

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

Dear Mr. Smith,

Regional Brokers, Inc. (RBI) welcomes this opportunity to comment on changes to MSRB rule G-18.

RBI is a Municipal Securities Broker's Broker (MSBB) located in Philadelphia, Pa. RBI acts as a Broker's Broker, trading only with FINRA member firms. RBI provides bid wanted auctions and negotiates trades between its counterparties in an undisclosed manner. RBI has no "customers" in the definition of FINRA.

RBI's comments contain two parts; one that addresses how the Rule could impact RBI's business model directly, and one that addresses how the Rule could impact RBI's business model indirectly.

Part One- Direct Impact on MSBBs

The MSRB, in its "Summary of Draft Rule G-18 and Draft Amendments to Proposed Rule G-48" states the following- "Consistent with this current policy, and in light of the role of broker's brokers in the municipal securities market in providing liquidity, paragraph (b) does not prohibit the use of a broker's broker, unless it would be inconsistent with the best execution obligation in paragraph (a)."

RBI would comment that it hopes that the MSRB will continue to make the above statement clear to all market participants; that the new rule regarding Best Execution does NOT prohibit the use of Municipal Securities Broker's Brokers (MSSBs) unless it proved detrimental to the price received by the customer.

RBI believes that it and other MSBBs can play an important role in the market by providing increased liquidity and advantageous pricing for buyers and sellers of municipal bonds, thereby increasing the chance of best execution for the dealer's customer.

RBI also understands its obligation to step out of any trade that might interfere with the ability of the customer to receive best execution, and is perfectly willing to do so.

Part Two- Indirect Impact on MSBBs

The municipal market is a negotiated, subjective market, where prices of bonds are developed based upon many factors, including supply and demand, interest rate fluctuations, credit-worthiness of an issue, and cost of carry. Traders make

assumptions about these and other factors as they decide what price they should pay for a bond in order to be able to sell it at a profit. Unlike the stock market, where the trades of securities are instantly matched between buyers and sellers, traders in the municipal market must often be willing to take bonds into their inventories and carry them for days or weeks.

The fact that assumptions play a role in the pricing of municipal bonds means, inherently, that there can be no exact price at which a bond should trade on any given day.

RBI's business model is based on the willingness of traders to place bids on auctions run by RBI, with the intent of buying bonds and selling them at a profit either to their customers or to other dealers. RBI believes that an attempt to hold traders to a strict "best execution" rule would have a chilling effect on the willingness of some traders to place bids on these items, in a market that already faces liquidity problems. The Rule could damage the market for those same participants that the MSRB is trying to protect- the individual bondholders that make up such a great percentage of the marketplace.

Perhaps the following story, which I related to a SIFMA roundtable that I recently attended, will give an example of the sort of illiquidity that we are facing.

RBI had a 10m odd lot for the bid. As always, we contacted all the potential bidders we could, including one trader to whom RBI had sold a matching piece of 100m the previous day, at 98. When asked for a bid, the trader replied that he could not bid the item. We reminded him that he had purchased the 100m on the previous day at 98. His reply was, "Yes, and I put those bonds away, as 100m, at 98.25. But I cannot sell a 10m piece at the same price I sold a 100m bond piece. And, if I buy them at the price I would need to in order to be able to resell them, I am afraid that a regulator will challenge me on the trade, telling me that I have paid too little for the bonds, because they will use yesterday's trade at 98 as a benchmark for where a bond should trade. So, I am no bid for the bonds."

RBI ended up trading the bonds to a bidder that was an even lower bid than the original buyer might have been- the second buyer had no recent purchases of the bond to make that trader feel as vulnerable to scrutiny. The bid was within the parameters that RBI had established for a "fair and reasonable" price on the bonds, but it was still discouraging not to be able to provide the better bid that we believed we might have been able to achieve for bonds that were being sold, obviously, from a retail account.

The implementation of a "best execution" rule could exacerbate this already difficult situation. Traders who, despite being the best potential bidder on bonds in the market on a particular day, will be even more leery of exposing themselves to regulatory scrutiny when they fear that regulators might argue that there is only one exact price that should be paid for a bond. Furthermore, traders will not have

the advantage of “hindsight” that a regulator might use when looking back at trades done weeks or months in the past.

Currently, the market uses “fair and reasonable” to gauge whether a trade has been properly executed. When a “best execution” rule is put into effect, what guideline will the MSRB use to gauge the proper price paid for a bond- other than prices that are reported through EMMA? But, which prices on EMMA are correct? The comparisons that are used do not take into account the many intrinsic reasons that bonds may trade at various prices, including size of the block, market fluctuation, and supply and demand. If a trade is done in the morning at 86, and another later in the day at 90, which one was correct? Were they both correct? What is the basis for challenging the price of either trade? At this time, the MSRB is unable to truly identify the correct price. Until there is enough price transparency to see large samples of the prices at which a bond trades, there can be no measure of the absolute, and therefore, best execution, price. And, given the fact that some bonds trade only once or twice a year, or less, it would seem that the volume of information may never become available. Therefore, as the SEC recommended in its SEC Report, RBI would request guidance from the MSRB to assist dealers in demonstrating compliance with any new best execution requirements, and clarity to its enforcement regulators.

Thank you again for giving us the opportunity to comment on this proposed Rule, and RBI looks forward to a continuing dialogue regarding how to achieve the goals of the MSRB regarding the prices at which municipal bonds trade.

Sincerely,

H. Deane Armstrong
CCO
Regional Brokers, Inc.