



Municipal Securities Rulemaking Board

May 20, 2015

Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Response to Comments on SR-MSRB-2015-02**

Dear Secretary:

On March 19, 2015, the Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“SEC”) a proposed rule change consisting of amendments to the MSRB’s Real-Time Transaction Reporting System (“RTRS”) and subscription service (the “proposal”). The SEC published the proposal for comment in the Federal Register on March 23, 2015<sup>1</sup> and received three comment letters.<sup>2</sup> This letter responds, as appropriate, to the comments, many of which are substantially similar to previous comments on the related MSRB requests for comment.<sup>3</sup> Previous comments are addressed in the filing discussing the proposal, which filing is fully incorporated herein by reference.

All commenters support MSRB efforts to improve transparency in the municipal securities market. FSI states that it supports the amendments to RTRS identified in the proposal and “believe[s] they represent incremental but important enhancements to the customer transaction reporting process.” BDA states that it “supports increased transparency in the

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<sup>1</sup> See Exchange Act Release No. 74564 (March 23, 2015), 80 FR 16466 (March 27, 2015) (“SEC Notice”).

<sup>2</sup> See letters from Michael Nicholas, Chief Executive Officer, Bond Dealers of America (“BDA”), dated April 17, 2015; David T. Bellaire, Executive Vice President & General Counsel, Financial Services Institute (“FSI”), dated April 17, 2015; and Leslie M. Norwood, Managing Director and Associate General Counsel, Securities Industry and Financial Markets Association (“SIFMA”), dated April 17, 2015.

<sup>3</sup> BDA and SIFMA submitted comments in response to MSRB Notice 2013-02 (January 17, 2013) (requesting comment on the appropriate standard for “real-time” reporting and dissemination of transaction price and related information, as well as on baseline technology, processing and data protocols for post-trade transaction information) (“January Release”) and MSRB Notice 2013-14 (July 31, 2013) (requesting comment on enhancements to data elements disseminated publicly through RTRS) (“July Release”). All of the commenters submitted comments in response to MSRB Notice 2014-14 (August 13, 2014) (requesting comment on the specific components of the post-trade reporting and public dissemination enhancements as well as on the likely benefits and burdens) (“August Release”).

municipal securities markets.” Neither BDA nor FSI opposes any of the specific changes in the proposal, but SIFMA, while supporting MSRB’s goal of improving municipal market transparency, expresses concerns with certain aspects of the proposal. However, SIFMA acknowledges the “methodical manner in which the MSRB has proceeded with obtaining input regarding these proposed changes.”

#### Expanding the Application of the Existing List Offering Price and RTRS Takedown Transaction Indicator

The proposal would expand the application of the existing List Offering Price and RTRS Takedown Transaction indicator currently used by brokers, dealers and municipal securities dealers (collectively “dealers”) acting as sole underwriters, syndicate managers, syndicate members, or selling group members on the first day of trading in a new issue. Both commenters that addressed this change supported the change. FSI states that it “supports expanding the application of the List Offering Price and RTRS Takedown Transaction” indicator and notes that the changes “will ensure regulators and investors have a more accurate view of municipal security pricing.” SIFMA notes that this change “will conform the rule to widespread industry practice” and states support for requiring distribution participants to use the List Offering Price and RTRS Takedown Transaction indicator because distribution participants perform “a similar function to a selling group member” and since distribution participant transactions that would be identified by the indicator “do not provide meaningful information about the price to the market for the securities.”

Apart from its support, SIFMA requests that dealers be able to utilize the indicator before the effective date of the proposal “without risk of an enforcement action,” noting that some dealers currently have programmed systems to use the existing List Offering Price and RTRS Takedown Transaction indicator in the expanded manner contemplated in the proposal. The MSRB acknowledges that industry practices in this area have evolved since the introduction of the existing List Offering Price and RTRS Takedown Transaction indicator, but does not believe it would be fair to those dealers that have not programmed systems to use the existing List Offering Price and RTRS Takedown Transaction indicator in the expanded manner contemplated in the proposal to advance the timing of the effective date of this component of the proposal. Further, the MSRB does not believe it is relevant to a determination of whether to approve this proposal whether dealers utilizing the existing List Offering Price and RTRS Takedown Transaction indicator in the expanded manner contemplated in the proposal prior to the effective date would be subject to enforcement action.

#### Establishing a New Indicator for Customer Trades Involving Non-Transaction-Based Compensation

The proposal would establish a new indicator to distinguish in price transparency data customer transactions that do not include a dealer compensation component from those that include a mark-up, mark-down or commission. FSI states that it “support[s] the creation of the new indicator” and notes that “[w]hile there will be costs to implement this indicator, [FSI] believe[s] that it effectively promotes price transparency for investors.” BDA also supports the

creation of this indicator and notes that it “would provide the users of trade transparency products with information that could explain certain variations in trade prices and assist in best execution determinations.”

SIFMA acknowledges that this new indicator “would be helpful for transparency purposes” but suggests alternative means of achieving this benefit. SIFMA suggests that the MSRB disseminate information indicating whether a trade was done on a principal or agency basis, which is information currently collected by RTRS for regulatory purposes and not disseminated publicly. SIFMA notes that “[p]rincipal trades typically involve transaction-based compensation” and the MSRB could identify any agency trades reported that do not include commission.

The MSRB believes that to ensure that this new indicator applies to all transactions involving non-transaction-based compensation, it is critical that the indicator apply to principal trades that do not include a mark-up or mark-down. Further, while acknowledging that dealers currently report the commission charged on agency trades reported to RTRS, the MSRB believes that it is important for dealers to affirmatively indicate on agency transactions that no commission was charged using the new indicator. This would provide for an additional data quality measure as well as enable dealers to program systems to include the indicator for all transactions involving non-transaction-based compensation as opposed to only a subset of such transactions.

SIFMA also requests that this indicator only apply to transactions involving non-transaction-based compensation “in a customer account that is subject to an arrangement that does not provide for dealer compensation to be paid on a transaction-based basis.” The MSRB is not proposing to limit the application of the indicator in this manner because this indicator is intended to distinguish in price transparency data all customer transactions that do not include a dealer compensation component from those that include a mark-up, mark-down or commission and is not intended to distinguish such transactions based on the type of compensation arrangement associated with a customer account.

#### Eliminating the Requirement for Dealers to Report Yield on Customer Trade Reports

The proposal would eliminate the requirement for dealers to include yield on customer trade reports. Consistent with the approach under which the MSRB calculates and includes in disseminated RTRS information yield on inter-dealer trades, the MSRB would calculate and disseminate yield on customer trade reports. BDA states that it “reiterates its support for the MSRB’s proposal to eliminate the requirement for dealers to include yield on customer trade reports and for the MSRB to calculate and disseminate yield to worst for customer trades, much like it does currently for inter-dealer trades.” FSI also states that it “supports eliminating the requirement for dealers to report yield on customer trade reports” and notes that the change “would also ensure that the calculation and dissemination of yield through RTRS will be consistent for both customer and inter-dealer trades” and also notes that it would “bring RTRS procedures in line with TRACE reporting procedures.” SIFMA states that it “generally supports [the proposal], as it would harmonize the reporting paradigm with the FINRA’s TRACE system

and be helpful to the broker-dealer community due to the reduction in questionable trade reports due to a difference in the broker-dealer calculated yield and the MSRB's calculated yield."

Notwithstanding SIFMA's support for this change and the benefit of a reduction in questionable trade reports that would result from it, SIFMA states a concern that the questionable trade errors "alerted broker dealers to trades where the dealer calculated yield was outside the acceptable tolerance from the MSRB calculated yield" and that these errors facilitated dealer reconciliation of "differences in call features or day count calculation." BDA, on the other hand, supports this change and notes that "[d]ealers would benefit from the reduction in compliance and operations efforts required to address error feedback from the MSRB." While the MSRB agrees that the questionable trade errors arising from differences in dealer and MSRB calculated yields provide a benefit in identifying security master and day count discrepancies, MSRB does not believe that this benefit outweighs the burden on dealers associated with researching and reconciling all questionable errors. Further, the MSRB notes that dealers would continue to be able to compare dealer calculated yields with MSRB calculated yields by viewing MSRB calculated yields on the EMMA website.

SIFMA also notes a concern that MSRB and dealer yield calculations may differ for customer transactions executed on a basis other than yield to worst or in cases where MSRB and dealer call information differs, which SIFMA states "may lead to investor confusion." MSRB yield calculations under the proposal would be done in a manner consistent with the requirements of MSRB Rule G-15(a), on customer confirmations. Accordingly, irrespective of the basis on which the transaction was executed, the yield calculation performed by RTRS under the proposal would match the calculation as required to be performed by dealers when generating customer confirmations. The MSRB therefore disagrees with SIFMA's concerns related to transactions executed on a basis other than yield to worst. With regard to the potential for differing MSRB and dealer call information resulting in differing MSRB and dealer calculated yields, the MSRB plans to display the call price and date to which yield was calculated, which should provide sufficient transparency to the inputs used in MSRB yield calculations to explain any calculation differences that arise. BDA supports this approach and states that "[s]howing the inputs MSRB used in its calculation will explain to customers any potential discrepancy between the MSRB-calculated yield on EMMA and the dealer-calculated yield."

#### Establishing a New Indicator for ATS Transactions

The proposal would establish a new indicator for identifying transactions executed using the services of an alternative trading system ("ATS"), which indicator would be included in the information the MSRB disseminates publicly. FSI states that it supports "the creation of an ATS indicator" and further notes that "[w]hile adding this field will result in implementation costs, [FSI] believe[s] the [proposal] represents a balanced approach that will limit the burden on dealers while providing the MSRB with additional insight into municipal market structure." BDA notes the implementation costs of the proposed ATS indicator but states that it "appreciates the MSRB's efforts to reduce the burden on dealers by ... utilizing the existing special condition indicator field in RTRS."

SIFMA suggests that the MSRB identify those ATS transactions executed with an ATS that takes a principal position between the buyer and seller, in a manner similar to how the MSRB currently identifies trades executed with broker's brokers. The MSRB believes a consistent approach should be taken for all transactions executed using the services of an ATS by requiring dealers to include the ATS indicator on trade reports, regardless of whether the ATS takes a principal position. The MSRB believes that this approach would reduce the potential for dealer confusion surrounding the requirement to include the ATS indicator and would help ensure that a dealer currently using the services of an ATS that takes a principal position is prepared to include an ATS indicator on trade reports if that ATS determines in the future to change its business practice and not take a principal position between the buyer and seller.

### Economic Considerations

As previously noted, the MSRB solicited public comment on various aspects of the proposal on three occasions. The comments received through the public comment process enabled the MSRB to refine a broad set of potential changes that could be made to the limited set of changes in the current proposal. The MSRB believes that the proposal best balances the improvements to post-trade price transparency that would be gained with the regulatory burdens that would be imposed on dealers. SIFMA notes that it "believe[s] that evaluating the costs and burdens of new regulation, and weighing those costs against any benefits derived from such new regulation, is critical to ensure efficient regulation." The MSRB notes that in each of the three solicitations for public comment the MSRB requested input on the operational costs and burdens of each proposed change as well as the benefits that could be achieved. The responses from commenters, to the extent they addressed those issues, well informed the MSRB's determination to seek those changes that would balance the improvements to post-trade price transparency with the regulatory burdens that would be imposed on dealers.

### Implementation / Testing Period

The MSRB has requested an effective date for the proposal of no later than May 23, 2016 and announced by the MSRB in a notice published on the MSRB website no later than sixty (60) days prior to the effective date. Further, the MSRB stated in the proposal that it plans to provide at least a six-month testing period in advance of the effective date to provide dealers and subscribers time to make necessary changes. BDA notes that smaller dealers may need more than six months to make changes necessary to comply with the proposal. SIFMA requests that the MSRB publish technical specifications nine months prior to the effective date.

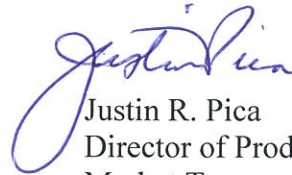
The MSRB anticipates publishing updated technical specifications reflecting the changes in the proposal in early September 2015. Based on the requests for more than six months time to make necessary system changes, and in lieu of the plan recited in the proposal to set an effective date of no later than May 23, 2016, the MSRB now intends to set a specific effective date of May 23, 2016, which would provide dealers with time to comply until the latest effective date contemplated by the proposal. This revised schedule would, in response to BDA's and SIFMA's suggestions, likely provide dealers and subscribers with nearly nine months to make necessary system changes after publication by the MSRB of technical specifications. If the SEC approves

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the proposal, the MSRB believes that dealers and subscribers would have sufficient time under this anticipated schedule to make necessary system changes.

If you have any questions regarding this matter, please do not hesitate to contact me at 703-797-6600.

Sincerely,

A handwritten signature in blue ink, appearing to read "Justin R. Pica". The signature is fluid and cursive, with a large initial "J" and "P".

Justin R. Pica  
Director of Product Management -  
Market Transparency