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Subject: Rule G-23 & Competitive Sales

In 2011 Rule G-23 governing Financial Advisors was amended to prohibit Financial Advisors from purchasing underwriting an issue of the Issuer. Prior to the amendment, with the Issuer's permission, the Financial Advisor (now Municipal Advisor, or MA) could competitively bid on an Issuer's offering.

I can appreciate the change in protecting the issuer from MA's that would somehow affect the deal to favor their own underwriting desk. However, it has had an unintended chilling effect on firms willing to provide MA services. Prior to 2011, the City of Milwaukee received 4 responses from firms to provide MA services, two of which were Broker Dealer firms. After the rule change, the two BD firms did not respond because they wanted the ability to underwrite the City's debt.

We would appreciate it if the MSRB would consider an amendment to G-23 that would provide an additional exception to G-23(d)(i), such as:
(iv) Notwithstanding subsection (d)(i), a broker, dealer, or municipal securities dealer (the MA) that has a financial advisory relationship with respect to the issuance of municipal securities shall not be prohibited from participating in a competitive underwriting of the Issuer if: (a) The Issuer approves the participation of the MA in a competitive bid; (b) the notice of competitive sale includes a notice that the MA may bid on the issue; and (c) in the last 3 competitive sales of the issuer, each sale received at least 3 qualified bids, excluding the any bid of the MA, that were no higher than the winning bid by the larger of: (1) 5 basis points; or (2) 1/2 basis points times the number of years to the average life of the issue. Note: the winning bid can be one of the 3 non-MA bids, and no more than 1 sale per day shall be considered. If the conditions are met, the MA may bid, and the MA's bid may only be opened and considered if at least 3 qualified bids are received, excluding the MA's bid, and at least 2 non-MA qualified bids are no higher than the lowest non-MA bid plus the larger of: (1) 5 basis points; or (2) 1/2 basis point times the number of years to the average life of the issue.

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