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November 3, 2011

Ms. Peg Henry  
Deputy General Counsel  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

**Re: MSRB Notice 2011-50: Request for Comment on Revised Draft Rule G-43 (On Broker's Brokers), Associated Revised Draft Amendments to Rules G-8 (On Books and Records) and Rule G-9 (On Preservation of Records), and Draft Interpretive Notice on the Obligations of Dealers That Use the Services of Broker's Brokers**

Dear Ms. Henry:

Knights BondPoint<sup>1</sup> ("KBP" or "the KBP Platform") welcomes the opportunity to comment on Municipal Securities Rulemaking Board ("MSRB") Notice 2011-50, in which the MSRB requests comments on revisions to draft Rule G-43, and related revisions to draft amendments to Rule G-8 and Rule G-9 and on a draft interpretive notice concerning the obligations of brokers, dealers and municipal securities dealers ("dealers") that use the services of broker's brokers.

In MSRB Notice 2011-50, the MSRB states that the definition of a broker's broker is a functional definition that "focuses on the key function of a broker's broker - effecting transactions in municipal securities on behalf of other dealers." It is the view of KBP that this definition is too broad in the context of draft Rule G-43, in that it does not recognize key differences between Alternative Trading Systems ("ATS") which operate in an automated, systematic and non-discretionary manner and more traditional voice broker's brokers. KBP believes that narrowing the definition is appropriate, because the types of abusive behaviors which are the impetus for the MSRB's rule proposal are highly unlikely to occur in connection with transactions executed on an ATS that operates in an automated, systematic and non-discretionary manner.

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<sup>1</sup> Knight BondPoint is a division of Knight Execution & Clearing Services, LLC, a subsidiary of Knight Capital Group, Inc ("Knight"). Knight, through its subsidiaries, is a major liquidity center for foreign and domestic equities, fixed income securities, and currencies. Each day, Knight executes millions of trades across a wide range of securities. Knight's clients include more than 4,000 broker-dealers and institutional clients. Currently, Knight employs more than 1,300 people worldwide. For more information, please visit: [www.knight.com](http://www.knight.com).

KBP suggests that MSRB revise draft Rule G-43 to recognize that an ATS which operates in an automated, systematic and non-discretionary manner, unlike traditional broker's brokers, do not intermediate transactions in the manner contemplated in draft Rule G-43.

The Knight BondPoint ATS ("the KBP ATS"), for example, furnishes subscribers with an automated and transparent execution platform on which those subscribers may electronically conduct bid-wanted auctions and, or disseminate their bids and offers broadly to other subscribers and electronically interact with such bids and offers to consummate transactions. As a result, the KBP ATS, and other similarly situated ATSs, should not be considered a broker's broker for purposes of this proposed rule.

It is the understanding of KBP, that in the case of a traditional broker's broker, a dealer seeking to purchase or sell securities specifically chooses to utilize the services of a broker's broker because that dealer has an expectation the broker's broker has particular knowledge of the identities of other dealers that are likely to have an interest in a transaction and particular skills in negotiating within the relevant market. In making this choice, the dealer expects that the broker's broker will utilize that knowledge, together with its expertise and discretion to produce a transaction that represents the best execution given the prevailing market conditions. Broker's brokers exercise discretion and employ anonymity for both the buyer and seller in a bids wanted transaction. Given the level of discretion exercised to provide this service and meet the expectation of the parties involved, traditional broker's brokers charge higher fees for their services as compared to, for example, the fees incurred by subscribers for utilizing an ATS to conduct bids wanted activities.

In contrast, for example, ATS subscribers expect that an ATS operator such as KBP will act in a neutral, unbiased manner (much like an exchange), establishing consistency and setting non-discretionary rules for interaction on the platform by acting as a communications conduit between subscribers of the platform. This eliminates selective communication and the opportunity to introduce information asymmetries into the bids wanted process, e.g., color or standing of a subscriber's bid in comparison to other bids received on a particular bids wanted request.

By way of illustration, bids wanted requests on the KBP Platform are electronically broadcast and all prices received from bidders are routed to the bids wanted requestor, free of any commissions, or mark-downs, and on a disclosed (rather than anonymous) basis, providing greater transparency to the bids wanted submitter. In short, the price provided by one subscriber is transmitted directly to another subscriber. Subscribers are also offered the ability to define their parameters for the auctions they wish to conduct, such as the time allotted for bids wanted responses to be received from bidders. Therefore, the bids wanted requestor can choose to accept a bid based on the bids received directly from other subscribers of the KBP ATS. Once the transaction is consummated, the buyer is provided with appropriate cover bid information. No manual or human intervention occurs during the auction and KBP only intermediates a

limited number of transactions for the purposes of facilitating clearing and settlement of the transaction post-execution.

By conducting the bids wanted auction in this manner, the KBP platform promotes and maintains consistency on each and every bids wanted submission and the response to those submissions taking place on the platform. Furthermore, by establishing a non-discretionary, rules based system, KBP believes that an ATS helps protect the retail investor from the very behavior MSRB is determined to abrogate.

KBP provides transparency to subscribers involved in the auction process by providing access to pertinent municipal market data such as MSRB trade history information, as well as access to bid and offer information for similar bonds to aid their decision making for placing bids and evaluating the quality of bids received. In addition, subscribers utilize multiple ATS platforms to obtain fair pricing for their clients by submitting the same bids wanted requests across multiple ATS venues to ensure that a broad, diverse set of potential bidders are reached. Given these differences in business models, executing transactions via an ATS is typically a lower cost alternative to more traditional broker's brokers. These cost savings can be further passed down to the retail investor.

In view of the foregoing, we respectfully request that the MSRB revise its draft definition of a broker's broker to clarify that ATS operators whose platforms operate in a manner in which subscribers electronically disseminate their bids and offers broadly to other subscribers and electronically interact with such bids and offers to consummate transactions, and which offer subscribers an automated, systematic and non-discretionary platform to conduct their bids wanted auctions - are not broker's broker for purposes of the this rule.

Thank you for providing us with the opportunity to comment on this rule proposal. We would welcome the opportunity to discuss our comments further.

Respectively submitted,

Marshall Nicholson  
Managing Director, Knight BondPoint

cc: Leonard J. Amoruso, General Counsel, Knight Capital Group