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FIXED INCOME MARKETPLACE

March 15, 2013

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

Request for Comment on More Contemporaneous Trade Price Information Through a New Central Transparency Platform

Dear Mr. Smith:

TMC Bonds, L.L.C. ("TMC") welcomes the opportunity to respond to the Municipal Securities Rulemaking Board's ("MSRB") Request for Comment on the Central Transparent Disclosure Obligation. TMC is an electronic marketplace for trading fixed income securities and a registered Alternative Trading System ("ATS") with the Securities and Exchange Commission. TMC on a daily basis has over 45,000 live municipal offerings and executes trades with more than 400 firms monthly. Approximately 1 out of every 5 inter-dealer trades is executed on TMC's open platform.

Both the adoption of the Real Time Trade Reporting System and the expansion of EMMA have benefited the municipal marketplace, providing participants with much greater transparency than before. The movement towards real-time trade reporting changed the behavior of market professionals by promoting the posting of live prices as a trade quickly resulted with dissemination of the price to the market. Information that was once deemed private became public and changed the behavior of the market. Both the expansion of ATS's and the growth of online retail trading can be directly attributed to the MSRB's efforts for price transparency and evidenced by the volume of electronic trading that occurs daily in the market. The recent SEC study noted that electronic trading may account for up to 50% of all municipal trading. Furthermore, almost every major compliance vendor, online broker, or municipal ATS is using the information available through EMMA. Private enterprise has lead the market in creating a broad array of tools for analyzing and evaluating municipal credits.

As the MSRB has enhanced EMMA, TMC has become less dependent on other private vendors for data. While the MRSB's Long-Range Plan focuses on expansion of the "Investing in Bonds"



website, we would prefer to see the expansion of vendors that will continue to innovate and create new uses from the information available.

The MSRB seeks comments on the factors that may have resulted in more rapid trade reporting of small trades versus larger blocks. As stated earlier, the proliferation of municipal ATS's is greatly responsible for the efficiency of reporting, as most electronic trading platforms automatically ticket and route trades for clearing. Clients utilizing ATS's are taking advantage of these systems and have the full benefit of straight-through-processing ("STP"). STP results in reporting times measured in seconds, not minutes. In fact most trades are in-flight for reporting the instant the trade is executed, and any delays are a function of internet speeds and clearing processing. For the month of January TMC reported over 80,000 municipal trades with 99.9% reported on time. Historically for TMC, the small number of trades that do not report on time are usually the result of cancels and corrects, where the two parties have settlement differences such as accrued interest, settlement date, clearing account, etc. One issue for the industry is if a firm has never traded a particular CUSIP, it typically must build the terms and conditions prior to being able to process the trade. This can occasionally cause ticketing delays, if many new securities are traded within a short amount of time.

Block trades in municipals are a small component of the market, in terms of number of transactions. As there are no perfect benchmarks for municipal participants to price their securities, traders will offer bonds electronically at slightly higher prices to compensate for market volatility. This price premium results in many bonds being voice negotiated and requires a manual entry of a ticket, resulting in slower reporting times versus odd-lots, most of which trade electronically. Additionally, many blocks are traded as swaps with multiple legs involved. Multiple tickets take more time to post.

While the MSRB is examining delays in block trade reporting, the number of trades involved is very small. The MSRB cites a 10.6% difference in the timeliness of reporting block trades versus small trades within 5 minutes. Based on the MSRB's 30 day average of approximately 2,430 trades with par amounts greater than 1 million, only 260 additional trades would need to be reported within 5 minutes to have the equivalent reporting percentages of small trades. The numbers are most likely even smaller if one considers that a number of the block trades are new issues, which are reported end-of-day. The benefit to reducing reporting times for blocks achieves little additional informational value. Furthermore, the impact to retail is even less significant, as block trades are typically executed at different prices than retail size trades, and few blocks are broken into odd-lots. For example, polling a random trade day, 2/27/13, of the 2,227 block trades, approximately 30% of those Cusips traded as an odd-lot within 15 minutes of the initial trade. Thus, of the approximately 30,000 small trades daily, approximately 700 of those will have block transactions that occur within 15 minutes of the trade.



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The expansion of the MSRB to a real-time central transparency platform would be an expensive endeavor for the little added value to the market and would compete against established industry sources. Considering TMC's marketplace alone, participants have access to approximately 45,000 offerings daily and approximately 85% of the Cusips that the MSRB reports as traded, are offered in our marketplace. Our competitors also have offerings, providing adequate options for market participants to compare and execute. Due to the peculiarities on the municipal market, the premise of providing retail with a CTP to check prices will provide little value for the effort and expense. First of all, only 19% of offerings in the market have more than one firm making a market. As a result, a retail user accessing aggregated offerings from ATS's and dealers will see the same offering, provided by multiple sources, and may mistakenly assume that there is depth of market. If the CTP is designed to show only the best market, then the client may mistakenly believe that the offering is a market offering when only one dealer is behind the price. Secondly, as the SEC noted, most trades on any given CUSIP occur within 3 months of issuance. Thus, the bonds with true depth are more actively traded, and the publically available trade price will be much more meaningful information than an offering price. Third, as the SEC noted, much of the municipal volume is concentrated in a relatively small number of firms. Almost all of these firms take feeds in from both multiple ATS's and dealers, and thus have already created a centralized platform for their clients with the added benefit of filtering out unwanted items. Fourth, the value of a live CTP is limited. With the exception of taxable municipals, the average municipal bond updates only 3 times per day. However, a live system must be designed to manage bursts of re-pricing activity. The cost to manage thousands of simultaneous updates, which usually occurs on market moving information, is high and of little value to a retail client. A cost benefit analysis of the expense of the CTP versus the number of affected retail trades would be helpful information for the industry to understand.

TMC spends time and resources insuring the integrity of our markets. This includes constantly monitoring counter-party performance to insure both timely execution and current market prices. Our markets have value and we, as well as our competitors, profit from selling the data gleaned from them. The MSRB's attempt to centralize markets will lack the monitoring built into the ATS'. The potential for stale offerings, transposed prices, and phantom positions can cause more confusion than clarity and threaten the firms who have helped bring transparency to the market. Furthermore, we offer tools to a sophisticated clientele. The MSRB's consideration for added features requires careful consideration. Additionally, bids wanted data is extremely variable and subjective. Does a bond with two bids versus a bond with 8 bids say anything about the quality of the bid? If approximately 30% of the items out for the bid result in trades, then what information is gained from the other 70%? Were the bids too low or was the seller too high? What about differing firm times, collection times, or the time of day it was placed for the bid? While one can argue more information is better than less, data for data's sake is not information to those who do not know how to use it.

As previously noted, the ATS community has already built what the MSRB is proposing. While each ATS has some unique content and much duplication, the only burden for participants is to check the different ATS's to insure best pricing as some firms are blocked from seeing other firms' inventory. Other firms take pricing feeds directly from the ATS's and model using their own systems. If the MSRB wished to have a central marketplace, it would be much more economical for dealers or ATS's to check each other's price levels as opposed to adding another venue to the mix. By way of comparison, this is exactly what Regulation NMS accomplished; it mandated that participants check other market sources. It is our view that this should be the goal of the Board, not to try to impose an exchange model on a market that does not have the market depth to warrant one.

Thank you for giving us the opportunity to respond.

Sincerely,

Thomas S. Vales
Chief Executive Officer