assist it in determining whether any future changes to this threshold are merited or could result in unanticipated consequences.

EFFECTIVE DATE OF PROPOSED RULE CHANGE

⁶ As part of the proposed rule change, the MSRB plans to use a different indicator for disseminating those par values that are greater than \$5 million. Currently, the MSRB disseminates an indicator of "1MM+" to indicate par values greater than \$1 million. Instead of changing this to "5MM+", the MSRB plans to include an indicator of "MM+" so that the par value threshold could be changed in the future without requiring subscribers to make system changes to accommodate a new indicator.

⁷ See MSRB Notice 2012-06 (February 23, 2012).

The MSRB proposes that the proposed rule change be made effective on November 5, 2012 to coincide with other planned changes to RTRS.⁸

2. Statutory Basis

The MSRB believes that the proposed rule change is consistent with Section 15B(b)(2)(C) of the Exchange Act, which provides that the MSRB's rules shall:

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.

The MSRB believes that the proposed rule change is consistent with the Exchange Act. The proposed rule change would remove impediments to and perfect the mechanism of a free and open market in municipal securities by increasing the number of transactions disseminated from RTRS in real-time that include the exact par value, which would ensure more market participants have equal access to information about transactions disseminated from RTRS. This change would contribute to the MSRB's continuing efforts to improve market transparency and to protect investors, municipal entities, obligated persons and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The MSRB does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. Information disseminated by RTRS is available to all persons on an equal and non-discriminatory basis. The information disseminated from RTRS real-time, including the exact

⁸ See MSRB Notice 2012-42 (August 10, 2012).

par value on all transactions with a par value of \$5 million or less, will be available to all subscribers simultaneously with the availability of the information through the EMMA web portal. In addition to making the information available for free on the EMMA web portal to all members of the public, the MSRB makes the information collected by RTRS available by subscription on an equal and non-discriminatory basis without imposing restrictions on subscribers from, or imposing additional charges on subscribers for, re-disseminating such information or otherwise adding value-added services and products based on such information on terms determined by each subscriber.⁹

In addition, the proposed rule change would not impose any burden on dealers or any other market participant in connection with the reporting of data to the MSRB since dealers already are, and would continue to be, required to report the full principal amount of transactions to the MSRB, regardless of trade size. Thus, no change in submitter inputs to RTRS would be required. The large trade size indicator is applied automatically by the MSRB's systems and will require minimal programming efforts on the part of the MSRB. The MSRB estimates that implementing the proposed rule change will require one to two weeks of work for the equivalent of one full time employee. Some subscribers to the RTRS subscription service may bear minimal one-time programming and/or database costs to be able to accept and process a value of "MM+" rather than "1MM+," likely of equal or lesser magnitude than the costs the MSRB would bear in making its own programming changes. The MSRB believes that an effective date of November 5, 2012 will provide subscribers with sufficient time to make any required changes

⁹ The MSRB notes that subscribers may be subject to proprietary rights of third parties in information provided by such third parties that is made available through the subscription.

in due course without causing material disruptions to their information technology plans or budgets.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

On June 1, 2012, the MSRB published a notice requesting comment on enhancing the transaction data publicly disseminated in real-time from RTRS by including the exact par value on all transactions disseminated ("June 2012 Notice").¹⁰ The June 2012 Notice solicited input on whether the masking of trade size has been effective at achieving its initial purpose. In addition, the June 2012 Notice sought comment on whether the benefits, if any, of retaining such masking outweigh the potential negative effects of withholding such information known to certain institutional investors from the broader marketplace. Further, the MSRB sought comment on whether other methods exist for market participants to determine the exact or relative size of large trades and to infer the identity of parties to the transaction from the RTRS trade data history, such as through public filings by certain institutional investors through the SEC's EDGAR system or other sources, that otherwise undermine the effectiveness of trade size masking in achieving its initial purpose. Finally, the June 2012 Notice requested that market participants believing that such masking should be continued should provide justification for doing so in light of the GAO findings and the foundational principles for RTRS, as well as suggestions for alternatives to discontinuing par value masking that would further the initial purpose of such practice while reducing or eliminating the selective dissemination of such information.

¹⁰ See MSRB Notice 2012-29 (June 1, 2012).

In response to the June 2012 Notice, comment letters were received from: Benchmark Solutions, Bond Dealers of America (“BDA”), Government Finance Officers Association (“GFOA”), Investment Company Institute (“ICI”), Securities Industry and Financial Markets Association (“SIFMA”), and Stifel Nicolaus. Summaries of those comments and the MSRB’s responses follow.

All commenters were supportive of providing additional transparency of exact par values of large trades; however, commenters differed on whether the practice of masking large trade sizes should be eliminated altogether.

Benchmark Solutions and GFOA stated support for eliminating the practice of masking large trade sizes. Benchmark Solutions stated that disseminating exact par values in real-time would provide investors with equal access to information and facilitate pricing bonds in the traded security as well as in other comparable securities.¹¹ While GFOA acknowledged the reasons why the practice of masking large trade sizes was originally implemented, it stated that MSRB should “look to developing appropriate guidance to address those concerns rather than using the masking of pricing information as a means to this end.”

BDA, ICI, SIFMA and Stifel Nicolaus stated opposition to eliminating the practice of masking large trade sizes. BDA stated that institutional investors “may materially alter their trading practices” if exact par values are disseminated in real-time, which “may prove disruptive to the municipal markets.” Stifel Nicolaus noted that disseminating exact par values in real-time could “eliminate the anonymity of the buyer and seller ... [which] is valued in the market and assists in the maintenance of liquidity.” SIFMA noted that “a significant portion of trading

¹¹ Benchmark Solutions also provided comments related to shortening the fifteen minute timeframe for dealers to report transactions to RTRS. In the future, the MSRB plans to request comment on shortening the fifteen minute reporting deadline and this comment will be considered with any other comments received at that time.

activity in the municipal market involves dealers taking bonds into inventory with no identified buyers” and without the anonymity provided by large trade size masking, it stated that some dealers that regularly engage in large block trades “may become less willing to bid on investors’ positions.” However, SIFMA acknowledged that other dealers “stated that eliminating the mask would not have an effect on their market activity.” ICI stated that “increased transparency could diminish market liquidity” and noted that “secondary market liquidity for investors is provided by dealers that are willing to risk their capital pending the location of customers who are willing to purchase a block of bonds.”

As an alternative to eliminating the practice of masking large trade sizes altogether, ICI, SIFMA and Stifel Nicolaus suggested that the trade size masking threshold in RTRS be raised from the current \$1 million level to those trades in par values that exceed \$5 million.¹²

Discussion. Representatives of both dealers and institutional investors stated consistent concerns about the potential adverse effects on liquidity that could arise from eliminating the practice of masking large trade sizes. The MSRB notes that these commenters did not refute the GAO observation that certain market participants are able to determine, through their relationships with dealers, the par amount of large transactions for which the par value is masked, but acknowledges the commenters’ view that a certain level of anonymity continues to exist in the reports of large trades for which the exact par value is masked. The MSRB is sensitive to the views of those commenters that argued for eliminating the practice of masking

¹² In response to the question in the June 2012 Notice of whether other methods exist for market participants to determine the exact or relative size of large trades and to infer the identity of parties to the transaction from the RTRS trade data history, SIFMA noted that the SEC’s EDGAR system does not serve as a source of such information and that while there are “publicly available sources of information [that] detail[] portfolio holdings of certain institutional investors ... it is sometimes not possible to reliably determine actual trade sizes for 1MM+ trade reports from publicly available information.”

large trade sizes as it would ensure that a foundational principal of RTRS to provide all market participants with equal access to transaction information is achieved. However, the comments received did not provide specific evidence that the benefits to transparency from disseminating exact par values in real-time outweigh potential adverse impacts on liquidity and the MSRB does not currently have its own data to assess any such impact. Thus, while the MSRB continues to believe that the municipal securities market will benefit from full transparency on all transactions, the MSRB has determined that it would be appropriate to take an initial interim step toward that ultimate goal that will allow the MSRB to assess the impact of such transparency on trades in sizes ranging between \$1 million and \$5 million. Information derived from such interim step would assist the MSRB in determining whether increased trade size transparency results in adverse effects on market liquidity.

While dealers and institutional investors oppose eliminating the practice of masking large trade sizes, these commenters stated that raising the par value threshold for masking large trade sizes would provide additional transparency to the municipal market without adversely impacting liquidity. Based upon 2011 trade data, the number of trades that were subject to the over \$1 million trade size mask was 342,906 and if the trade size mask was raised to par values over \$5 million, this number would have been 97,124 trades. MSRB believes that raising the par value threshold to par values over \$5 million would be an appropriate first step to take in the short term as it would greatly reduce the number of trades subject to the par value mask. However, as noted above, the MSRB plans to continue to evaluate whether this threshold can be raised with a view towards bringing full transparency of exact par values to the municipal market in real-time.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Exchange Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MSRB-2012-07 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MSRB-2012-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule

change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing also will be available for inspection and copying at the MSRB's offices. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MSRB-2012-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Elizabeth M. Murphy
Secretary

¹³ 17 CFR 200.30-3(a)(12).



MSRB NOTICE 2012-29 (JUNE 1, 2012)

REQUEST FOR COMMENT ON ELIMINATION OF LARGE TRADE SIZE MASKING ON PRICE TRANSPARENCY REPORTS

The Municipal Securities Rulemaking Board (“MSRB”) is seeking comment on enhancing the transaction data publicly disseminated in real-time by including the exact par value on all transactions disseminated from the MSRB Real-Time Transaction Reporting System (“RTRS”). Currently, transaction information disseminated from RTRS includes the exact par value on all transactions with a par value of \$1 million or less but includes an indicator of “1MM+” in place of the exact par value on transactions where the par value is greater than \$1 million. The exact par value of such transactions is disseminated from RTRS five business days later. The MSRB proposes to discontinue the practice of masking the exact par value on transactions where the par value is greater than \$1 million and including the exact par value on all transactions disseminated in real-time from RTRS.

Comments should be submitted no later than July 2, 2012 and may be submitted in electronic or paper form. [Comments may be submitted electronically by clicking here.](#)

Comments submitted in paper form should be sent to Ronald W. Smith, Corporate Secretary, Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, VA 22314. All comments will be available for public inspection on the MSRB’s website.^[1]

BACKGROUND

MSRB Rule G-14, on transaction reporting, currently requires brokers, dealers and municipal securities dealers (collectively “dealers”) to report all transactions in municipal securities to RTRS within fifteen minutes of the time of trade, with limited exceptions. Since the implementation of RTRS in 2005, the MSRB has made transaction data available to the public through subscription services designed to achieve the widest possible dissemination of transaction information with the goal of ensuring the fairest and most accurate pricing of municipal securities transactions.

In addition to subscription services, MSRB makes publicly available for free transaction data on the Electronic Municipal Market Access (EMMA®) website. Since the launch of EMMA as a pilot in 2008, MSRB has incorporated into the display of market-wide and security specific information all transaction data disseminated from RTRS so that transaction information would be available on the EMMA website simultaneously with the availability of information to subscribers to the RTRS subscription service.

LARGE TRADE SIZE MASKING

In connection with the MSRB’s predecessor end-of-day trade reporting system and the subsequent development of RTRS, MSRB received comments that, given the prevalence of thinly traded securities in the municipal securities market, it sometimes is possible to identify institutional investors and dealers by the exact par value included on trade reports. It was noted that, where the market for a specific security is thin and only one or two dealers are active, revealing the exact par amount also may convey information about a dealer’s inventory (i.e., size of position and acquisition cost) and allow other dealers to use this information to trade against the

dealer's position, thus reducing the incentive for a dealer to take large positions in these circumstances.

To address these concerns, transaction information disseminated through RTRS subscription services and displayed on EMMA includes an indicator of "1MM+" for any trade with a par value greater than \$1 million. The exact par value of such transactions is disseminated from RTRS five business days later. The MSRB implemented this approach to help to preserve the anonymity of trading parties while not detracting in a substantial way from the benefits of price transparency.[2] The MSRB noted that it would review this masking policy as it gains experience with real-time transparency.[3]

In January 2012, the Government Accountability Office ("GAO") published a report on municipal securities market structure, pricing, and regulation, as required by Section 977 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[4] In this report the GAO, among other conclusions, concluded that individual investors generally have less information about transaction prices than institutional investors. The GAO, which had interviewed a broad range of market participants, including institutional investors, observed that: "Some of these [institutional] investors said that even though MSRB's RTRS system did not disclose total transaction amounts for trades over \$1 million – which the system reports as trade amounts of '\$1+ million' – they typically were aware of the amount and the price of these large transactions through their relationships with broker-dealers."

REQUEST FOR COMMENT

A foundational principal of RTRS is that all market participants would have equal access to transaction information. The GAO observation that certain market participants are able to determine, through their relationships with dealers, the par amount of large transactions for which the par value is masked in RTRS subscription services and on EMMA undermines the purpose of masking the exact par value. Further, if certain market participants are able to determine exact par values yet the information disseminated by RTRS masks exact par values, then the foundational principal of RTRS has been compromised since the equality of access to transaction information is lost for the five business day period that certain institutional customers have access to the exact par value while the rest of the marketplace must await the unmasking of such information by RTRS five business days after the trade was reported.

To ensure that all market participants have access to the same amount of information about each transaction disseminated from RTRS, the MSRB is proposing to discontinue masking of the exact par value on transactions where the par value is greater than \$1 million, with the result that RTRS subscription services and EMMA would include the exact par value on all transactions when initially disseminated to the public. The discontinuation of price masking would not require any changes in the information reported to RTRS or in the methods used by dealers to report such information, but instead would entail a change in the manner in which RTRS processes such reported trade information for dissemination to the public and would eliminate the need for recipients of the RTRS subscription product to refresh trade reports that initially include masked trade sizes with the actual par value five business days later.

The MSRB requests comments on all aspects of this proposal. In particular, the MSRB seeks comments on whether the masking of trade size has been effective at achieving its initial purpose and whether the benefits, if any, of retaining such masking

outweigh the potential negative effects of withholding such information known to certain institutional investors from the broader marketplace. Are there methods, other than receiving direct information from a dealer regarding trade size, for market participants to determine the exact or relative size of large trades and to infer the identity of parties to the transaction from the RTRS trade data history, public filings by certain institutional investors through the SEC's EDGAR system or other sources that otherwise undermine the effectiveness of trade size masking in achieving its initial purpose? To the extent that market participants believe that such masking should be continued, the MSRB seeks comment on the justification for doing so in light of the GAO findings and the foundational principles for RTRS, and also seeks suggestions for alternatives to discontinuing par value masking that would further the initial purpose of such practice while reducing or eliminating the selective dissemination of such information.

* * *

Questions about this notice may be directed to Justin R. Pica, Director, Product Management - Market Transparency, or Karen Du Brul, Associate General Counsel, at 703-797-6600.

June 1, 2012

[1] Comments are posted on the MSRB website without change. Personal identifying information such as name, address, telephone number, or email address will not be edited from submissions. Therefore, commenters should submit only information that they wish to make available publicly.

[2] See [MSRB Notice 2003-12 \(April 7, 2003\)](#).

[3] See [MSRB Notice 2004-13 \(June 1, 2004\)](#). See also Exchange Act Release No. 49902 (June 22, 2004), 69 FR 38925 (June 29, 2004), *approved* Exchange Act Release No. 50294 (August 31, 2004), 69 FR 54170 (September 7, 2004).

[4] U. S. Government Accountability Office, *Municipal Securities: Overview of Market Structure, Pricing, and Regulation*, GAO-12-265, January 17, 2012.

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Alphabetical List of Comments on MSRB Notice 2012-29 (June 1, 2012)

1. Benchmark Solutions: Letter from Jim Toffey, Chief Executive Officer, dated June 7, 2012
2. Bond Dealers of America: Letter from Michael Nicholas, Chief Executive Officer, dated July 2, 2012
3. Government Finance Officers Association: Letter from Susan Gaffney, Director, Federal Liaison Center, dated July 2, 2012
4. Investment Company Institute: Letter from Dorothy Donohue, Deputy General Counsel-Securities Regulation, dated June 29, 2012
5. Securities Industry and Financial Markets Association: Letter from Michael Decker, Managing Director and Co-Head of Municipal Securities, dated June 29, 2012
6. Stifel Nicolaus & Company, Incorporated: Letter from Kenneth E. Williams, Executive Vice-President, Director of Municipal Finance Group, dated June 27, 2012



Benchmark Solutions
101 Park Avenue – 7th Floor
New York, NY 10178

June 7, 2012

Mr. Justin R. Pica
Director
Product Management-Market Transparency
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

Ms. Karen Du Brul
Associate General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

Re: MSRB Notice 2012-29: Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports

Dear Mr. Pica and Ms. Du Brul:

Benchmark Solutions¹ appreciates this opportunity to respond to Notice 2012-29² (the “Notice”) issued by the Municipal Securities Rulemaking Board (the “MSRB”) in which the MSRB is proposing to discontinue masking of the exact par value on transactions where the par value is in excess of \$1 million.

Benchmark Solutions is fully supportive of regulatory efforts to provide full post-trade transparency to all market participants in the timeliest and most complete manner possible. To this end, Benchmark Solutions is supportive of the MSRB’s proposal to unmask the par value of transactions greater than \$1 million as this information is important to market participants for a number of reasons.

Equal access to information:

We believe that all investors should have equal access to market transactions. As stated in the GAO report³, there is reason to believe that some investors may already have access to information that others do not thus creating an uneven playing field for certain customer segments of the market.

Size assists in determining market impact:

Full disclosure of the trade size will better assist the marketplace in understanding the market impact, in terms of price movement of not only the particular security associated with the transaction, but also other related bonds as certain securities are often viewed as reference securities used by market participants to assist them in determining the market value of securities which they currently may be holding.

1 Benchmark Solutions is a privately owned corporation focused on providing real-time price transparency in the Fixed Income Markets.

2 MSRB Notice 2012-29(June 1, 2012)

3 GAO-12-265 (January 2012) Municipal Securities – Overview of Market Structure, Pricing, and Regulation

Feedback Loop:

We believe that there is a strong feedback loop where post-trade information is a valuable input to determining pre-trade price discovery. Therefore, any delay in either reporting (timeliness) or transparency (data) inhibits the ability of the market to provide pre-trade price discovery which may ultimately affect market liquidity.

Other Concerns (Hedging):

Market participants currently have up to 15 minutes to report transactions to MSRB, which gives them plenty of time to hedge their positions. Given the market liquidity and execution efficiency of the products typically used to hedge Municipal securities, one could make a case that 15 minutes may afford participants too much time to report their Municipal transactions thus depriving other market participants valuable price discovery knowledge even with the current masked quantities. From our perspective, transactions should be reported to post-trade reporting services as near real-time as possible.

Ease of Implementation:

As far as implementation of this proposal goes, since the actual trade size is currently captured through RTRS there should not be any business process changes to market participants or direct technology implementation costs to them.

We wish to thank the MSRB and its staff for their work in developing the Proposed Rule and for this opportunity to comment on it. We would be pleased to discuss these comments in greater detail to help facilitate your review of the Proposed Rule. If you have any questions, please do not hesitate to contact the undersigned at (212) 220-4740.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jim Toffey", with a stylized flourish at the end.

Jim Toffey
CEO



21 Dupont Circle, NW • Suite 750
Washington, DC 20036
202.204.7900
www.bdamerica.org

July 2, 2012

VIA ELECTRONIC MAIL

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

RE: MSRB Notice: 2012-29: Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports

Dear Mr. Smith:

Bond Dealers of America (BDA) is pleased to submit this letter in response to the Municipal Securities Rulemaking Board's (MSRB) Notice: 2012-29 (Notice), which solicits comment on enhancing the transaction data publicly disseminated in real-time by including the exact par value on all transactions disseminated from the MSRB Real-Time Transaction Reporting System by eliminating large trade size masking. BDA is the only DC based group representing the interests of securities dealers and banks focused on the U.S. fixed income markets. We welcome this opportunity to state our position.

One of the BDA's most important policy priorities, as we have expressed to the MSRB in the past, is to improve transparency within the municipal markets. We believe that the municipal markets would benefit from being able to access enhanced transaction data that includes large trade sizes as well as small trade sizes. We believe that the importance of increased transparency within the municipal markets and, more importantly, certainty that all investors are making their decisions with the same set of information, outweighs concerns from institutional investors concerning the anonymity of their trades. But we do observe that institutional investors (who account for a large amount of the trading in the municipal markets) may materially alter their trading practices if the effect of finalizing the Notice is to compromise their proprietary information and this may prove disruptive to the municipal markets. Accordingly, while we do support increased transparency, we encourage the MSRB to weigh the input from institutional investors carefully in finalizing the Notice to be sure that increased transparency does not come with the cost of unintended and unnecessary consequences.

Thank you again for the opportunity to submit these comments.

Sincerely,

A handwritten signature in blue ink that reads "Michael Nicholas".

Michael Nicholas
Chief Executive Officer



Government Finance Officers Association
1301 Pennsylvania Avenue, NW Suite 309
Washington, D.C. 20004
202.393.8020 fax: 202.393.0780

July 2, 2012

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

RE: MSRB Notice 2012-29 – Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports

Dear Mr. Smith:

Thank you for the opportunity to comment on MSRB Notice 2012-29, regarding the masking of large trades in price transparency reports. The Government Finance Officers Association (GFOA) represents over 17,000 public finance professionals in the United States, including issuers of municipal securities, and is dedicated to the sound management of state and local governments.

The feedback received from our members, most notably from members of the GFOA's Governmental Debt Management Committee, strongly supports the MSRB's proposal to eliminate large trade masking on the RTRS subscription services and EMMA. While the Notice points out that there are concerns that some dealers may use more timely and complete information about a transaction to identify the inventory of another dealer, we believe the need for issuers – and the market – to see the exact par value of the transaction is important, and that this type of transparency should be adopted by the MSRB.

If indeed there are concerns that using information by dealers or other parties in a manner that is not in accordance with MSRB rules or in ways that interfere with the market working efficiently and effectively, then the MSRB should look to developing appropriate guidance to address those concerns rather than using the masking of pricing information as a means to this end.

The EMMA system has been a tremendous asset for issuers, investors, and the public due to the amount of information provided in a public domain. The MSRB should continue its tradition to post available information as quickly and complete as possible. This includes eliminating the use of the term "\$1MM+" for any trade with a par value greater than \$1M. An additional benefit to posting this complete information will be to unmask what some believe to be the case – that large trades are priced more favorably than smaller trades.

We very much appreciate the MSRB's attention on this important issue. Please do not hesitate to contact me if you wish to discuss this matter further with GFOA members.

Sincerely,

A handwritten signature in cursive script that reads "Susan Gaffney".

Susan Gaffney
Director, Federal Liaison Center



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

June 29, 2012

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

Re: Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports (MSRB Notice 2012-29)

Dear Mr. Smith:

The Investment Company Institute¹ is pleased to provide comments on the Municipal Securities Rulemaking Board's proposed amendments to enhance the transaction data publicly disseminated from the MSRB Real-Time Transaction Reporting System ("RTRS").² ICI supports the efforts of the MSRB to increase the price transparency of trades in the municipal securities market. We are concerned, however, that the proposal could adversely impact market liquidity, especially for certain infrequently traded issues. To address this concern, we offer an alternative approach, discussed further below, to allow for a more gradual change in the price transparency of large trade size transactions.

MSRB Rule G-14 currently requires brokers, dealers and municipal securities dealers ("dealers") to report all transactions in municipal securities to RTRS within fifteen minutes of the trade. The transaction information disseminated from RTRS (via either subscription services or through the Electronic Municipal Market Access (EMMA®) website) includes the exact par value on all transactions with a par value of \$1 million or less but includes an indicator of "1MM+" in place of the exact par value on transactions where the par value is greater than \$1 million. The exact par value of such transactions is disseminated from RTRS five business days later to help to preserve the anonymity of trading parties while not detracting in a substantial way from the benefits of price transparency. As described in the Release, this anonymity allows dealers to take positions that in turn, allows them to provide liquidity for the municipal securities market.

¹ The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$13.4 trillion and serve over 90 million shareholders.

² See *Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports*, MSRB Notice 2012-29 (June 1, 2012) ("Release"), available at <http://www.msrb.org/Rules-and-Interpretations/Regulatory-Notices/2012/2012-29.aspx>.

Mr. Ronald W. Smith

June 29, 2012

Page 2 of 3

To ensure that all market participants have access to the same amount of information at the same time about each transaction disseminated from RTRS, the MSRB is proposing to discontinue the practice of masking the exact par value on transactions of \$1 million or more and including the exact par value on all transactions disseminated in real-time from RTRS. The MSRB is proposing this change to address findings by the Government Accountability Office, which observed in a recent report that certain market participants are able to determine, through their relationships with dealers, the par amount of these large transactions.³ The GAO Report referenced pricing transparency in the context of fair pricing in the municipal securities market. The Report noted that due to the fragmented nature of the municipal securities market, as compared to individual investors, institutional investors “were generally better equipped to make independent assessments of the value of a security.”⁴

ICI supports efforts by the MSRB to improve the price transparency of the municipal securities market. In general, enhanced transparency would be beneficial for all market participants that invest in municipal securities because it permits better price discovery. Maintaining the integrity of the \$3.7 trillion municipal securities market to ensure fair, orderly, and transparent markets is critical to ICI members who provide access to the 26 percent of investors—many of them retail—that invest in this market through registered investment companies.⁵

We are concerned, however, that this increased transparency could diminish market liquidity. As the MSRB recently explained, the municipal securities market is an over-the-counter market with 90 percent of all trades in 2011 conducted on a principal basis.⁶ Furthermore, secondary market liquidity for investors is provided by dealers that are willing to risk their capital pending the location of customers who are willing to purchase a block of bonds.⁷ The Release explains that the five-day delay was intended to address concerns raised by some industry participants during the implementation of RTRS in 2004. Specifically, these industry participants were concerned that where the market for a specific security is thin and only one or two dealers are active, revealing the exact par amount of large trades on a real-time basis would allow other dealers to identify the dealer, including information about a dealer’s inventory (*i.e.*, size of position and acquisition cost), and institutional investors involved in the trade—information that could be used to trade against the dealer’s position and reduce the incentive for a dealer to take large positions in these circumstances. This in turn could have unintended

³ See U.S. Government Accountability Office, *Municipal Securities: Overview of Market Structure, Pricing, and Regulation*, GAO-12-265 (January 17, 2012) (“GAO Report”), available at <http://www.gao.gov/assets/590/587714.pdf>.

⁴ *Id.* at 11. Notably, the GAO Report’s recommendations included additional information gathering and analysis by the regulators, but did not specifically include changes to the pricing disclosure regime. *Id.* at 49.

⁵ Investment Company Institute, 2012 Investment Company Fact Book, *A Review of Trends and Activity in the Investment Company Industry*, 52nd Edition, available at www.icifactbook.org.

⁶ See Letter on the “Volcker” rule proposal from Alan D. Polsky, Chair, Municipal Securities Rulemaking Board, to Office of the Comptroller of the Currency, *et al.* (January 31, 2012), available at <http://www.msrb.org/msrb1/Industry-Letters/MSRB-Comment-Letter-on-Volcker-Rule.pdf> at 3.

⁷ *Id.*

Mr. Ronald W. Smith

June 29, 2012

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consequences for all market participants (retail and institutional) because an impairment of liquidity (*e.g.*, caused by the unwillingness of dealers to continue their active role in the municipal securities market) could outweigh the benefits of any increased price transparency. Neither the MSRB nor the GAO have provided evidence that the original concerns that motivated the masking of large trade size prices in 2004 are no longer relevant.

We nevertheless recognize the efforts the MSRB has made to achieve their goal of ensuring the fairest and most accurate pricing of municipal securities transactions. This goal, however, must be carefully balanced against the need to maintain adequate liquidity in the municipal securities market. We therefore recommend that the MSRB adopt an alternative approach that would minimize the potential effect of increased price transparency of large trade size transactions on market liquidity. For example, rather than completely discontinuing the practice of delaying the dissemination of the price of large size transactions, MSRB should consider phasing in the changes over a period of time through gradual reductions in the timeframes for such delays and/or increases in the par value of trades subject to delayed disseminations (*e.g.*, \$5 million). This approach would help protect the identities of dealers who take large positions in these securities (and therefore help preserve dealers' willingness to provide liquidity), while at the same time enhancing the price transparency of the municipal securities market. It also would give the MSRB time to evaluate any effects on market liquidity and then make any necessary adjustments as appropriate.

* * * *

We look forward to working with the MSRB as it continues to examine this and other important issues. In the meantime, if you have any questions, please feel free to contact me directly at (202) 218-3563 or Jane Heinrichs, Senior Associate Counsel, at (202) 371-5410.

Sincerely,

/s/ Dorothy Donohue

Dorothy Donohue
Deputy General Counsel—Securities Regulation

cc: Lynette Kelly, Executive Director
Municipal Securities Rulemaking Board



June 29, 2012

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

Dear Mr. Smith,

The Securities Industry and Financial Markets Association (“SIFMA”)¹ is pleased to comment on the Municipal Securities Rulemaking Board’s (“MSRB” or the “Board”) Notice 2012-29, “Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports” (the “Notice” or “Proposal”). SIFMA has long supported reasonable initiatives undertaken by the MSRB and others to improve price transparency in the municipal market and other sectors of the capital markets, and we believe it is appropriate for the MSRB to periodically re-examine its policies in this area.

As the MSRB states in the Notice, “transaction information disseminated through RTRS subscription services and displayed on EMMA includes an indicator of ‘1MM+’ for any trade with a par value greater than \$1 million.” In the Notice, the MSRB is proposing to eliminate the “1MM+” mask for real-time dissemination of trades through the Electronic Municipal Market Access (“EMMA”) system and through subscriber services. While we do not believe it would be appropriate for the MSRB to eliminate the mask altogether, we do believe the MSRB could raise the threshold for the mask to some trade size greater than \$1 million par amount—say, \$5 million—without a significant degradation in liquidity. Eliminating the mask entirely could potentially have a deleterious effect on liquidity and is not justified at this time.

Background

The municipal securities market has a number of characteristics that distinguish it from other sectors of the capital markets:

¹ The Securities Industry and Financial Markets Association brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

- **The municipal market is fragmented.** There are at least 50,000 distinct issuers of municipal securities with a wide range of characteristics, from states and large cities whose issue sizes are in the hundreds of millions or billions of dollars to small, infrequent issuers who may sell only a few million dollars of bonds every few years. The average new-issue size in the municipal bond market in 2011 was just \$27 million.² Given that many municipal new issues include multiple maturities, the average maturity size was even smaller. There are millions of individual maturities outstanding (as measured by the number of active CUSIP numbers in the market).
- **The municipal market is less liquid than other sectors of the capital markets.** On average in 2011, 15,213 unique municipal securities traded each day.³ Given that the number of unique securities outstanding numbers in the millions, this represents a small fraction of all bonds outstanding. Many municipal securities go months or even years between being traded at all.
- **Municipal securities trades are generally small in size.** There were, on average, 41,241 reported secondary market transactions per day in 2011. Of those, only 1,505, or 3.6 percent, were over \$1 million par amount.⁴ The majority of trades—21,427 per day on average in 2011—are \$25,000 par amount or less. Over 82 percent of trades were \$100,000 par amount or less in 2011. “Block” trades of over \$1 million comprise a relatively small portion of total trading activity.

It is also important to recognize that while some trading in the municipal market involves dealers “crossing” bonds—or executing a purchase from one customer nearly simultaneously with the sale of the same bond to another customer—a significant portion of trading activity in the municipal market involves dealers taking bonds into inventory with no identified buyers. Market liquidity depends on dealers’ willingness and ability to put capital at risk by bidding on customers’ bonds when requested.

When the MSRB first implemented real-time trade reporting in 2004, and in the “T+1” dissemination system that existed before that, the Board determined that real-time public dissemination of actual large trade sizes could have a negative effect on market liquidity and could disadvantage certain market participants. The MSRB stated, for example, that it “understands that [disseminating] the par value of a transaction tends to allow identification of trading parties, and that this information could be used to the disadvantage of the parties so identified.”⁵ The 1MM+ mask was adopted in recognition that the “purpose of real-time transparency is to provide price information rather than to identify parties to transactions in real-time.”⁶

Disseminating trade sizes potentially threatens liquidity because, as the Board has recognized, knowing the trade size can give potential trading counterparties an advantage in price negotiations. If an institutional investor wants to sell a large block of municipal securities—say, \$20 million—the investor seeks bids from dealers. It is unlikely that the dealer who buys the block would already have a buyer

² Thomson Reuters SDC Platinum database.

³ Municipal Securities Rulemaking Board, *2011 Fact Book*, page 46.

⁴ *Id.*, page 45.

⁵ Municipal Securities Rulemaking Board, Notice 2004-13.

⁶ *Id.*

lined up, so the dealer would take the bonds into its inventory and attempt to sell the bonds to another investor. If the trade amount of the dealer's purchase from the investor were disclosed in real time, investors or other dealers who could potentially buy the block would more easily be able to determine the seller's identity. The dealer attempting to sell the block could find that potential buyers may take advantage of their need to sell and attempt to obtain the bonds at a discounted price. As a result, dealers may be less willing to take on positions from investors in the first place, thereby negatively affecting liquidity. This effect may be particularly pronounced during times of market dislocation or other distressed situations where when bids are requested for a bond, the difference between the strongest bid and successive bids is 5-10 basis points or more.

The MSRB Proposal

In Notice 2012-29, the MSRB is proposing to eliminate the 1MM+ mask and disseminate in real time the actual amount of trades over \$1 million par amount. The proposal appears to be based on a reference in a United States Government Accountability Office report citing statements by some institutional investors in the municipal market that "even though MSRB's [Real-time Trade Reporting System] did not disclose total transaction amounts for trades over \$1 million—which the system reports as trade amounts of \$1+ million—they typically were aware of the amount and price of these large transactions through their relationships with broker-dealers."⁷

Discussion

The Notice requests comment on whether "the masking of trade size has been effective at achieving its initial purpose." The answer is sometimes. Some SIFMA member firms believe that the 1MM+ mask affords them and their customers a degree of anonymity when executing large transactions and that eliminating the mask would make it much easier for competing dealers and others to discern their transactions and positions. Others acknowledge that it is often possible to determine the sizes of trades and sometimes the identities of buyers and sellers involved in large transactions even though the actual trade size is masked in real-time reports. Some firms that regularly engage in large block trades have stated that if the Proposal embodied in Notice 2012-29 is adopted, they may become less willing to bid on investors' positions. Those firms have stated they would be concerned that the real-time disclosure of actual trade sizes would affect their ability to obtain fair pricing when they attempted to liquidate their inventories. Others have stated that eliminating the mask would not have an effect on their market activity.

The Notice also requests comment on whether "there [are] methods, other than receiving direct information from a dealer regarding trade size, for market participants to determine the exact or relative size of large trades and to infer the identity of parties to the transaction from the RTRS trade data history, public filings by certain institutional investors through the SEC's EDGAR system or other sources that otherwise undermine the effectiveness of trade size masking in achieving its initial

⁷ United States Government Accountability Office, "Municipal Securities: Overview of Market Structure, Pricing, and Regulation," January 2012, page 24.

purpose?” While the SEC’s EDGAR system probably does not provide a meaningful opportunity for market participants to discern the identities of traders, other sources of information may. There are, for example, publicly available sources of information detailing the portfolio holdings of certain institutional investors.⁸ These data may sometimes provide opportunities for market participants to determine actual trade sizes by, for example, comparing investors’ positions in individual securities against 1MM+ trade reports. This is not always possible, however, and it is sometimes not possible to reliably determine actual trade sizes for 1MM+ trade reports from publicly available information.

The Notice also requests comment on what would be the justification for retaining the large trade size mask “in light of the GAO findings and the foundational principles for [the Real-time Trade Reporting System].” Simply, many dealer firms believe the concerns the Board expressed in 2004 and earlier which motivated the 1MM+ mask in the first place persist. Unmasking large trade sizes in real time could make it possible, or at least easier, for dealers and investors to discern the identities of participants in those trades. This, in turn, could make dealers less willing to bid on investors’ positions, threatening market liquidity. Neither the GAO nor the MSRB have provided any robust or substantive evidence that the concerns that motivated the 1MM+ mask in 2004 are no longer relevant. Indeed, the GAO’s discussion of this issue in its January 2012 report comprises just two sentences of the 85-page report. Moreover, if, as the MSRB suggests, some investors are able to discern the actual sizes of large trades “through their relationships with broker-dealers,” that was also likely the case in 2004 when the RTRS system was implemented with the 1MM+ mask in place. Market dynamics have not changed significantly since 2005.

Finally, the Notice requests comment on whether there are “alternatives to discontinuing par value masking that would further the initial purpose of such practice while reducing or eliminating the selective dissemination of such information?” The current trade size mask affects less than four percent of secondary municipal market transactions, and we question whether eliminating the mask would contribute significantly to improving market transparency. Nevertheless, we recognize the benefits achieved by the work the MSRB has done in promoting price transparency and making trade information more readily accessible to the market. We suggest that as an alternative to eliminating the 1MM+ mask altogether, the MSRB consider raising the threshold for masked trades to some larger amount, say, trades greater than \$5 million par value. This approach would still help protect the identities of dealers who commit to truly large block trades and help preserve dealers’ willingness to provide liquidity while enhancing transparency for an even larger segment of the market. According to the MSRB, transactions above \$2 million comprised just 2.3 percent of all transactions in 2011.⁹ Setting the mask at above \$5 million would represent a tiny fraction of market activity and thus would not threaten transparency.

⁸ For example, Thomson Reuters offers a product called eMAXX which provides informational profiles, including portfolio compositions, for many institutional investors.

⁹ Municipal Securities Rulemaking Board, *2011 Fact Book*, page 45.

Other Market Sectors

The Financial Industry Regulatory Authority (“FINRA”) operates a trade reporting and dissemination system, the Trade Reporting and Compliance Engine (“TRACE”), for transactions in corporate and federal agency bonds and other fixed income securities that is not unlike the MSRB’s Real-time Trade Reporting System (“RTRS”). Dealers are required to report transactions in covered securities within 15 minutes of execution, and FINRA publicly disseminates most of those trade reports in real time. The TRACE system includes a trade size mask for transactions in investment-grade corporate bonds larger than \$5 million par amount and for transactions in high-yield bonds larger than \$1 million.¹⁰ These masks have been in place since the TRACE system was first implemented and were motivated by the same concerns that drove the 1MM+ mask for the RTRS, that disseminating actual large trade sizes in real time could threaten market liquidity.

In addition, the Commodity Futures Trading Commission (“CFTC”) earlier this year adopted rules related to real-time reporting and dissemination of the terms of transactions in most over-the-counter swaps.¹¹ In crafting the rules related to dissemination, the CFTC adopted a series of trade cap masks tailored to particular categories of swaps—interest rate, credit, equity and commodity. For interest rate swaps, the trade size masks are based on the maturity of the contract. The CFTC’s trade size masks, based on the notional principal size of swap contracts, are larger than the RTRS or TRACE masks because the swap markets trade differently than the cash markets for municipal, corporate or agency securities. The CFTC has recently proposed further refinement of trade size masks based on more granular distinctions among various categories of swaps, motivated by a desire “to prevent the public disclosure of the identities, business transactions and market positions of swap market participants.”¹² The CFTC’s sentiment today is the same as the MSRB’s in 2004: disclosing the actual amounts of large trade sizes could threaten the anonymity of participants to the trades and could threaten liquidity. The CFTC stated that it adopted the masks “because it believes that market participants’ anonymity should be protected.”

While the markets for corporate and agency bonds and over-the-counter swaps differ in important respects from the municipal securities market, the same concerns regarding anonymity and liquidity apply to all these sectors. Indeed, the municipal market is arguably more fragmented and less liquid than the markets for corporate or agency bonds or swaps and is potentially more threatened by loss of liquidity attributable large trade size dissemination.

¹⁰ National Association of Securities Dealers, “NASD Notice to Members 01-18,” page 157.

¹¹ *Federal Register*, “Commodity Futures Trading Commission: Real-Time Public Reporting of Swap Transaction Data,” Vol. 77, No. 5, Monday, January 9, 2012, page 1213.

¹² *Federal Register*, “Commodity Futures Trading Commission: Procedures to Establish Appropriate Minimum Block Sizes for Large Notional Off-Facility Swaps and Block Trades,” Vol. 77, No. 51, Thursday, March 15, 2012, page 15460.

Conclusion

SIFMA strongly supports reasonable efforts to improve municipal market transparency. We recognize the gains achieved by the MSRB's RTRS system and we believe it is appropriate for the MSRB to examine periodically whether expansions of the system are warranted. However, we believe that neither the MSRB nor the GAO have made a compelling case for eliminating the 1MM+ mask entirely. The concerns that motivated the Board to adopt the mask in 2004 persist today, and other regulators that oversee transaction reporting and dissemination platforms for over-the-counter securities and financial products recognize the need for large trade size masks.

As a compromise measure, we urge the Board to consider raising the threshold for the large trade size mask to \$5 million. We believe this approach would improve transparency without significantly threatening market liquidity, and the number of transactions that would continue to be affected by the mask would represent a tiny portion of market activity.

Thank you for the opportunity to comment on the Notice. Please contact us if you have any questions.

Sincerely,



Michael Decker
Managing Director and Co-Head of Municipal Securities

cc: Lynnette Kelly, Executive Director, Municipal Securities Rulemaking Board

STIFEL NICOLAUS

June 27, 2012

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314

RE: MSRB Notice: 2012-29: Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports

Dear Mr. Smith:

Stifel Nicolaus & Company, Incorporated (Stifel) is pleased to submit this letter in response to the Municipal Securities Rulemaking Board's (MSRB) Notice: 2012-29 (Notice), which solicits comment on enhancing the transaction data publicly disseminated in real-time by including the exact par value on all transactions disseminated from the MSRB Real-Time Transaction Reporting System. Stifel is one of the leading underwriters of municipal bonds in the country and distributes bonds through its more than 2,000 financial advisors serving individual investors and 150 institutional registered representatives.

Stifel supports the MSRB's efforts to increase transparency as we believe it will lead to more efficient markets. The proposal to unmask the par value of trades over \$1 million and include the exact par value has merits that may benefit those market participants that do not frequently trade in large size but may occasionally do so. At the same time, it could have unintended consequences in some situations involving large trades that cause the unmasking to also eliminate the anonymity of the buyer or seller. This anonymity is valued in the market and assists in the maintenance of liquidity. Most of the major market participants will not benefit from the proposed increased transparency, as information flow among them is significant and swift. The value of unmasking trades will be most beneficial to lesser participants in the market who may not benefit from the complete unmasking of sizable trades in a way that counters the possible downside of such disclosure.

While we support increased transparency and the concept of unmasking the par value of municipal bond transactions, the concern we have about the potential of unmasking the identity of buyers and sellers leads us to suggest that raising the limit on the disclosed par value to \$5 million would provide sufficient market information to all participants without creating the disruption a full unmasking of par value may cause. The \$1 million limit made

STIFEL, NICOLAUS & COMPANY, INCORPORATED

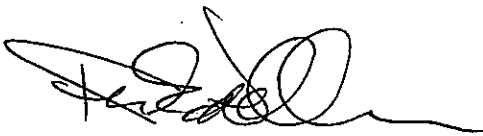
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sense at the time that RTRS was implemented, but \$1 million dollar trades are not as significant in the market today as they were when RTRS was established. Increasing the limit to \$5 million will capture a very high percentage of trades and provide meaningful transparency while protecting the anonymity of both sides of significantly sized trades, which is important to the market and its liquidity.

We appreciate the opportunity to comment on the proposed amendment and hope that our thoughts are useful to any decision the MSRB reaches on the matter of price transparency in the market.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ken Williams', with a long horizontal flourish extending to the right.

Kenneth E. Williams
Executive Vice-President
Director of Municipal Finance Group

Note: Proposed new language is underlined. Proposed deletions are enclosed in brackets.¹

RTRS Facility

The MSRB coordinated its plans for the RTRS facility with the new real-time comparison system for municipal and corporate bonds (the “Real-Time Trade Matching” or “RTTM” system) implemented by National Securities Clearing Corporation (NSCC).¹ The use of the NSCC telecommunication facility as a data collection point or “Portal” for transaction data and the use of a standard common format for trade reporting and automated comparison through NSCC are intended to reduce dealer costs in complying with the 15-minute transaction reporting requirement. Retail and institutional customer transactions and IDRO reports are reported through NSCC using the same record format as used for inter-dealer trades.² NSCC will not process customer transactions in the comparison system, but will forward the data to the MSRB and thus allow dealers to avoid setting up separate telecommunications links and facilities specifically for trade reporting to the MSRB.³ In this manner NSCC and MSRB have attempted to provide a means for dealers to leverage their systems development work to satisfy two goals at once – that of real-time transaction reporting and real-time comparison of inter-dealer transactions. In this regard, the development plans for both systems have been coordinated to provide the greatest efficiencies possible for dealers.

Improved Functionality. The objective of real-time transaction reporting is to make price and volume information publicly available as soon as possible after trades are executed. Real-time reporting will also bring improved functionality to dealers and enforcement agencies, compared with the former batch-oriented reporting system. These improvements include:

- The ability to correct regulatory data, such as time of trade, on inter-dealer trade reports;
- The ability for a dealer to ensure the accuracy of regulatory data even when that information is reported on its behalf by a clearing broker;
- The capability for dealers to report their capacity as agent in inter-dealer trades; and
- Improvements in the “audit trail” of trade information.

Submission of Transaction Reports by Intermediaries. As in the former transaction reporting system, a dealer will be able to use an intermediary, *i.e.*, its clearing broker or service bureau, to submit transaction reports to RTRS. Also following prior policies, inter-dealer transaction reporting and comparison will be accomplished using one transaction report. The MSRB expects those dealers that are not self-clearing to submit inter-dealer trades through their clearing broker.

¹ This rule language reflects changes that were approved by the SEC, but are not currently in effect. *See* SEC Release No. 34-66622, File No. SR-MSRB-2012-01 (January 20, 2012). These previously approved changes will go into effect on November 5, 2012, the same effective date as requested for the proposed rule change. *See* MSRB Notice 2012-42 (August 10, 2012).

However, these dealers must ensure that the clearing broker will be able to submit the trade report satisfying both comparison and transaction reporting requirements within 15 minutes of the time of trade. Both dealers in this case will have the responsibility to work together to ensure that such trade submissions are timely and accurate. It is possible for the correspondent to submit customer trade reports directly to the MSRB or for the clearing broker to submit on the correspondent's behalf.

Message-Based and Web-Based Input Methods. Two format options are available for submission of data into RTRS: 1) message-based trade input, and 2) Web-based trade input. In message-based trade input, each trade is submitted as a "message" in a standardized format. A trade input message consists of a sequence of data tags and data fields – for example, the tag "SETT" followed by a date field indicates the settlement date of the trade. For real-time trade reporting and comparison, the format standard is the ISO 15022 format established by the International Organization for Standardization.⁴ Each message is sent as a separate unit between two computers. The fact that a trade message is the basic telecommunications unit enables real-time reporting, comparison and interactive feedback. Messages are well-suited to automated high-volume operations and to "straight-through processing" methods.

In using the Web-based method, the dealer manually accesses a Web site through an Internet browser to enter, correct or view trade data. As described below, different Web sites are used depending whether the data is entered for both comparison and regulatory reporting or only for reporting purposes. The Web-based method requires no system development work beyond setting up an Internet connection and obtaining the appropriate user ID, password and security safeguards. However, Web input is manual and it will not be possible to interface the Web-based method with the dealer's processing system. Therefore, exclusive use of the Web-based method for submitting transactions generally will be appropriate only for relatively low-volume submitters.

For high-volume submitters of transaction data, such as large dealers, clearing brokers and service bureaus, the only efficient and practical means for initial trade submission is likely to be message-based.

Dealers may use the message-based method, the Web-based method, or both. Some high-volume dealers may submit the initial trade report as a message, review their submission and the RTRS status information on a Web site, and make corrections manually using Web-based trade input. Instead of using the Web, dealers may also submit corrections in message format. Alternatively, some low-volume dealers may use the message-based system if messaging is made available to them by clearing brokers or service bureaus.⁵

RTRS Portals. The MSRB has designated three RTRS "Portals" for the receipt of municipal securities trade data. Each Portal has a different policy governing the type of trade data it can accept. Message-based trade input must go through the Message Portal, but Web-based trade input may go through either the RTRS Web Portal or the RTTM Web Portal.

- The Message Portal is operated by NSCC and accepts any type of municipal security trade submission or modification. All trade messages that the dealer indicates should be

forwarded to RTRS will be relayed to RTRS by NSCC. In addition, messages that the dealer indicates should be processed by the comparison system will be routed to RTTM.⁶

- The RTRS Web Portal is operated by the MSRB and accepts any municipal security trade submission or modification except data that would initially report or modify inter-dealer transaction data used in the comparison process. (Comparison data instead must be entered into the comparison system using a method authorized by NSCC such as the Message Portal or the RRM Web Portal). The RTRS Web Portal may be used to report or correct (a) customer trade data, (b) IDRO data, and (c) inter-dealer trade data, but only if that data is not used in comparison. For example, a dealer may use the RTRS Web Portal to correct an inter-dealer trade record with regard to the time of trade or dealer capacity, but not to correct (or to input initially) the CUSIP number, par or price of the trade.
- The RTTM Web Portal is operated by NSCC for comparison purposes.⁷ It may be used to report or correct both “comparison data” (CUSIP number, par, price, etc.) and “regulatory reporting data” (time of trade, etc.), if that data is associated with an inter-dealer transaction eligible for comparison. The RTTM Web Portal may not be used to report or correct customer or IDRO trade records.

All RTRS Portals will be open to receive trade data for at least 90 minutes after the end of an RTRS Business Day and 30 minutes before the beginning of the next Business Day, i.e., they will be open at least from 7:00 a.m. through 8:00 p.m. The RTRS Web Portal will be open for an additional 60 minutes at the beginning and end of the RTRS Business day, i.e., it will be open from 6:00 a.m. to 9:00 p.m.

Measurement of Timely Reporting. The time taken to report the trade will be measured by comparing the time of trade reported by the dealer with the time of receipt of the trade report at the designated RTRS Portal. RTRS will assess each trade against its reporting deadline (15 minutes or end-of-day). Trades not received by the appropriate reporting deadline will be considered late.

Enhancement of Information Available to Regulators. MSRB worked with the Financial Industry Regulatory Authority (FINRA, formerly known as NASD) and other regulators to improve the audit trail and other surveillance capabilities that are available as data is collected on a real-time basis. One addition concerns the situation in which one dealer passes an order to a second dealer for execution directly out of the second dealer’s principal account, with settlement made directly between the second dealer and the party placing the order. The situation requiring this “Inter-Dealer Regulatory-Only or “IDRO” report typically occurs when a fully disclosed introducing broker submits a customer order to its clearing broker for execution, and the clearing broker executes and settles directly with the introducing broker’s customer. The former TRS system required only one trade report in this situation – a customer trade report from the introducing broker. RTRS procedures require another trade report showing the identity and role of the clearing broker – it will be described as an Inter-Dealer Regulatory-Only transaction. The new trade report was requested by FINRA to provide a more complete audit trail for surveillance purposes.⁸

The former transaction reporting procedures required a dealer effecting a trade “as agent” for a customer to designate its capacity on the customer trade report. This requirement is in RTRS. Inter-dealer transaction reports did not require a capacity field to show whether the inter-dealer trade was done as agent for a customer, but RTRS added such a requirement.⁹

Another feature added in the real-time environment is the Special Condition Code. RTRS requires a dealer that executes a trade with certain special conditions to code the trade report accordingly. For example, if there is a specific reason for a trade being reported at a price that is not a true market price, the dealer will indicate this with a Special Condition Code. A trade report with a Special Condition Code that is indicative of an off-market price will not be disseminated by RTRS, but will be made available to regulatory agencies for market surveillance and inspection purposes. Some Special Condition Codes will not be indicative of an off-market price but will report conditions such as a security that is traded “flat.”¹⁰

RTRS also added the reporting of a code by which a dealer will indicate that a price being reported was derived as part of a “weighted average price” transaction. A weighted average price transaction is one in which a dealer agrees to purchase up to a certain quantity of securities for a customer at market prices during the day, culminating with one sale transaction to the customer of the aggregate par value, with a price representing a weighted average of the dealer’s purchases. The Price Dissemination Plan previously called for displaying the “weighted average price” code along with other data about the transaction.

Finally, although it did not require any change in dealer procedures, RTRS provides regulators with the record of all changes reported by a dealer after its initial trade submission. This is an enhancement over the former system, which reported the results of trade modifications but did not show the initial submission or the subsequent change records. RTRS provides reports to regulators showing each modification or cancellation of a trade report, including the time the change was made. The MSRB also provides regulators with real-time connections to RTRS. This enables regulatory agency staff to obtain routine reports of transactions more quickly than was previously possible.

RTRS Processing. Following is a description of key steps in RTRS processing with regard to input requirements, input data flow, format edits, submitter validation, timestamping, lateness checking, content validation, feedback, modification and cancellation, and the maintenance of the surveillance database.

Input Requirements. The basic transaction information to be reported by a dealer in RTRS is similar to that reported in the former transaction reporting system. This information supports both the price transparency and surveillance functions of the system. The complete list of data elements that are required on a trade report are in Specifications for Real-time Reporting of Municipal Securities Transactions¹¹ and are included within the RTRS Users Manual, available at www.msrb.org.

Input data flow. RTRS receives information about each trade separately as an electronic message and processes each trade individually.¹² All inter-dealer trade messages that contain initial values or modifications to data elements needed for comparison (e.g., dollar price or par),

come to RTRS as messages via RTTM or as input to the RTTM Web. Inter-dealer trade messages that affect only data elements needed for regulatory reporting (e.g., time of trade) come to RTRS either as messages via the RTTM network, or as Web-based input via the RTTM Web or RTRS Web. Customer and IDRO messages, since they contain data needed exclusively for regulatory reporting, come to RTRS as messages via the RTTM network or as input to the RTRS Web (but not via the RTTM Web).

Format edits. Each message is edited to verify that its format is correct.¹³ This involves checking that required data elements are present in the correct form (e.g., dates are in date format and money amounts are in decimal format) and with the correct number of digits or characters. Messages that fail these edits are not processed further and an error message describing the deficiency is returned to the submitter. Both RTTM and RTRS conduct format edits. Input from Web-based screens is checked before it is transferred from the user's personal computer to the Web server.

Submitter validation. RTRS accepts input only from parties known to the MSRB. Trade messages routed through RTTM are checked by RTTM and rejected unless submitted to RTTM by an NSCC participant. The message is checked again when received by RTRS and is not processed further unless it bears the identifier of a clearing broker or service bureau known to the MSRB. RTRS further checks each trade message to verify that the dealer has previously authorized the submitter to report trades on its behalf. RTRS Web-based input is validated at multiple levels. First, the user cannot logon to RTRS unless he or she enters a user identifier and password issued by the MSRB. RTRS security controls allow a dealer access only to trades in which it was a party or which it has submitted on behalf of another dealer. Finally, the dealer-submitter combination is validated in the same way as input from RTTM, above.

Timestamping. To enforce the rule on timely reporting of trades in real-time environment, each trade message is given an electronic timestamp, accurate to the second, when it is received. RTRS interprets the timestamp as the time the trade was reported. Messages that are input through the Message Portal or the RTTM Web Portal are timestamped by RTTM, and messages submitted via the RTRS Web Portal are timestamped by the RTRS server. By this means, any delays that may occur in application processing or telecommunications connections between RTTM and the MSRB will not affect the assessment of the time the trade was reported.

Lateness checking. The dealer includes an indicator in the trade message that shows the deadline that it understands applies to the trade report.¹⁴ RTRS then determines whether the trade was received by the deadline. If a trade is reported late, an error message indicating this fact is sent to the submitter at the end of processing.

Content edits. The values in the reported trade are checked to determine that they are within reasonable limits, in order to detect input errors such as misplaced decimal points. The relationship between values is checked (e.g., the settlement date may not precede the trade date) and crucial data elements are verified against reference tables (e.g., the identifier of the dealer that effected the trade must be present in the RTRS dealer reference table). Finally, for those trades where the dollar price and yield are reported, the consistency of price and yield are verified when possible.

Feedback. If a dealer's message is deficient, RTRS interactive feedback provides descriptive detail. MSRB anticipated that this feedback would help dealers to detect and correct errors quickly.

RTRS generates an acknowledgement or error message for every reported trade, except inter-dealer trades that have passed RTTM edits and which do not have any RTRS errors. (These trades will already have been acknowledged by RTTM.) The acknowledgement/error message is sent to the dealer and/or submitter in the format(s) that the dealer or submitter has previously requested. The available feedback formats are message or e-mail. In addition, the dealer and the submitter may view the trade, and any errors found, using RTRS Web.

Feedback will indicate to the dealer whether the trade is error-free or late, and whether it is questionable or unsatisfactory for reporting purposes. A "questionable" trade message is one that appears to have an error, but which may be correct depending on circumstances. Examples are a trade with a yield that exceeds ten percent of the dollar price (bonds traded very close to a premium call may have a very high nominal yield, but this is most likely an input error) or a reported time of trade before 0600 hours (trading is allowed at any time of day, but this is most likely intended to be a time in the afternoon, e.g., 5:00 p.m. reported as 0500). Under the Rule G-14 RTRS Procedures, paragraph (a)(v), dealers must examine such trade reports to determine if they are in fact erroneous and, if so, correct them. A trade is "unsatisfactory for reporting purposes" if it is missing an essential data element, is defective in some way that prevents it from being processed, or cannot be included in the surveillance database or publicly reported. Examples of "unsatisfactory" conditions are a reported trade date in the future, a missing dealer symbol, and an incorrect CUSIP check digit. Certain modification attempts are also unsatisfactory, such as a modification that cannot be matched with any previous message from the dealer.

Modification and cancellation. The dealer is responsible for timely and accurate submission of trade reports. The dealer must monitor its reported trades by any of the available feedback methods and must correct any errors as soon as possible. If a dealer is unable to report a trade within the deadline, it must report the trade as soon as possible. RTRS produces statistics on dealer performance in timely submission and timely correction of errors and provides the statistics to dealers.

RTRS enables dealers to submit, modify and cancel messages for all types of trades. Unlike the former transaction reporting system in which only customer trades could be modified to correct regulatory data, RTRS supports such changes for all trade types.

Surveillance database. The RTRS Surveillance Database stores each message submitted by a dealer or service bureau. Audit trail reports provide regulators with information about trades effected by a dealer, trades in specific CUSIPs, highest/lowest prices for a CUSIP within a day or other time period, and specific data elements such as trades with Special Condition Codes reported by a dealer. Other reports show all modifications and cancellations reported by a dealer.

Testing Requirements. The Rule G-14 Procedures require dealers to test their use of RTRS before reporting any trades.

The requirement for testing and submission of a “Form RTRS” with the name of a contact person is reflected in Rule G-14.

Price Dissemination by RTRS

Description of Service. Real-time price data is available by subscription, after subscribers sign an agreement regarding re-dissemination. During the RTRS Business Day, price data is disseminated in real time, immediately after receipt. Modifications and cancellations submitted by dealers that apply to earlier trade submissions are also disseminated in real time.

In addition to real-time reports, the MSRB provides reports each morning covering the previous day’s trades (T+1 reports), as well as daily reports covering all trades done on the trading day one week earlier (T+5 reports), and monthly reports covering all trades done during the previous month.

Trades to be Disseminated. During the RTRS Business Day, the MSRB disseminates data on all transactions as soon as it is received, except for two types of dealer submissions. The exceptions, which are stored in the surveillance database but not disseminated in real-time, are trades marked by the dealer as having prices other than market prices, using a Special Condition Code,¹⁵ and reports of “inter-dealer regulatory-only” transactions. These have already been described.

List of Information Items to be Disseminated. The specific items disseminated by RTRS for price transparency purposes are:

- CUSIP number and description of the issue traded;
- Par value of the transaction if **five [one]** million dollars or under; otherwise reported as “[1]MM+”;
- Dollar price;
- Yield (for inter-dealer and customer new issue transactions done on a yield basis, and for all inter-dealer and customer transactions in non-defaulted securities when the yield can be computed from dollar price);
- Date and time of trade;
- Whether the transaction was a (i) purchase from a customer; (ii) sale to a customer; or (iii) inter-dealer transaction;
- Indicator that an inter-dealer transaction was done by a broker’s broker, and if so, the broker’s broker role as buyer or seller;
- When-issued indicator, if any;
- Syndicate list price indicator, if any;
- Assumed settlement date, if initial settlement date is not known at time of trade;
- Indicator that dollar price was computed by MSRB using an estimated settlement date for an issue on which the initial settlement date has not been set;

- Indicator that a trade was done at the weighted average price of trades done earlier in the day;
- Modification/Cancellation indicator, if any;
- RTRS broadcast time, date and sequential trade message number; and
- RTRS Control Number.

Transactions Done During RTRS Business Day. As noted, dealers are required, with limited exceptions, to report within 15 minutes of the time of trade all transactions done during the RTRS Business Day. Trade submissions made during the RTRS Business Day are disseminated within a few minutes of receipt.

Dissemination of Compared or Uncompared Inter-Dealer Trades. Unless the trade report contains errors or is subject to an exception, transactions reported by dealers during the RTRS Business Day are disseminated within a few minutes after receipt at the designated RTRS Portal. Dissemination of inter-dealer price information occurs only after comparison is achieved on the trade, as done in the former system. Comparison of the inter-dealer trade ensures the reliability of the data that was submitted, since the buyer's and the seller's details are matched. However, RTRS was designed with the flexibility to disseminate uncompared inter-dealer transaction data if it is found that a substantial proportion of trades take longer than 15 minutes to be compared.¹⁶

Transactions Done Outside the RTRS Business Day. Dealers are required to report transactions done outside of the RTRS Business Day, but are not required to do so on a real-time basis. Instead, trades are required to be reported within the first 15 minutes of the next RTRS Business Day, at which time they would be disseminated.

Late Trade Reports and Trade Data Modifications. Trades that are not reported within the timeframe set by Rule G-14 would be considered late. Late trade reports and trade modifications are disseminated by RTRS as soon as received if they are submitted during the RTRS Business Day and at the start of the next Business Day otherwise.

Broker's Broker Indicator. Trades by broker's brokers are marked as such on disseminated trade reports and the buy/sell indicator shows whether the broker's broker was buying or selling. Because broker's broker trades occur in matched pairs that, in market terms, many observers view as representing one movement of securities between two dealers, the Board believes it is helpful to RTRS data users if broker's broker trades are identified as such in trade reports.

¹ NSCC is a clearing agency registered under the Securities Exchange Act.

² For RTTM message specifications, *see* Interactive Messaging: NSCC Participant Specifications for Matching Input and Output Version 1.0 (March 31, 2003), and "Modifications to RTTM Messaging Specifications," FICC CMU RTTM New Project Update Issue 6 (April 20, 2004), on www.ficc.com.

³ By agreement with the MSRB, NSCC does not charge dealers for serving as the portal for customer transaction data, but MSRB reimburses NSCC for any system costs that are attributable exclusively to this function.

⁴ The ISO 15022 format is also used by NSCC's parent organization, the Fixed Income Clearing Corporation, for processing government, mortgage-backed, corporate, and unit interest trust securities.

⁵ See "Operational Overview of MSRB's Real-Time Transaction Reporting System," MSRB Notice 2003-13 (April 7, 2003), on www.msrb.org.

⁶ Use of the Message Portal for trade comparison is currently restricted to NSCC participants.

⁷ Use of the RTTM Web Portal is restricted to NSCC participants.

⁸ To satisfy the need for this audit trail requirement the execution of the order by the clearing broker for the correspondent will be considered to constitute an inter-dealer "transaction" between the two dealers even though no principal position transfers between the two dealers. (The principal position in these situations moves directly from the clearing broker to the customer.) If a principal position does transfer between dealers, the trade is an "Inter-dealer Transaction Eligible for Comparison," and the trade must be compared and reported, even though settlement between the parties may occur only as a movement on the books of the clearing broker. This is consistent with G-14 policy in former TRS.

⁹ The dealer is not required to link the inter-dealer and customer transaction reports associated with agency transactions.

¹⁰ The MSRB in its June 2003 Notice requesting comment on plans for real-time reporting (discussed below), referred to some of what are now termed Special Condition Codes as "Special Price Reason Codes."

¹¹ See "Revised Specifications for the Real-Time Transaction Reporting System, Version 1.2," MSRB Notice 2004-2 (January 23, 2004), on www.msrb.org.

¹² Screen input through either Web Portal is converted into message format by the appropriate Web server and sent from that server to the RTRS host computer.

¹³ Message formats are defined in detail in the Specifications for Real-time Reporting of Municipal Securities.

¹⁴ As noted, trades must be reported within 15 minutes of the time of trade, except for new issue trades by syndicate managers or members at the list price (for which the deadline is the end of the first day of trading), and trades in variable rate products or commercial paper (for which the deadline is the end of trade date).

¹⁵ In an inter-dealer trade, if either dealer indicates the trade was done at a special price, RTRS considers the entire trade to be a special price trade.

¹⁶ Unlike inter-dealer transactions, which have two submissions (both a buy side and a sell side) that must be compared, customer trades, which comprise approximately 80% of all reported trades, do not require comparison and are disseminated as soon as automated error checks are completed.

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MSRB Real-Time Transaction Data Subscription Service

The MSRB disseminates municipal securities transaction prices in real-time through its Real-Time Transaction Data Subscription Service ("Service"). The Service is available by subscription for an annual fee of \$10,000 and is a part of the MSRB's Real-Time Transaction Reporting System ("RTRS").

Description

The Service is available by subscription and provides a real-time stream of data representing municipal securities transaction reports made by brokers, dealers and municipal securities dealers ("dealers") to RTRS.¹ After receipt of a trade report from a dealer, RTRS will automatically check the report for errors, ensure that it is a valid trade report for dissemination, appropriately format the report, and make it available for immediate electronic transmittal to each subscriber.²

The real-time data stream is in the form of messages and will be available either over the Internet or by leased line, at the subscriber's option.³ The subscriber must use either the MQ Series⁴ or a TCP Socket connection for messaging with RTRS. Messages representing trade reports are sent out by the Service based on the order that they are received at RTRS, i.e., on a "first in-first out" basis.⁵ The Service also offers a "Day Replay" file containing all messages sent during the day, in case a subscriber needs to check its records for completeness of recovery from communication breaks.⁶

Hours of Operation. The "RTRS Business Day," during which time dealers are required by Rule G-14 to submit trade reports within 15 minutes of execution, begins at 7:30 a.m. and ends at 6:30 p.m.⁷ However, RTRS will actually accept, and the Service will disseminate, any trade reports received between 6:00 a.m. and 9:00 p.m. ("RTRS 'Window' Hours").⁸ Transaction reports submitted to RTRS after 9:00 p.m. will not be processed by RTRS but will be pended for processing and dissemination at 6:00 a.m. the next business day.⁹

Transaction Data Disseminated. The data contained in each transaction price report sent to subscribers is discussed in detail in the RTRS filing.¹⁰ It includes the same transaction information previously disseminated in the MSRB's existing overnight batch system of transaction reporting, with additional data elements that were added for real-time transaction reporting. The specific items of information that are disseminated are:

Message Type

Type of message sent in the real-time broadcast (i.e., a trade message, a “heartbeat” message or a system message). Heartbeat messages are sent once every 60 seconds in the absence of real-time transaction messages to indicate that the connection is working properly but that there are no messages to send. System messages are sent to indicate the daily open and close of the RTRS real-time subscriber service and to notify subscribers if publishing will be intentionally interrupted during system hours (e.g., the markets have been closed because of extraordinary circumstances).

Sequential Number

Unique sequential number of the trade message. If more than one message has been published for a trade due to modification or cancellation, the trade is uniquely identified by the RTRS ID described below.

RTRS Control Number

The RTRS ID for the transaction. This may be used to apply subsequent modifications and cancellations to an initial transaction.

Trade Type Indicator

Type of trade: an inter-dealer trade, a purchase from a customer by a dealer, or a sale to a customer by a dealer.

Transaction Type Indicator

An indicator showing whether the message is a new transaction, or modifies or cancels a previously disseminated transaction.

CUSIP

The CUSIP number of the issue traded.

Security Description

Text description of the security obtained from the CUSIP Service Bureau.

Dated Date

Dated date of the issue traded obtained from the CUSIP Service Bureau.

Coupon (if available)

Interest rate of the issue traded (blank for zero-coupon bonds) obtained from the CUSIP Service Bureau.

Maturity Date

Maturity date of the issue traded obtained from the CUSIP Service Bureau.

When-Issued Indicator (if applicable)

Indicates whether the issue traded on or before the issue's initial settlement date obtained from Standard and Poor's.

Assumed Settlement Date (if applicable)

For new issues where the initial settlement date is not known at the time of execution, this field is a date 15 business days after trade date. If this field is populated there will be no data in the settlement date field.

Trade Date

The date the trade was executed as reported by the dealer.

Time of Trade

The time of trade execution as reported by the dealer.

Settlement Date (if known)

The settlement date of the trade if reported by the dealer will be shown. If this field is populated there will be no data in assumed settlement date field.

Par Traded

The par value of the trade as reported by the dealer will be shown. Trades with a par amount over \$5 [1] million will show par value as "[1]MM+" until five days after the stated trade date.

Dollar Price

For customer trades, the dollar price of the trade will be shown, as reported by the dealer. RTRS calculates a dollar price from yield for customer trades to verify the accuracy of the reported information and indicates those trades for which RTRS is not able to verify this information. For inter-dealer trades, the dollar price shown will be as reported by the dealer; however, if the dollar prices reported by both dealers that are party to the trade differs, the dollar price shown will be calculated by the MSRB from the final monies, par value and accrued interest reported for the trade.

Yield (if applicable)

For customer trades, this field shows the yield of the trade as reported by the dealer. This normally is the same yield that would appear on a confirmation of the trade. For some customer trades (e.g., trades of defaulted securities, certain securities with variable interest rates) a yield cannot be reported by the dealer. On inter-dealer trades, yield is not generally reported by the dealer and is calculated by RTRS for inter-dealer transactions in non-defaulted securities when yield can be computed from dollar price.

Broker's Broker Indicator (if applicable)

An indicator used in inter-dealer transactions that were executed by a broker's broker, including whether it was a purchase or sale by the broker's broker.

Weighted Price Indicator (if applicable)

An indicator that the transaction price was a "weighted average price" based on multiple transactions done at different prices earlier in the day to accumulate the par amount needed to execute an order for a customer.

Syndicate Price Indicator (if applicable)

An indicator showing that the transaction price was reported as a trade in a new issue by a syndicate manager or syndicate member at the list offering price on the first day of trading.

RTRS Broadcast Date

The date the message was published to subscribers.

RTRS Broadcast Time

The time the message was first disseminated to subscribers.

Version Number

Version number of the message or file format used in the message or file.

Subscription Fee. The Real-Time Service is available by subscription for an annual fee of \$10,000. The MSRB may, in its discretion, waive the subscription fee for not-for-profit organizations, academic institutions, or other entities or persons who desire the service for non-profit or research purposes. Subscribers will be allowed to re-disseminate transaction data to an unlimited number of their own customers or clients at no additional charge. Subscribers may (i) use the data for their internal business purposes; (ii) re-disseminate the data to their customers, clients and system users; and/or (iii) re-disseminate the data in other products or services that they offer to their customers, clients and system users, subject to certain limitations described in

the subscription agreement. The MSRB wishes to encourage information vendors -- and various other entities that make securities data available to members of the securities industry and the public -- to use the transaction data in their products and services. The MSRB also encourages those parties to re-disseminate the data, either in its original form or with enhancements to address the specific needs of specific data users.¹¹

MSRB Comprehensive Transaction Data Subscription Service

In addition to offering the Real-Time Service, RTRS provides the Comprehensive Transaction Data Subscription Service, which consists of (i) trade reports for a specific trade date made available at approximately 6:00 a.m. on the business day following trade date (“T+1”), which display a notation that the par value is \$5 [1] million or over, in lieu of the exact par value, where applicable; (ii) trade reports for a specific trade date made available five business days after that trade date (“T+5”) showing exact par values for those transactions with a par value over \$5 [1] million, showing all late trade reports made after the specified trade date, up until the date of dissemination, and showing the effect of modifications or cancellations submitted by dealers after trade date; and (iii) trade reports for a specific trade date made available 20 days after that trade date (“T+20”) showing the effects of any trade modifications or cancellations received since the T+5 report was produced.

The Comprehensive Transaction Data Subscription Service is made available exclusively through electronic file download over the Internet. The trade records in the Comprehensive Transaction Data Subscription Service: (i) include exact par values for those transactions with a par value over \$5 [1] million; (ii) show all late trade reports made after the specified trade date, up until the date of dissemination; and (iii) show the effect of modifications or cancellations submitted by dealers after trade date. The annual fee for this service is \$5,000. The MSRB may, in its discretion, waive the subscription fee for not-for-profit organizations, academic institutions, or other entities or persons who desire the service for non-profit or research purposes. Under RTRS, subscribers to the Real-Time Data Subscription Service receive a subscription to the Comprehensive Transaction Data Subscription Service at no additional charge.

¹ Modifications and cancellation messages submitted by dealers will also be disseminated in real time.

² The MSRB anticipates that, during peak traffic periods, these automated functions will be accomplished within two minutes, and during lighter periods will be accomplished within a few seconds.

Certain trade reports made by dealers, which are coded by the dealers to indicate that the trade is for a specific reason not done at a market price, will not be disseminated but will be available to regulators as part of the surveillance function offered by RTRS. Certain other types of “transactions” that are required to be reported exclusively for audit trail purposes (relating to clearing brokers and their correspondents in certain fully-disclosed clearing arrangements where

the correspondent does not take a principal position) also will not be disseminated but will be available to regulators.

³ Subscribers will be responsible for all telecommunications charges for leased lines.

⁴ To receive real-time trade messages via MQ Series, subscribers must license and configure their own MQ software.

⁵ If a subscriber detects that a message or a series of messages was missed during the day, the subscriber can request a trade message replay or “snapshot.”

⁶ The MSRB also maintains a hot-site from which it will provide real-time feed subscribers with a second source for the feed in the event that it can no longer be broadcast from the RTRS primary site.

⁷ All times given are in Eastern Time.

⁸ The RTRS “window” hours provide extra time before the Business Day and after the Business Day for dealers that may need to report late trades or correct mistakes that are discovered after the close of the Business Day. The 9:00 p.m. closing time for the window is intended to allow time for certain kinds of trades that, pursuant to Rule G-14, are permitted to be reported at the “end of day” for operational reasons (e.g., syndicate trades executed at list price). These can be reported up until 9:00 p.m. when the RTRS “window” closes.

⁹ In addition, at 6:00 a.m. RTRS will send modifications showing exact par values for transactions that were initially broadcast with a par value of “[1]MM+.” As described in the RTRS filing, because of concerns regarding liquidity, transactions with a par value exceeding \$5 [1] million will initially be disseminated with a par value of “[1]MM+.” Five business days after trade date, the actual par value will be shown.

¹⁰ File No. SR-MSRB-2004-02 (June 1, 2004); *see also* “Real-Time Transaction Reporting: Notice of Filing of Proposed Rule Change to Rules G-14 and G-12(f),” MSRB Notice 2004-13 (June 1, 2004) at www.msrb.org. The SEC approved this filing on August 31, 2004, in Securities Exchange Act Release No. 50294; *see also* “Approval by the SEC of Real-Time Transaction Reporting and Price Dissemination,” MSRB Notice 2004-29 (Sept. 2, 2004), at www.msrb.org.

¹¹ Although the transaction data collected by the MSRB is not restricted with respect to redissemination by subscribers to their end user clients, there are certain restrictions on use of the proprietary “CUSIP numbers and CUSIP Securities Descriptions.” Subscribers would be subject to all of the terms of the subscription agreement to be entered into between the MSRB and each subscriber, including proprietary and intellectual property rights of third parties in information provided by such third parties that is made available through the subscription.

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MSRB Historical Transaction Data Product

In addition to offering the Real-Time and Comprehensive Transaction Data Subscription Services, RTRS offers a Historical Data Product, which consists of the same transaction information as is provided by the Comprehensive Transaction Data Subscription Service. The Historical Transaction Data may be purchased in one calendar year data sets for \$2,500 per calendar year. No smaller data sets will be available. The Historical Transaction Data will be made available to purchasers on CD-ROM¹, pursuant to the terms of the Historical Transaction Data Purchase Agreement, which must be executed by purchasers prior to delivery of the Historical Data Product.² A one-time set-up fee of \$2,000 will be charged to new purchasers of the Historical Data Product, unless the purchaser is a current subscriber to an MSRB Subscription Service, including the MSRB Real-Time Transaction Data Subscription Service, Comprehensive Transaction Data Subscription Service, Short-Term Obligation Rate Transparency Subscription Service, Primary Market Disclosure Subscription Service, or Continuing Disclosure Subscription Service.³

¹ As technology evolves, or if the volume of information included in the Historical Data Product increases, the MSRB may in the future decide to use a different medium for delivering the Historical Data Product.

² Purchasers are subject to all of the terms of the purchase agreement to be entered into between the MSRB and each purchaser, including proprietary and intellectual property rights of third parties in information provided by such third parties that is made available through the product.

³ The MSRB could, in its discretion and consistent with the stated policy for certain other subscription services offered by the MSRB, waive the Historical Data Product set-up fee for not-for-profit organizations, academic institutions, or other entities or persons who desire the service for non-profit or research purposes.