DIAMANT
INVESTMENT CORPORATION

Comprehensive Portfolio Management

November 30, 2015

Ronald W. Smith
Corporate Secretary
MSRB
1900 Duke Street, Ste 600
Alexandria, VA 22314

RE: MSRB Notice 2015-16

Dear Mr. Smith,

Diamant Investment Corporation (Diamant) is making the below constructive comments regarding the above proposed ruling detailed in the MSRB Notice 2015-16 (Proposal). First, I must compliment the MSRB for preparing a well thought out, workable, updated proposal.

My issue is not with much of the wording of the Proposal as it currently stands. Rather my comments focus on the basic issue of having the MSRB remain fixated on creating a principal markup disclosure that is not used in any other industry. What is alarming is the logic of the proposed rule still does not make any business sense.

The Municipal Bond Business

Diamant is a small, self-clearing, municipal bond dealer that has been in business for over 40 years serving the investment needs of retail investors. I have developed considerable expertise in the retail municipal bond business, having worked full time at Diamant, our family owned business, for over 37 years. As Diamant does not conduct a riskless business, it should not be directly impacted by this Proposal. It is precisely because of this lack of impact that I am able to step back and comment on what is the wrong direction for the municipal bond marketplace.

Markup disclosure will certainly disrupt parts of the industry, but no case can be made as to why disclosure is needed except that other regulators simply want the MSRB to show they did something. This is a terrible reason for the MSRB, which should be an independent regulatory body, to act. Actually this concept of the MSRB needing to force disclosure on certain trades seems to be an admission that the regulators are simply unable to enforce existing rules. Aside from the occasional inflammatory news article using cherry picked outlier trade data, I have yet to see any proof that overcharging is actually occurring on an industry wide basis. The MSRB has many years of data on every municipal bond trade that occurs, and FINRA conducts substantial audit work on the reasonableness of bond dealers compensation. This trade data has been entered by the industry within 15 minutes of the time of each trade, so it would seem

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reasonable to conclude that both regulators know if overcharging is commonplace. And if so, which bond dealers have a pattern of what may seem like overcharging, and what the circumstances are behind each trade. It would seem rather straightforward to focus regulatory efforts on questionable trades and further review instances where overcharging may occur. Given the detail that went into preparing this Proposal, rest assured such statistics would have prominently displayed as overwhelming proof of this allegation and the reason for such a Proposal. There simply is no industry wide problem that needs solving.

There is a misguided belief such disclosure information will help a customer by forcing more competition, while at the same increasing regulatory compliance costs to dealers that are reducing their supposedly excessive trading revenues. As a regulator, the MSRB should at least have the integrity to admit in this revised Proposal that retail bond trading volumes continue to decline over time, that most bond dealers are not making excessive trading revenues on retail trades, and the MSRB already has existing rules that cover markups that are sufficient to protect the customer. So here we go again, creating this Proposal to solve a problem that does not exist.

Still A Very Bizarre Line Of Reasoning

The tone of the Proposal is that markups are somehow bad. This presumption has little to do with "helping" the customer with confusing partial disclosure. We all must recognize it has the feel of a politically driven effort to penalize a business sector by attempting to eliminate profits in the fixed income bond business. Which industry will be next?

There seems to be a misguided belief that securities bond dealers can continue to operate in a compliant manner in an already heavily regulated industry; can add substantive additional compliance costs to attempt to adhere to this Proposal; can continue to risk capital to provide a supply of securities to their customers; and can provide associated ongoing investment securities services to their customers; all while earning little or any gross profit. This theory simply will not work in the business world.

The reasoning behind this Proposal is that by forcing disclosure of the gross trade profit of a bond dealer, customers will somehow be better informed about the characteristics of the municipal bond investment they are making. By itself this is a very bizarre line of reasoning that is not used in any other decision making in the purchase of either small or large ticket items. To illustrate just a few examples:

> When a customer purchases either a new or used car, they never see the gross profit that the car manufacturer and/or the car dealer is making, as their focus properly is on securing a piece of transportation that meets their needs.
>
> When a customer renovates or purchases a house, they never see the gross profit of the builder or the individual seller, as their focus properly is on whether the location and structure is suited to their needs for shelter.

> When a customer purchases food at their local supermarket, they never see the gross profit in each item in their cart, as their focus is on shopping in a convenient location for quality merchandise that meets their needs of nourishment.

From an ethical viewpoint, once a business sector (like bond dealers) is forced to disclose its gross profits on a transaction, in an effort to achieve truly full disclosure, such disclosure should also be mandated on every transaction that a retail customer engages in during the conduct of their daily activity. Prior to turning this Proposal into a regulatory ruling, the MSRB should first coordinate with all regulatory entities throughout the Federal Government and force all sectors of the U.S. economy to make similar disclosures. This would have a chilling negative impact on all sectors of the U.S. economy, and would have a near universal outcry of "big brother" or "big government" impeding free market capitalism. Yet this is exactly what this Proposal as written achieves, and it creates the ground breaking precedence to affect this disclosure on other industries.

In the municipal bond business, the retail customer needs the assistance of a professional to navigate the selection of available fixed income products. When a client buys bonds, their most important decision points may include: the income stream; years until their principal is returned; after tax return on the investment; what events can cause the principal to be returned early and what is the impact; what happens to this investment when rates move; what revenue streams secure the interest payment; what assets secure the principal payment; what is the after tax return after state taxation; what other alternatives are available; whether this investment should be made now or revisited at another time; and whether the bond fits into a customer portfolio. Successful fixed income investment decisions have always been made on these types of important information.

What makes this Proposal so bizarre is that the MSRB truly believes customers should focus their attention not on important information described above, but instead on the disclosure of a gross trade profit number that is really not terribly relevant to the overall decision to purchase a bond. Rest assured if profits are being reduced, time spent attending to the important customer decision points also will be reduced, and the customer will really be harmed.

And if this gross trade profit appears on the confirmation that is received by the customer on or after settlement date, is the intent of this disclosure to permit customers to break trades because the gross profit was different than they expected? If so, then any of the specific trades that meet the disclosure requirement will have to be considered as un-firm, or incomplete transactions that may have to be reversed sometime in the future. In the future, would it not be advantageous for a customer to review trades over the past six years of disclosure, select all the trades which declined in market value, and return the trades back to the bond dealer using the reasoning the gross profit was too high on the selected trades? How would a regulator expect bond dealers to haircut their net capital for incomplete trades when the dealer does not know which trades may be returned in future periods? Clearly no bond dealer would ever want to sell bonds to customers with this type of liability.

Of course the regulatory reader will respond by saying the disclosure may force the dealer to cut its gross profit and therefore the customer is better served. This is the problem with not having regulators with business experience in the bond industry they regulate. The gross profit is what is used to pay for all the components that keep a bond dealer in business. It is important to understand the difference between the gross profit and the net profit. Attempting to explain a gross profit on certain trades, versus a net profit, will hinge on the linguistic ability of the legal counsel of each bond dealer. With good lawyers, bond trades will become an event that results in both misleading and confusing customers over an irrelevant decision point.

Is it really helpful for a retail customer to see the gross profit printed on a bond trade? I would expect nearly every customer will call their registered representative to complain about the gross profit, regardless what the number actually is. The registered representative is not earning the gross profit, and likely is unaware of the number until after the confirmation is mailed. Why would the registered representative want to have such a conversation with their customer? In this scenario, most registered representatives will simply stop selling municipal bonds to retail customers, as it is much easier to sell other investment products with a higher sales load.

EMMA

For those who want trade information, EMMA always remains available without charge. Apparently the MSRB believes that that EMMA is not widely used. This simply means such information is not deemed important by most customers. Yet if over time such available disclosure information has not been considered important by most customers, then there is no merit to move forward with this Proposal to mandate disclosure of what customers are already deeming to be unimportant information.

I strongly advocate that the mandate to require a link to EMMA be completely removed from the Proposal for all retail customer confirmations. This is a self-serving component of the Proposal where the MSRB is forcing dealers to place advertising about an MSRB product on every bond confirmation. It becomes a real conflict of interest when a regulatory authority forces dealers to provide free advertising copy on every trade, designed to tout an MSRB product. It seems the underlying reason for forcing EMMA text on every bond confirmation is the hope that usage of EMMA will rise, which will justify greater expenditures by the MSRB to keep the EMMA bureaucracy afloat. None of these reasons serve the retail customer's needs.

If the SEC forces the MSRB to provide such a link, then it would be meaningful only as part of the mark-up disclosures. Such disclosure about EMMA should be limited to the URL address, as one cannot place a hyperlink to a particular CUSIP on a printed paper confirmation. The current EMMA system is very easy to navigate, and anyone can enter a CUSIP without prompting from a link. As EMMA has been available for years to anyone who is interested, there is no benefit in further cluttering up all retail bond confirmations with this information.

Costs and benefits

Costs. Everyone should recognize that in addition to modifications to the processing of confirmations in the back offices, there are ongoing compliance costs brought by this Proposal. Such compliance costs occur even to dealers that do not conduct a riskless business.

Benefits? There are no real benefits to the dealers, and there really are no benefits to the customers. The main reason for proceeding with this Proposal is the philosophical argument that disclosure automatically means prices and markups will decline. I am absolutely certain that the dealers which the MSRB is attempting to target, already employ experienced traders who will find ways to show lower markups on confirmations while still making the same profits trading bonds. And firms with clever lawyers will properly render the disclosure language to become meaningless. At the end of the day, nothing will have changed with disclosure, except the customer will be more confused.

Conclusion

Despite well thought out enhancements, this current Proposal it still is trying to solve problems that do not exist. Most customers are being treated fairly by the markets. Disclosure will certainly create confusion. The proper conclusion must be that the MSRB thoroughly reviewed the matter in a meaningful way, but after careful consideration, decided to take no action in order to continue maintaining an orderly and regulatory compliant market in municipal bonds.

Yours truly,

Herbert Diamant
President