

**Compliance**

211 Main Street, San Francisco, CA 94105-1905  
Tel (415) 667-7000

March 15, 2013

**VIA EMAIL**

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

**RE: Comment Letter Regarding Concept Proposal on More Contemporaneous Trade Price Information Through a New Central Transparency Platform ("CTP")**

Dear Mr. Smith:

Charles Schwab & Co. Inc. ("Schwab") appreciates the opportunity to comment on the Municipal Securities Rule Making Board's (the "MSRB") Notice 2013-02, which seeks comment on the MSRB's concept proposal on More Contemporaneous Trade Price Information Through a New CTP (the "Proposal").

**Schwab's Position**

Schwab understands that the MSRB's Transaction Reporting Program has an objective to provide price transparency about the current market.<sup>1</sup> Schwab also understands that the ideas described in the Proposal are generally supportive of that objective.

Schwab supports certain key elements of the Proposal in that we believe they would further the MSRB's objective to provide price transparency about the current market. However, as explained below, we believe that other elements of the Proposal would result in significant operational challenges to dealers, while offering relatively little value to real-time transparency, and ultimately to investors.

**Schwab does not support eliminating the end-of-day trade reporting exceptions or reducing the period of lag in reporting of certain trades currently subject to such exceptions.**

---

<sup>1</sup> See MSRB Rule G-14 Interpretations, June 18, 2004, Reporting of Transactions Arising from Repurchase Agreements.

Schwab understands that the MSRB's Transaction Reporting Program has an objective to provide price transparency about the current market. However, as the MSRB has stated in previous guidance, list offering price transactions with customers "...[a]re expected to consist of a large number of sales to investors at the published list price on the first day of trading of a new issue, and these transactions offer relatively little value to real-time transparency."<sup>2</sup> By extension, takedown transactions are expected to be executed at the list offering price minus dealer concessions, and subsequently distributed to a large number of investors at the published list price, and we believe also offer relatively little value to real-time transparency.

Additionally, lead underwriters set the time of trade for takedown transactions and subsequently communicate that information to other syndicate and selling group members. There may be times when the time of trade provided by the lead underwriter occurs more than 15 minutes before the purchasing dealer receives that information, precluding that dealer from complying with the proposed reporting requirement.

With respect to Auction Rate Securities ("ARS") and Variable Rate Demand Obligations ("VRDOs"), the trade execution process is manual for certain firms. Broker/dealers, auction providers (for ARS) and re-marketing agents (for VRDOs) may communicate details of customer orders (including time of trade) via telephone and email. There are often times when auction providers and re-marketing agents determine the time of trade, and that time of trade is more than 15 minutes before dealers receive the trade details. Eliminating the end-of-day trade reporting exceptions for these products would require that all dealers, providers and agents design, build and implement new technologies and processes to execute orders. Additionally, given that these products generally trade in the primary market at par, Schwab believes that reducing the time dealers have to report such trades would offer relatively little value to real-time transparency.

**Schwab supports the MSRB's continued use of a straight-through processing approach with regard to trade reporting and marketplace clearance and settlement functions, as well as the continued use of the web-based trade input method, and suggests an additional way to enhance consistency and timeliness of data received from reporting dealers.**

Schwab notes that separating trade report data from trade clearance and settlement data could lead to improvements in the timeliness of trade reporting data. Reporting dealers may be impacted by delays from contra dealers or the National Securities Clearing Corporation ("NSCC") when "comparing" the trade data, or by intra-dealer communications between those systems and organizations responsible for trade reporting and those responsible for clearance and settlement. However, Schwab agrees that the "straight-through" process supports overall data quality by maximizing the extent to which data used to execute transactions is also used for reporting purposes, and believes that de-coupling the trade reporting data from the trade clearance data could lead to increased trade data discrepancies.

With respect to the Real-Time Trade Matching ("RTTM") Web-based trade input method, Schwab is unaware of any existing or emerging systems that could be leveraged to

---

<sup>2</sup> See MSRB Rule G-14 Interpretations, January 19, 2007, Reminder Notice on Use of "List Offering Price/Takedown" Indicator.

automate trade reporting of outlier transactions. However, to help ensure that dealers can comply and continue to provide price transparency about the current market, Schwab believes it's important to maintain a manual reporting system for outlier transactions and, in the absence of newer, more efficient systems, Schwab supports the continued use of the RTTM Web Portal.

More broadly, to help enhance the consistency and timeliness of trade reporting data, Schwab suggests that the MSRB consider certain processes and systems utilized by FINRA's Trade Reporting and Compliance Engine ("TRACE"). For example, rather than requiring that dealers report the yield-to-worst for transactions effected on a dollar price basis, TRACE performs the yield-to-worst calculation based on other details of the trade reported by dealers (i.e. dollar price, settlement date, CUSIP). Schwab believes that assumption of the yield-to-worst calculation by the MSRB for trade reporting purposes could serve to improve the consistency and timeliness of trade reporting information.

**Schwab provides input on the baseline process for the collection of quotes for municipal securities and suggests that, while Schwab supports an ultimate goal of additional pre-trade transparency in the municipal markets, the current methods may not be appropriate for CTP.**

Schwab understands and supports what it perceives to be the MSRB's goal to increase transparency in the pre-trade market for municipal securities. However, as the MSRB is aware, the municipal securities market is extremely diverse, with close to 44,000 state and local issuer and over one million different municipal bonds outstanding as of December 31, 2011. The market is characterized by relatively low liquidity and, following the initial distribution period, municipal securities trade only infrequently. For those bonds that do trade, the number of trades is very low. While almost all municipal bonds trade in the first month after issuance, that figure drops to roughly 15% in the second month and declines substantially thereafter. Additionally, in recent years, the necessity for market participants to undertake a more exacting analysis to value municipal securities has been made more apparent due to the declining use of bond insurance and other types of credit enhancement, as well as concerns about the reliability of credit ratings, both of which previously had been viewed as serving to "commoditize" assessments of the credit quality of disparate municipal securities and thereby often led market participants to make more simplified pricing judgments.<sup>3</sup>

As a result of all of these conditions, firm standing bid and offer quotations for municipal bonds are generally unavailable. Quotations (particularly bids) are generated via responses to a request-for-quote ("RFQ") process (known as a "bid wanted" auction for bids). Therefore, the MSRB may be unlikely to find high-quality standing quotes (i.e. those that are firm and represent a fair and reasonable price for the bonds) for many bonds. Even those quotes resulting from a RFQ process could be subject to restrictions (such as size or time) and may not be available to every dealer, so may not be likely to represent a price at or near one at which any given investor could trade the bonds. Conversely, RFQs may be unlikely to be sent to every potential dealer, and therefore may not be likely to represent the best quote that would be available had a RFQ been sent to every dealer in a given bond. Yet, the mere presence of any such quotes may lead investors accustomed to quote dissemination in the more centralized and liquid

---

<sup>3</sup> See the Securities Exchange Commission "Report on the Municipal Securities Market," July 31, 2012

equity markets to expect that they represent a form of "inside" market for municipal bonds.

In summary, while Schwab generally supports a goal of increased pre-trade transparency, it has doubts about the potential benefits of disseminating the relatively limited bid\offer information available under the current municipal market structure.

#### **Additional Comments**

In general, Schwab believes that evaluating the costs and burdens of any new reporting requirements and weighing those costs against any benefits derived from them, is critical to ensure efficiency. Before any new requirements are created, MSRB should conduct a thorough cost-benefit analysis of new requirements and other initiatives. Schwab supports additional transparency when it would be helpful to the market and investors after appropriately weighing the potential benefits against the costs and burdens to both the MSRB and all market participants.

Thank you for your consideration of the points we have raised in this letter and we hope that our comments are useful. Please feel free to contact me at (415) 667-0902 if you have any questions.

Sincerely,



Michael P. Moran  
Vice President, Fixed Income Compliance  
Charles Schwab & Co., Inc.