



Invested in America

October 3, 2012

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE.
Washington, DC 20549

In regard to File Number SR-MSRB-2012-07

Dear Ms. Murphy,

I am writing to comment on the “Notice of Filing of Proposed Amendments to the Real-Time Transaction Reporting System Information System and Subscription Service” (File Number SR-MSRB-2012-07, the “Proposal”), a proposal by the Municipal Securities Rulemaking Board (“MSRB”) related to large-size trade reports on the MSRB’s Real-time Transaction Reporting System (“RTRS”). SIFMA¹ generally supports the MSRB’s Proposal and urges the Commission to approve the rule change as proposed.

Background

The MSRB operates the RTRS, a system to collect and disseminate prices and certain other information on transactions in municipal securities in near-real time. Brokers, dealers and municipal securities dealers that are members of the MSRB are required under MSRB Rule G-14 to submit required information on executed transactions in most municipal securities to the MSRB within 15 minutes of execution. The MSRB then publicly disseminates most of the terms of those transactions through its Electronic Municipal Market Access (“EMMA”) system and through data subscriptions. Certain information, such as the identities of dealers making trade submissions, is provided to the MSRB under Rule G-14 but is not disseminated publicly.

Since the current version of the MSRB’s trade reporting system was put in place in 2005 and in the “T+1” dissemination system that existed before 2005, the MSRB has collected information on the par sizes of executed trades. For trades of \$1 million par amount or smaller, the MSRB disseminates the actual sizes of the transactions in real time. For trades greater than \$1 million par amount, the MSRB masks the actual size of the trade in its real-

¹ The Securities Industry and Financial Markets Association (SIFMA) 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.

time dissemination and instead indicates the trade size with a “1MM+” designation. The actual transaction size is disseminated publicly five trading days later. The MSRB implemented this delay in the dissemination of actual large trade sizes as a way to protect the identities of parties to large trades and to help protect market liquidity.

On June 1, 2012 the MSRB published a Request for Comment² on a proposal to eliminate the large trade size mask and to disseminate actual large trade sizes in real time. SIFMA submitted a comment letter on that proposal³ where we argued that eliminating the large trade size mask completely could potentially threaten market liquidity. We also pointed out that other entities that oversee real-time transaction reporting systems for securities and financial products such as the Financial Industry Regulatory Authority (“FINRA”) and the Commodity Futures Trading Commission (“CFTC”) have adopted large trade size masks in their systems explicitly for the purpose of protecting the identities of parties to transactions and protecting market liquidity. In addition, we stated that the MSRB could raise the threshold for the large trade size mask from \$1 million to \$5 million par amount without any significant deterioration in liquidity and we asked the MSRB to adopt that approach.

Discussion

In its Proposal, the MSRB has proposed to amend its policy governing the RTRS system in the manner we recommended. Under the Proposal, the large trade size mask would be raised to trades larger than \$5 million par amount.

We agree with the approach the MSRB has proposed. We feel that a trade size mask for transactions larger than \$5 million par amount represents a reasonable balance between promoting price transparency and protecting liquidity. Also, as the MSRB has pointed out, under the proposed new threshold, the number of transactions where the size would be masked in real time would be relatively small. That is not to say that we have no concerns about the effect of a larger trade size mask on market liquidity, particularly for lower rated or thinly traded securities or in times of market stress. However, given that a large majority of outstanding municipal securities are rated as investment grade, we believe the \$5 million threshold represents a reasonable trade-off between transparency and liquidity. The \$5 million threshold is also consistent with the trade size mask threshold for investment-grade corporate bonds under FINRA’s Trade Reporting And Compliance Engine (“TRACE”) system.

We are concerned with one element of the Proposal. In the Proposal, the MSRB states that it “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.” While we agree with the MSRB’s proposal, we are concerned from the tone of the cited discussion that the MSRB has prematurely determined

² Municipal Securities Rulemaking Board, MSRB Notice 2012-29, “Request for Comment on Elimination of Large Trade Size Masking on Price Transparency Reports,” June 1, 2012.

³ Letter from Michael Decker, SIFMA to Ronald W. Smith, MSRB, June 29, 2012.

that it will eventually eliminate the trade size mask entirely, presumably under the assumption that such an action would not negatively affect market liquidity. Although the MSRB states that it “plans to continue to evaluate whether this threshold can be raised further or completely eliminated,” the MSRB also states that this evaluation will be undertaken “with a view towards bringing full transparency of exact par values to the municipal market in real-time.” The MSRB’s discussion suggests that it has already determined, before its “evaluation” of transparency and liquidity is complete, that it will eventually eliminate the trade size mask entirely. We hope the MSRB will undertake a thorough and genuine analysis of the potential market effects of any future changes to the RTRS dissemination system before proposing additional changes.

Conclusion

We thank and commend the MSRB for taking a thoughtful approach to expanding its RTRS dissemination system. SIFMA has long supported reasonable initiatives to improve price transparency in the municipal market and across the capital markets, and the Proposal represents just such an initiative. We urge the Commission to adopt the MSRB’s Proposal as proposed.

We appreciate the opportunity to present our views. Please do not hesitate to contact us if you have any questions.

Best,



Michael Decker
Managing Director and Co-Head of Municipal Securities