

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

November 15, 2010

Dear Ms. Henry,

Regional Brokers, Inc. is pleased to have been part of the recent conversations regarding the current status of Municipal Securities Broker's Brokers (MSBBs) and wishes to provide the following comments regarding MSRB Notice 2010-35.

General Information regarding Regional Brokers, Inc.

Regional Brokers, Inc. (RBI) is registered with the Financial Industry Regulatory Authority as a Broker/Dealer. RBI transacts business as a Municipal Securities Broker's Broker (MSBB). As an MSBB, RBI acts exclusively as a riskless principal in the purchase and sale of municipal securities, notes, and other instruments on behalf of an undisclosed purchaser or seller. RBI does not employ research analysts, nor does it provide research services. RBI does not have or maintain any municipal securities in any proprietary or other accounts. As a riskless principal, RBI acts in the limited capacity of providing anonymity, communication, and order matching. RBI does not participate in the decision to buy or sell municipal securities, nor does it exercise discretion as to the price at which transactions are executed. RBI does not determine the time of execution, and is compensated by a commission rather than a mark-up. RBI does not make its own markets on securities, nor does it bid on items that are advertised for the bid on its auction system. RBI does not have any "customers" as defined by FINRA, and trades only with FINRA member Broker/Dealers.

Regarding Rule G-18

The MSRB has stipulated in Notice 2010-35 that, under Rule G-18, a broker's broker has an obligation to make a reasonable effort to obtain a fair and reasonable price (for a bond during a bid wanted auction) in relation to market conditions. Additionally, Notice 2010-35 states that Broker's Brokers are responsible for ensuring that they do not rely solely on their bid wanted process to ensure that a fair and reasonable price has been presented. (MSRB's guidance letter, page 2, regarding Rule G-18, "A bid-wanted is not always a conclusive determination of fair market value. Therefore, particularly when the fair market value of a security is not known, a broker's broker may need to check the results of the bid wanted process against other objective data to fulfill its fair pricing obligations.")

Notice 2010-35 further states "The broker's broker may not disclaim its G-18 Rule obligations to make a reasonable effort to obtain a fair and reasonable price in relation to market conditions... If after a

reasonable effort, a fair and reasonable price cannot be determined within a reasonable degree of accuracy, the broker's broker must disclose this fact to its dealer client, in which case the broker's broker may still effect the trade with its dealer client if it acknowledges such disclosure in writing."

The proposed guidance of the Notice changes the accepted business relationship that has existed between the Broker/Dealer and the MSBB.

Historically, as an MSBB, RBI has been engaged by a Broker/Dealer to provide a service- that of operating an auction and providing to the Broker/Dealer the best bid obtainable from that auction. In order to achieve this, RBI, unless instructed to do otherwise by the Selling Broker/Dealer, makes its best effort to widely advertise its auction items, to actively call Broker/Dealers that might be likely candidates to bid on the bonds, and to attempt to find the best bid in the marketplace at the time of the auction. However, despite its best effort to widely advertise the auction, RBI cannot control the price of the bids that it receives on its auction items, and has no control over whether the Seller wishes to sell the bonds at the price provided by the auction.

There has been only general guidance given by the MSRB as to what would represent "fair and reasonable" and the conclusion of whether a bid is fair and reasonable is a subjective opinion based on various factors, many of which an MSBB does not have access to. These factors would include an analysis of the credit worthiness of the issuer, the reasons that the bonds are being sold (or bought) by the Broker/Dealer, and whether the Broker/Dealer has developed any internal strategies for the sale (or purchase) of particular issues (such as that Broker/Dealer's expectations of the performance of the bond in the future).

It is RBI's opinion, therefore, that the ultimate decision regarding whether a bid is "fair and reasonable" can be made only, and exclusively, by the Broker/Dealer that advertises bonds through RBI's auction.

Regarding Rule G-17

RBI agrees with the Proposed Guidance's statement that, like all other municipal securities dealers, Rule G-17 applies to MSBBs, and that all dealers have an obligation not to act in "any unfair, deceptive or dishonest manner" in the conduct of their securities business. However, RBI would comment that certain recommendations in Notice 2010-35 regarding Rule G-17 are overly stringent in their prohibitions against certain practices that are beneficial to the industry.

For example, Notice 2010-35 states that "broker's brokers not give preferential information to bidders in bid-wanted on where they currently stand in the bidding process". This prohibition, as stated, would prohibit a bidding Broker/Dealer from being told whether or not they are "currently being used" or "not being used" on an item. This information is not preferential and is helpful to a Broker/Dealer that needs to know what capital commitments it may have outstanding.

Also, Notice 2010-35 stipulates that, if one Broker/Dealer is contacted because the MSBB has determined that they made an error in their bid, that "all bidders are given the opportunity to adjust their bids". This is an unnecessary requirement, in that the one Broker/Dealer is being contacted solely

for the reason that a mistake may have occurred. Contrary to the idea that this Broker/Dealer is being given preferential treatment, it is in fact the market that is being protected, to prevent an incorrect price from being quoted in the market. RBI acknowledges that in exercising the verification of a bid that it will be held accountable under Rule G-17. RBI also notes that, under Rule G-13, an incorrect bid, thereby not a “fair and reasonable price”, may not in any case be distributed or published.

General Comments

Although the rules under which Municipal Securities Broker’s Brokers currently operate are for the most part not codified, they are generally accepted by the Broker/Dealer community as having been developed over years of practical application. And, while RBI supports all attempts by the MSRB to protect the municipal market from non-compliance, we believe that the solutions offered by Notice 2010-35 raise questions that must be answered before their implementation.

For example, will (or, can?) the MSBB’s opinion as to whether a bid is “fair and reasonable” play any part, in practicality, in the decision of a Broker/Dealer (and their customer) to sell a bond? What is the benefit of a written disclosure between a Broker/Dealer and an MSBB unless that disclosure is reported to the party that has an economic interest in the sale of the bond? Which party is responsible for generating the letter? Will this disclosure also be reported to the MSRB, and at what point must the written document be presented and to whom? Would an MSBB incur liability in a case where the bonds are sold, despite the MSBB’s opinion that the bid was not fair and reasonable? Is the bidder, who has produced the questionable bid, to be included in the written documentation trail? What avenue will remain for distressed sellers who need to liquidate a municipal bond position but are unable to because the Broker/Dealer will not agree to a written document as a condition of sale? And, since a price that is too high in the market is just as “unfair and unreasonable” as a price that is too low, will these disclosures have to be fulfilled in an equivalent manner?

RBI looks forward to working with the MSRB and the Broker/Dealer community to answer these and other questions that will arise if the proposals of the Notice are implemented, and hopes that the MSRB would feel free to have its staff members visit RBI’s offices in order to gain first hand experience regarding our business model.

Looking forward, RBI believes that these ongoing discussions should explore additional areas of MSBB industry practices such as:

- Standardization of disclosure statements by MSBBs regarding their policies and procedures

- Standardization of information regarding bid wanted auctions that can be disclosed (and when)

- Standardization of when and how a possible incorrect bid placed on an auction item can be verified

RBI has endeavored to develop policies and procedures that address the issues raised by Notice 2010-35, and hopes that the municipal industry will be able to develop guidelines that are practical, workable, and most importantly, efficient, fair and reasonable.

Sincerely,

Joseph A. Hemphill III, CEO

H. Deane Armstrong, CCO