



October 3, 2022

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW
Washington, DC 20005

RE: Comment on MSRB Regulatory Notice 2022-07

Dear Mr. Smith,

Belle Haven Investments, L.P. (MSRB ID: A3977, CRD# 29278), a dually registered investment advisor and broker-dealer, appreciates the opportunity to provide comments to the Municipal Securities Regulatory Board's ("MSRB(s)") Notice¹ requesting comment on its proposed alteration of MSRB Rule G-14 to require the reporting of municipal securities to the Real Time Transaction Reporting System ("RTRS") within 60 seconds of the time of trade, down from the long-standing 15-minute reporting requirement.

Belle Haven is particularly concerned that the MSRB's Proposal will have forecastable negative effects that may materially and irreparably alter the MSRB's membership, possibly reducing the current number of dealers by over 80% and all but eliminating small business dealers and thus reduce market liquidity and price competition. As shown below, the MSRB's own statistics reflect that the majority of dealers reporting to the MSRB are "small firms" for which it is a business impossibility to install and pay for such automated electronic system solely to meet an arbitrary reporting deadline of 60 seconds. As described below, by enacting such a proposal, not only will the MSRB not provide additional market transparency, the MSRB will have severely reduced market liquidity as many, if not most, dealers will have to leave (or be forced out of) the municipal security marketplace because they cannot meet this new arbitrary requirement. Without small firms, retail customers will have fewer options, reducing retail customer liquidity as well as reducing the retail customer's negotiating power. Such an anti-competitive alteration to the long established and demonstrably successful practice of trade reporting should only be undertaken under the most compelling and comprehensive showing of necessity. The MSRB's current proposal wholly fails to provide evidence that the rule proposal would result in a material improvement of the municipal securities markets or to provide a serious analysis of the substantial costs of such a fundamental change. For these reasons, Belle Haven joins the other commenters in urging strongly that the MSRB revisit its proposal. Below are our comments.

¹ MSRB, "Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14 (2022-07) (the "MSRB Proposal").



The MSRB Proposal’s statistical data is evidence of a dealer industry which is compliance-minded.

The data that the MSRB uses to support its proposal to require nearly all municipal transactions to be reporting within 60 seconds of the time of trade reflects the fundamental lack of need or investor demand to warrant such draconian change. MSRB member firms are already steadily improving their report times and have been doing so for many years.

Table 1 of the MSRB Proposal provides an exemplary example of compliance-mindedness across all dealer firms, regardless of size, number of transactions, or number of employees. 99.5% of all reported trades between January 2021 and December 2021 were reported in compliance with MSRB Rule G-14 as it currently stands and has stood for the past 17 years. Not only does this reflect, in absolute percentages, a municipal dealer industry working to improve report times as soon as is practicable, but the table further shows that the report times are continuing to improve. As the table reflects, report times are 0.3% better than trade reporting within 15 minutes between October 1, 2011 through September 30, 2012, the last time the MSRB published this type of information.²

Table 1 also shows that, even *without a change* to the 15-minute reporting rule, the municipal dealer industry attempts to report as promptly as possible. The Table 1 reports that 76.9% (over three quarters) of all trades reported in 2021 were accomplished within 60 seconds. This too is an improvement of 3.5%, from the percentage of trades reported in 60 seconds between October 1, 2011 through September 20, 2012, just ten years ago.³

The data published by the MSRB plainly indicates that dealers are continuing to accelerate the speed of reporting without a rule change.⁴

The MSRB Proposal does not establish that any substantive clear benefit will result from reducing reporting time from 15 minutes to 60 seconds.

To justify such an enormous change to the longstanding practice for transaction reporting, one would expect the MSRB proposal to provide analysis of the clear and substantial benefit to the municipal securities marketplace. The proposal instead makes a fanciful and unverifiable claim that its proposal “would provide more immediate transparency from the remaining 23.1% of trades.” It is not at all

² See MSRB Notice 2013-02, Request for Comment on More Contemporaneous Trade Price Information Through a New Central Transparency Platform,” (January 17, 2013) [the 2013 Report].

³ See the 2013 Report.

⁴ The MSRB Proposal notes that “Over the past 17 years, with the ever advancing technologies in the marketplace, most trades are increasingly reported to RTRS in a much shorter timespan than required by Rule G-14, as discussed in Table 1....”



clear what the buzzword “transparency” is intended to precisely convey and the MSRB Proposal makes little, if any, attempt to support this assertion, as if this benefit is somehow self-evident.

The MSRB Proposal provides only one statistical example of the theoretical benefits to capturing the remaining 23.1% of trade reports (which are already reported within 15 minutes as per current Rule G-14) within 60 seconds. This example is apparently intended to support the notion that faster information equals more transparency, yet it does nothing to evidence an actual benefit. On page 7, the MSRB Proposal states the general supposition this way, “Under the proposed change, however, more market-wide trades would benefit from more recent trades being reported, as contemporaneous trades would provide more relevant pricing information than distant trades.”

How much information can be obtained from the 23.1% remaining trade reports that are not submitted within 60 seconds? In an attempt to answer this question, in Table 3 the MSRB analyzed the total universe of trades with same-CUSIP number matched trades between January and December 2021, where a matched trade was executed before the analyzed trade’s execution, but the executed trade was reported after the analyzed trade’s execution. In other words, the MSRB identified trades executed without the benefit of prior trade information of an already executed trade. For the 2021 calendar year, the MSRB identified only 251,635 trades from a universe of 7,146,711 trade reports that theoretically could have benefited from execution information of a prior trade.

Of the 3.5% of reported trades that could have potentially benefited from the additional information derived from a single trade, fewer than one in three of these trades would have had the additional one trade report at time of execution had the prior trade been reported within one-minute. In other words, even with a one-minute reporting requirement, the MSRB has only demonstrated that in all of 2021, 0.95% (67,946 of 7,146,711 reported) of all trades reported would have had any additional trade information under the proposed 60 second rule.

The MSRB’s analysis does not provide any evidence to establish that the additional reported trade would have actually “benefited” any of the 67,946 trades, *i.e.*, that the additional information would have materially changed any of the 67,946 trades. In sum, the MSRB’s “benefit” argument relies solely on the notion that 0.95% of all trades reported will have one additional data point before execution and asks the industry to assume, without providing any analysis, that the additional data point would meaningfully affect the following trade. In this respect, the MSRB’s analysis is incomplete and fails to meet the requirement that a rule change proposal show its clear benefit.⁵ Moreover, even

⁵ The MSRB also asserts that “comparable securities” would also benefit from the one additional trade reported immediately prior to the 67,946 trades. Here again, the MSRB does not provide any analysis or data regarding how many “comparable securities” could have utilized the additional



if one assumes that all 67,946 trades would benefit from the additional information, the benefit to this tiny percentage of trades is a wholly inadequate basis upon which to impose this rule change.

The MSRB concludes that this “more immediate transparency” will “reduce customer trade effective spread” and “result in a savings of \$78.3 million annually.” Based on the data provided, this outcome seems wholly implausible. The MSRB Proposal cites research that indicates that when the reporting requirement was shortened in January 2005 from the end of the day to 15 minutes after trade, there was an 11 to 20 basis point reduction in the effective spread. From this evidence, the MSRB Proposal then presumes that a reporting requirement shortened from 15 minutes to 60 seconds will necessarily produce an additional 5 basis points reduction in the effective spread. There is no reasonable basis to assume this will follow, and the MSRB Proposal provides no evidence in support of its claim of a 5 basis points narrowing of the spread other than to claim that it is “less-than-half of the lower end estimated impact from the 2005 changeover.” A reporting time period that has been reduced by hours (from end of day to 15-minutes in January 2005) is a qualitatively different proposition than a reporting time period that has been reduced by minutes (the proposed 15 minutes to 60 seconds), particularly where, as today unlike pre-2005, 76.9% of all reported trades are already reported within the 60 seconds.

The MSRB, with its unsupported presumption of a 5 basis points spread reduction, then applies the 5 basis points to all “non-institutional-sized customer trades only with a trade size of \$1,000,000 or less” thereby calculating a notional savings of \$78.3 million annually. The MSRB Proposal does not provide any evidence or explanation as to how trade information on only 67,946 trades per year (with over 7.1 million transactions per year) could possibly reduce the effective spread for all non-institutional-sized customer trades only with a trade size of \$1,000,000 or less by 5 basis points. The MSRB’s conclusion that the new rule will “result in a savings of \$78.3 million annually ...” has not been adequately substantiated.

The MSRB Proposal grossly underestimates the costs if the proposed rule is implemented.

Should the MSRB establish some incremental benefit to its rule change proposal, such modest benefit is dwarfed by the monumental costs to, and fundamental reshaping of, the municipal dealer community it would cause and the resulting adverse consequences to municipal securities investors arising from a severe contraction of market liquidity. The MSRB proposal does not adequately address the prohibitive costs to smaller dealers nor to the anti-competitive results of this proposal.

trade information, nor any data to show that the additional trade information would have materially changed the comparable securities which were executed.



Table 2 of the MSRB Proposal categorizes firms based on the number of trade reports submitted. With the supplemental information provided by the MSRB,⁶ the information identifies a total of 653 dealers reporting trade information from January 2021 through December 2021. Within this universe of 653 dealers, only 21 firms account for at least 1% of trades (collectively 67.7% of all 2021 trades reported), while 555 firms each account for 0.1% or less of trades (collectively 6.2% of all 2021 trades reported). These numbers indicate that the vast majority of dealers, approximately 85% of reporting dealers in business today and registered with the MSRB, are small firms.

We believe that the vast majority of these small firms, like ours, manually report trades to the RTRS through access to the web portal.⁷ Firms such as ours report in this fashion because the cost of automated electronic systems far exceeds the operating revenues of small businesses. In some instances, the small firms simply do not transact a sufficient number of trades to warrant such a costly purchase. At Belle Haven, when volume increases require a larger number of transactions be reported within the current reporting period, personnel are moved within the firm to adhere to the rule. Volume may simply increase, or it could be specific to large transactions with multiple trades, or receiving batched-orders, i.e., a group of transactions at one time.

Over the decades, we have observed that our securities professionals can enter the necessary information - cut and paste over the information to the portal, verify the accuracy of the information and submit the information - at a rate of approximately 10 trade reports per minute, assuming all necessary information is immediately available. Many issues arise that cause manual entry to be much slower. First, as should be apparent, manual entry does not necessarily begin immediately at Time of Trade. Not having the necessary information whether because of unfamiliar issues, new issuers in the system, or simply waiting for the information from the other side delays our ability to timely report. Large trades with multiple parties causing the entry of multiple trade reports, would require beginning entry of information on initial trades even before the completion of the overall large transaction in order to meet a new 60 second reporting clock.

The MSRB Proposal only acknowledges that “smaller firms” may have difficulty with the “upfront cost related to adopting new technologies or upgrading existing technologies to speed up the trading reporting for some dealers.” This is a severe underassessment. A small firm such as Belle Haven being forced to spend approximately half a million dollars for an automated electronic system solely to meet an arbitrary reporting deadline of 60 seconds would be far more than difficult, it is a business impossibility. Further, the expense does not end with “upfront costs.” Retention of third-party reporting systems such as Bloomberg does not solely involve a one-time expense; it is an ongoing

⁶ MSRB Memorandum, “Supplemental Data with respect to MSRB Notice 2022-07 Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14” (September 12, 2022).

⁷ The MSRB Proposal does not provide any data on the method of reporting either by size of firm or by report time.



expense. The MSRB proposal fails to consider the scope of this cost to small firms. It makes no reference to ongoing, annual expenses related to an electronic system that continues to evolve.

The MSRB Proposal suggests that small firms simply “increase human effort to ensure a shorter reporting lag after a trade execution to comply with the proposed change.” This is already done to the fullest extent possible in conducting business operations at Belle Haven, and we believe at the vast majority of other smaller firms, in order to meet regulatory requirements. This 60 second proposed reporting change would require a firm like Belle Haven to employ up to a team of 10 securities professions, each tasked with reporting 10 trades per 60 seconds in order to comply with the proposed rule. A small firm simply cannot double, triple or quadruple its personnel to comply with the proposed rule, and stay in business. As discussed below, this conclusion leads to the inevitable contraction in the number of municipal securities dealers who can provide trade execution and reporting services and the negative economic effects to municipal securities investors of such a profound reduction in the providers of such services.

The MSRB Proposal grossly underestimates the clearly forecastable negative consequences if the proposed rule is implemented.

As noted above, approximately 555 firms of the 653 reporting firms in 2021 are small businesses. The MSRB Proposal acknowledges at least 400 small firms and understates that some of them may find it difficult to meet the new reporting requirement. While the MSRB Proposal makes this overly delicate allowance, it speciously claims they only have a relatively minor presence and concludes, without any supporting evidence, that this massive culling will result in no significance change to competition. Clearly, this should be understood as the MSRB Proposal acknowledging that the imposition of the 60 second rule will, at minimum, force 400 smaller firms out of business, and simply presumes that this massive elimination of small businesses will not impact competition or change “the competitive landscape from investors’ perspective.”

We believe the MSRB Proposal grossly underestimates the effect of imposing the rule change. First, the MSRB rule proposal will have the immediate effect of forcing the overwhelming number of dealers registered with the MSRB to become habitual violators of the new rule. This consequence will leave such firms with only two choices: (1) close down their business; or (2) violate the rule until the MSRB imposes discipline (and eventually have their business closed down for them). In this way, the MSRB Proposal could have the effect, over time, of reducing reporting firms by 85% to approximately only 100. Second, eliminating 400 or more smaller firms eliminates the markets these firms create. While the MSRB Proposal argues that these firms only transaction 6.2% of all transactions reported, it should be understood that these firms also provide bids and asks on countless other issues, particularly smaller, local bonds and additionally generate market data on issues that transacted by other firms. Even where small firms are not the party executing the trade, their market data creates competition, which price benefits municipal securities investors.



We are also concerned that in a reduced competitive environment, the retail customer will be ignored by the surviving large firms which are increasingly focused on institutional trading, or program and algorithmic trading, which are their greater profit centers. The retail customer's liquidity and negotiating power will be reduced, when the customer is forced to go to a large firm. The competitive landscape for the retail investors will change for the worse.

The MSRB should not turn compliance-minded dealers into rule violators. The MSRB should consider alternatives.

Belle Haven is in complete agreement with the MSRB mission statement to "protect investors, issuers and the public interest by promoting a fair and efficient market and ensuring access to capital for communities across the country." The MSRB Proposal does not do this; rather, it harms these parties.

As described above, for the notional and unsupported "benefit" of less than 1% of all trades transacted in a year, the real world "cost" is the probable elimination of possibly 85% of the small firms registered with the MSRB. Under any reasonable analysis, the purported benefit of the new rule is not commensurate with its burden. As outlined above, the new rule would also unfairly discriminate against small firms, create a further barrier to entry which benefits the entrenched larger firms, and harm retail customers.

Belle Haven humbly suggests that if there is an actual concern that certain firms are manipulating trade reports within the 15-minute window of reporting, that certain firms are delaying reports, or that the MSRB does not have sufficient authority to review trade reporting activity within the 15 minute window, the MSRB should provide additional guidance that transactions will be examined and investigated to ensure that they are being reported as soon as practicable but no later than 15 minutes of the Time of Trade. This guidance can insure that trade reporting is not to be delayed for any purpose. Belle Haven believes that the MSRB should investigate trade reporting activity within the 15 minutes which appears manipulative or may compromise the efficient markets. Such an alternative action would not discriminate against small firms.

Whether or not the MSRB adopts this suggestion, in light of the MSRB Proposal failing to evidence the benefits to warrant a fundamental change, the failure to appreciate the enormous costs to municipal dealers, and the severe negative consequences to the municipal securities marketplace, Belle Haven strongly encourages the MSRB to revisit this proposal and conduct a more fulsome analysis before modifying the current rule.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Dalton", written over a thin horizontal line.

Matt Dalton
Chief Executive Officer