



**FALCON
SQUARE
CAPITAL**

October 3, 2022

Ronald W. Smith
Corporate Secretary, MSRB
1300 I Street NW,
Washington, DC 20005

RE: Comment on MSRB Regulatory Notice 2022-07

Dear Mr. Smith,

Falcon Square Capital, LLC appreciates the opportunity to provide comments to the Municipal Securities Regulatory Board's Notice requesting comment on its proposed alteration of MSRB Rule G-14 to require the reporting of requisite trade information to an RTRS Portal within 60 seconds of the Time of Trade (the "Proposal").

Falcon Square is a fixed-income broker dealer serving institutional investors, corporations, and municipalities. We trade the full spectrum of fixed-income securities, including corporates, municipals, treasuries, agencies, RMBS, CMBS, commercial paper, certificates of deposit, and structured products on an agency and riskless principal basis. We are certified Women Owned by the Women's Business Enterprise National Council (WBENC).

As discussed below, we believe the Proposal will drive the majority of firms – a large percentage of which are smaller broker-dealers like us – out of the municipal securities markets due to prohibitive costs. Further, the Proposal does not provide evidence to support how the change would result in a material improvement of the municipal securities markets. For these reasons, Falcon Square strongly urges that the MSRB revisit its proposal, especially as it relates to smaller firms and specialized fixed-income trading activity.

The Proposal would essentially require firms to implement costly electronic systems to report within the 60 second time period. Falcon Square and similar smaller firms simply do not transact a sufficient number of trades to warrant such a costly purchase. We believe we would have to spend approximately half a million dollars annually for an upgraded order management system ("OMS") to meet the 60 second reporting requirement as proposed. Even if we upgrade our OMS, we would still be unable to meet the 60 second reporting requirement for many trades because our "high touch" institutional agency and riskless principal trading activity is very personnel intensive: the same representatives engaged in trading are also involved in reporting the trades once agreed upon by all sides.

As a broker-dealer servicing institutional customers as an agent/riskless principal, we sometimes need more time than 60 seconds to confirm, execute, and report a transaction, as we must confirm both the buyer and seller sides of a transaction and, sometimes, a single trade can involve multiple buyers or sellers. For example, once a trade is agreed to by both sides, we must confirm several things, the CUSIP number, size, price, yield, trade and settle dates, the name, the firm, and accrued interest, often with multiple parties. Additionally, it is important to point out that for smaller firms or for firms that do not self-clear, the simple collection and transmission of data can take longer than one minute. Our system must capture execution data obtained

either electronically or manually, then send the trade data to our clearing firm. The clearing firm processes the trade into systems that match that trade information with other dealers and custodians. Simultaneously, the clearing firm transmits that trade data to the appropriate regulator for reporting. Data flows from our firm to the clearing firm, to the regulators, then back in the opposite direction with confirmation the data was received. If counterparties are not matched appropriately, any issues must be addressed and corrections made. This process is time consuming, but we have been able to meet the 15-minute reporting requirement of the current rule on a consistent basis. However, confirming both the sellers' tickets and buyers' tickets, sending the trades to our clearing firm for processing and reporting would be incredibly difficult, if not impossible, to perform for all of our trades in under 60 seconds, even with an upgraded OMS. The 60 second requirement would not allow sufficient time for review and correction of unmatched data within the reporting window. Additionally, if any of the systems went down or were experiencing system delays, our ability to report on time would be compromised.

We are concerned that the Proposal, as it is currently written, will reduce the number of, or eliminate, smaller brokerage firms like ours from the municipal securities market, as they will be unable to afford or adopt the changes suggested to meet the 60 second reporting requirement. In a reduced competitive environment, the small and midsize institutional customers who we service will be ignored by the surviving larger dealers who have the resources to fully automate. Although the Proposal states that "there should not be any significant reduction in the supply of services to investors, as these trades would likely migrate to other larger dealers," it is unlikely this would happen in practice. While larger institutional customers can trade on automated broker-dealers' municipal securities trading platforms or with the larger bond dealers, many of our smaller institutional clients are not a "fit" with these larger trading desks because they do not have enough volume or require the customized high-touch execution services that we provide. These clients are serviced by small to mid-sized broker-dealers like Falcon Square – which do not have the capacity to report every trade within 60 seconds. As such, our fear is that the Proposal will both eliminate smaller brokers like Falcon Square and harm the small and medium size institutional clients that we serve. If smaller brokerage firms like Falcon Square are forced out of the fixed income business, the overall market will be negatively impacted from a pricing and liquidity perspective.

In addition to harming an important segment of the existing municipal securities market, it is unclear, based on the data used in the Proposal, how a reduction in trade reporting time would improve transparency and reduce customer trade effective spread in the municipal securities market. The Proposal states that "investors...benefit from transparency (more and/or better information) by enhancing their negotiation power with dealers, therefore reducing customer trades' transaction costs," and includes references to research papers examining the effects of the 2005 change in reporting time from the end of a trading day to 15 minutes after trade execution to support the claim that a reduction in reporting time amounted in a statistically significant reduction in customer trades' average effective spread. These papers appear, however, to only discuss the effects that the reduction in trading time from reporting by the end of a trading day versus reporting within 15 minutes had on the municipal securities market. The Proposal seems to extrapolate the effects that the 2005 change to a 15-minute reporting

requirement had in the municipal securities market to support further reducing the reporting timeframe, without data to support this extrapolation.

As written, the Proposal would pose monumental costs to for small and midsize fixed income broker-dealers. The Proposal does not address the costs that smaller dealers will be forced to bear to implement more sophisticated and expensive automated reporting systems, nor the anti-competitive results that would consequently follow. As discussed above, a smaller firm like ours would have to spend hundreds of thousands of dollars more each year to establish and maintain an automated electronic system in order to meet the 60 second reporting deadline as proposed. Increasing human effort to be able to report trade executions within 60 seconds, as the Proposal suggests, is similarly unaffordable for every small to midsize firm. As previously discussed, the same representatives engaged in trading at Falcon Square are also involved in reporting the trades, given the nature of our institutional agency and riskless principal trading. Having more personnel would not reduce our reporting time to 60 seconds for every trade.

The Proposal acknowledges that firms will likely incur costs to meet the new reporting requirement, and that smaller firms may choose to relinquish their secondary market trading business due to high costs. The Proposal states, however, that the proposed change would not cause a “significant reduction in the supply of services to investors” because the smallest 400 firms accounted for less than one percent of all trades reported, and trades previously served by smaller firms would likely migrate to larger dealers. We believe the Proposal underestimates the effects of this rule change, as supplemental information provided by the MSRB identified a total of 653 dealers reporting trades in 2021. Thus, the Proposal will force a significant percentage – approximately 80%, based on MSRB-provided data – of broker-dealers to decide whether to close their business due to costs or risk violating the rule. Consequently, the Proposal would have the effect of reducing the number of reporting firms and thus competition. As discussed above, reducing competition among municipal securities brokers would also harm small and medium-sized asset managers.

Falcon Square is in agreement with the MSRB’s goal to “promote a fair and efficient market...that facilitates equal access to information and market transparency.” As outlined above, however, the new rule would be cost prohibitive to smaller firms, be incredibly difficult to meet with more complex or involved fixed income trades, and thus curtail customer access to the municipal securities market. We strongly encourage the MSRB to revisit this proposal and consider the economic challenges of smaller firms before modifying the current rule.

Sincerely,

A handwritten signature in black ink that reads "Melissa P. Hoots". The signature is written in a cursive, flowing style.

Melissa P. Hoots, CEO/CCO