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Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

RE: 2014-20 – Request for Comment on Draft Rule Amendments to Require Dealers to Provide Pricing Information on Retail Customer Confirmations

Nathan Hale Capital, LLC is a fixed income institutional broker-dealer. Although we do not have any retail customers, we provide liquidity to broker dealers who have retail customers. It is our opinion that this proposal will significantly impact what has been described as “retail-size transactions” and the “retail-size” secondary market.

Best execution has been a focus of the regulators for quite some time now. We are concerned the current proposal may have un-intended consequences which ultimately hinder best execution for retail customers.

First, to circumvent the markup disclosure, it will be natural for salespeople and the bond desks at the retail broker dealers (primarily those with significant balance sheets) to sell bonds from their internal inventory. The reason they will focus on this is because these transactions will not report on confirmations and it will help them avoid “cost conversations” with clients. Please keep in mind that by focusing on their own internal inventory, as opposed to offerings from other broker dealers that may be more attractive and suitable (Price, Yield, Rating, Credit, Diversification, Portfolio Management), they are clearly being driven from best execution. It could put the salesperson in a position to do the wrong thing for their customers.

Second, broker dealers with large captive retail customer bases will look to internalize retail trading flow, i.e. buys and sells from customers. (Some of which already occurs when a broker dealer with a retail customer base dealer puts out a riskless bid wanted, receives the high bid, and then “tops” the

high bid). They will reduce transactions with other broker dealers, who are currently the “liquidity providers”, in order to circumvent the disclosure. The liquidity providers’ balance sheets and overall trading risk will increase as their turnover will decrease, forcing wider markets and weaker bids on “retail size” bids wanted (worse two-way execution for retail sellers). Broker Dealers with large retail customer bases will increase their balance sheets to take advantage of the weaker bid sides on the wider markets and will boost their revenue at the expense of their own customer base. These broker dealers may also look to transact with an affiliate company, if it would help the firm provide more favorable reporting. Transactions with affiliates/sister companies should be reported from the original cost basis.

Third, as turnover decreases it will be much harder for broker dealers that are the liquidity providers to stay in business. There will be a reduction in the number of bidders that currently help provide best execution for “retail size trades.” As there will be less competition among dealers, bids will become weaker and markets wider. Each dealer can only commit a certain amount of capital. Once they have reached their limits, they will no longer be able to compete and provide the services and liquidity that they have been for the retail customers. Ultimately, the “Market” becomes more fragile.

Considerations:

Emma.msrb.org - The price discovery function on Emma is a far better tool of viewing actual relevant trade data. Bonds in similar states, sectors, maturities, and rating categories can be easily compared. A focus on educating the retail client about how to access and use this data should be a priority.

True Cost Picture – The focus of the proposed rule only considers the price of the transaction and revenue generated. It would not provide the retail investor with actual profit (or loss) of the trade realized by the broker dealer. For example, what if a bond is sold to a client at cost? By the time expenses (Bloomberg, Clearing Fees, Office Space, to name a few) are considered, the result is actually a loss to the broker dealer.

Effect on Risk Management and Customer Prices– Traders will spend more time managing the disclosure rule than their positions. At a time when volatility is increasing due to less activity from broker dealers, the industry should consider focusing more on risk management.

Firm Blocking- Currently there is an issue within most fixed income products where broker dealers are not allowing their retail customers or their advisors to view competitive offerings/markets from external dealers. It is generally a decision made by management at firms with large retail client bases in order to internalize their retail trading flows (kind of like their own dark pool) and maximize their trading desk’s profits for their firm. We would expect for this proposal to lead to more blocking and hinder best execution.

Suggestions:

FINRA may want to consider creating and disclosing a scale (Expensive – Moderate – Reasonable- Cheap) of markups, based upon the size and maturity of the trade and require broker dealers to choose the acceptable range on retail customer confirmations. Based upon the markup on the transaction by the Advisor, the applicable range would be marked on the confirmation and the retail customer would know how they were treated.

Transaction Cost Scale (On Retail Customer Confirmations)

Expensive	Moderate	X	Reasonable	Cheap
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Another alternative would be to disclose all the trades/prints within the security for six months or 1 year on the confirmation to clients designated as "Retail Customers". This would provide the customer with a greater range of information to determine the market price, range, and the mark-up/commission.

Why limit the proposal and process to just same day, secondary market "retail trades"? If there are going to be new disclosures on confirmations, it is our opinion that all trades to designated "Retail Customers", regardless of time and size should be included in this proposal. Finally, why would it be limited to only secondary market trades? Why should new issue trades be excluded?

Other:

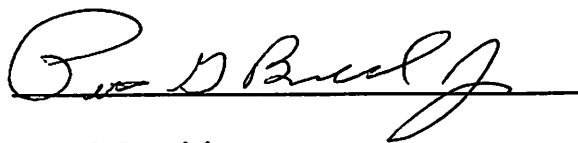
FINRA is concerned with helping the retail investor determine value of a specific security. A price differential disclosure cannot tell someone what the intrinsic value of a security is because there is no regard to that person's risk tolerance, investment objectives, cash flow needs or portfolio management strategy as a whole.

Scenario - What happens when a firm loses money on a trade (intraday) and the confirmation shows a loss to a client? Will the price or suitability be questioned by the customer? – The professionals just took a loss on that bond! If the question arises, how should an Advisor handle that call?

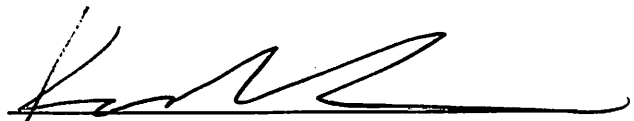
Since the confirmations are in question, and will possibly be overhauled, please consider showing the anticipated future cash flows (barring default) that the customer will receive on a "Buy" Confirmation. This would be valuable and useful information for retail customers.

Thank you for your time and consideration.

Sincerely,



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