

March 15, 2013

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 6000
Alexandria, VA 22314

Dear Mr. Smith:

Barclays Capital Inc. (“Barclays” or “the Firm”) is submitting this letter to the Municipal Securities Rulemaking Board (the “MSRB”) in response to the request for comments on MSRB NOTICE 2013-02¹, regarding the planned development for more contemporaneous trade price information through a new central transparency platform as a successor to the MSRB’s Real-time Transaction Reporting System (“RTRS”). Barclays would like to address specific concerns around selected parts of this proposal, which are set forth below.

End-of-Day Reporting Exceptions

The elimination of End-of-Day Reporting Exceptions would place a significant burden on Barclays. There are instances where the Firm may be able to report in a shorter timeframe; however, the Firm would need to devote significant resources in order to make modifications to its current systems and platforms. The Firm would require the use of a phased approach in order to ensure that trades can be properly reported.

Moreover, the Firm currently utilizes multiple third party platforms, which, with their current process, could result in trades being reported late. Specifically, we attempt to address our concerns with eliminating any of the End-of-Day Reporting Exceptions with detailed information from our Trading Desk, Middle Office/ Operations and Information Technology below:

List Offering Price Transactions (EOD – LOP): When the Firm is acting as a manager on a new deal, a large number of trade tickets are recorded in a third party vendor system, Dalcomp (an Ipreo system used for bookrunning), for “book-building” purposes. Once initiated, the deal is downloaded from Dalcomp to the Firm’s trading platform. This process typically takes about 15 minutes, and in many instances, can exceed 15 minutes. Also, although the Firm is constantly making enhancements to this process, it sometimes coincides with other back-office processes, unrelated to the Municipal Desk, that the Firm’s personnel can alleviate temporarily by providing a manual intervention. Additionally, the Firm oftentimes is manager for multiple deals scheduled to close on the same day. Much like the explanation provided above, the sheer volume of trade booking and processing can cause significant issues within the Firm’s systems that are typically alleviated by scheduling back office processes around the Municipal Desk’s requirements, which are made possible by this End of Day reporting exception.

Variable Rate and Short Term instruments (EOD – variable rate/auction/CP): As it pertains to Variable Rate Demand Obligations (“VRDO”) and Commercial Paper (“CP”), the Firm relies on the End of Day exception reporting in a similar manner to the aforementioned reference of book-building. As an example, the Firm builds a book of purchasers for a VRDO that resets weekly and, in doing so, the Firm is able to accurately reconcile the amount of bonds that have been successfully remarketed and the amount that would need to be tendered. Without the ability to report by end of day, the Firm would incur many

¹ MSRB Notice 2013-02 (January 17, 2013)

cancel/amends as it relates to the remarketing process and ultimately need to revise its process in booking these trades. In addition, almost all VRDOs and CP are remarketed/sold to non-dealer counterparties; therefore, resulting in one side reporting the trade. Taking this into consideration, along with the fact that these securities are primarily traded at the same price ("par-in par-out"), there doesn't appear to be an obvious benefit to removing the End of Day reporting exception.

Away From Market (Away from market price – (other reason)): The Firm primarily utilizes this end of day exception for trade reporting customer repurchase transactions. The nature of booking these types of transactions requires trading personnel to negotiate financing rates, (taking into account the quality of the security, the liquidity, and the market), calculate prices in a manner that takes into account the accrued interest and those without accrued interest, and calculate yield to worst. Since the trades are not priced at market levels and therefore, not disseminated to the public, there doesn't appear to be an obvious benefit to removing the End of Day reporting exception.

Trade Reporting Process

Barclays is supportive of the MSRB streamlining and simplifying the trade reporting infrastructure. Namely, the Firm would like the ability to report Customer and Dealer trades via the same channel. At a minimum, we would like to see removal of the RTTM dependency for Dealer trades. The Firm has experienced: instances where RTTM has erroneously matched our trades with other dealers (with the same counterparty for the same security, quantity and price); system connectivity issues; and, dealer trades that were promptly cancelled with RTTM, but the original trade report flows to RTRS and is not cancelled. The current entanglement of RTTM and MSRB for Dealer trades adds unnecessary operational complexity, increasing the frequency of late reporting.

Also, given that existing reporting technology has been in place for a number of years, Barclays would suggest a review of said technology. Specifically, the Firm would ask the MSRB to explore new, more robust methods of trade processing based on an analysis of technical protocols used for communications spanning data transport, protocols, and message format standards.

Timeliness of Trade Reporting

In order to report trades in a shorter time period, Barclays would require both minor and major modifications to its current processes and technological platforms. The Firm would have to perform significant testing to meet these requests. Currently, the Firm does not have the applicable resources and time to immediately accommodate the decreased reporting time period.

In response to the MSRB's statistical analysis of the timeliness spread between small and large trades and request for "comment on the factors that may have resulted in more rapid trade reporting of small trades compared to large trades" the Firm conducted a review of its trading differentials for the fourth quarter of 2012 (using the same definitions provided in MSRB Notice 2013-02). During the period, an approximate breakdown of the Firm's trade reports show that 36% of the trades were considered large, 49% medium and 14% small. Of those trades, 43% of the small trades were executed through an ECN, and the remainder of the small trades were executed through the bid wanted process and/or utilizing a broker's broker. When the Firm posts bonds on ECNs, the price is typically non-negotiable and therefore, if a counterparty wants to buy bonds, the purchase is almost immediate². Unlike the ECN trade process, the Firm requires all other trades to be approved by a trader, and in most cases, the trades are

² Once the trading desk determines the price for the bonds, it will submit the bonds for bid and will not need to approve the trade if a counterparty hits the bid. The ECNs send the Firm a confirmation, which will be reviewed by the Firm's back office where the trade is verified against inventory, etc.

considered either medium or large. Although the Firm utilizes the bid wanted process for trades of all quantities, the medium and large-sized trades require negotiations with counterparties that involve the price, settlement and in some cases, a purchase and sale of multiple CUSIPs. The Firm would ask the MSRB to consider these reasons in a live trading environment, where sales and trading personnel are using email and Bloomberg to interact with other dealers, and client counterparties, while monitoring many news outlets, trading platforms, and analysis tools. It stands to reason that larger trades involve a significant amount of additional consideration for the Firm's personnel.

If the MSRB decides to move to a shorter time frame for reporting, Barclays requests that the MSRB create a system or enhancement to facilitate the transition to a shorter reporting period. Perhaps if a MSRB system was established in which the trade feeding channels could communicate with one another to reconcile trades, then trade reporting could be done in a smaller timeframe. In addition to the added benefit of improved data reconciliation fed directly to Firms, it would be extremely helpful if MSRB report cards were posted earlier than they currently are with additional information such as peer comparison.

Furthermore, without conducting a full blown cost analysis, there is insufficient data to accurately calculate the costs and burdens of adhering to a shorter "real-time" reporting period. Shortening the period may create a costly ripple effect. As previously mentioned, the firm utilizes third party vendors, and in order to meet the new reporting period, the third party platforms would require updates. In turn, Barclays would then require upgrades to its current systems in order to integrate the new platforms. Finally, the upgrade to the firm's systems may also require an upgrade to our current hardware. Due to the many uncertainties and the various moving parts, the MSRB should consider implementing a course of action similar to that employed by the MSRB during the rollout of RTRS and EMMA. The MSRB should conduct a series of outreach meetings with dealers to obtain a more candid response about resources, areas of enhancement, and technical concerns with the proposed changes that might not be effectively conveyed in a comment letter.

Barclays appreciates this opportunity to comment on MSRB NOTICE 2013-02.

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If you have any questions or require additional information, please contact Scott Coya at 212-526-7000, or e-mail our mailbox at: MuniCompliance@barclays.com.

Sincerely,

Scott Coya
Director, Municipal Compliance