Comment on Notice 2013-03

from James Korth, J W Korth & Company LP CRD 26455

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Comment:

As a dealer who specializes in fixed income I have some basic observations.

1. The public dissemination of fixed income information has diminished spreads for many customers and pressured firms to replace the basic trading revenue with other products. In fact we have discussed it at the office many times that this seeking to replace revenue was a large thrust behind the whole mortgage securitization debacle that brought on the financial crisis.

2. The revenue lost by many small firms was so severe that many of them have ceased to exist or have become RIAs rather than broker dealers. Consequently the liquidity of the entire market may be diminished as a result of "transparency".

3. Now with Dodd Frank impinging the trading operations of the banks we can expect that capital available to hold bond inventory will be further diminished especially if markets become more transparent and therefore less rewarding to market makers. The result far less liquidity for the customer.

4. These same factors have been at play in the equity markets for many years and now those markets are now roiling electronic casinos when they once were lower volume sources of long term investment.Stock brokers can no longer afford to do the heavy research on equities for thier clients and are now basically relationship managers for mutual funds and other money managers whose fees are high and often unnecessary. Faith in the markets by retail customers is low as they believe its simply rigged to be the provence of big hedge funds and other "dark pools". Do we want this to happen to the bond markets?

5. Does the public who does not purchase the information systems or do the research it requires to really know the details of a given security really deserve to know the exact details of what it costs to own it? In the bond market the basic Bloomberg costs $1850 a month to know the details of a given bond and then you can add perhaps $500.00 more for specific groups of bonds. Add and office and phones and compliance and clearing and you have got at least $5000 a month. He needs about $10,000 a month to make it worthwhile. A diligent broker may do 30 -40 solid researched trades a month. We get customers questioning why it costs as little as $100.00 to do a trade. Customers do not understand the cost structure. We need to average about $500.00 a ticket to operate conscientiously and profitably and not take short cuts. How can we keep bridging that gap as transparency increases? Should we start looking at higher risk bundled products or more reverse convertibles? Maybe high risk private placements will replace the revenues.What is your vision of the industry as regulators? Where do you want it to be? Was Arthur Levitt right went he sent this whole ball rolling? Did he really understand the costs of doing business the right way?

Lets step back here and think about the long term health of the municipal market before getting overly focused on more transparency. Lets really consider what it takes to earn a reasonable return on capital and place quality products in customers hands and not incent the industry to be creative and risky with the savings of the nation.

The bottom line is do we want our industry to compete on a race to the bottom price driven by transparency with its unintended consequences or service driven by overall performance? I vote for the latter.