THOUGHTS ON THE POSSIBLE NEW DISCLOSURE RULE

I understand the good intentions that have led to the possibility of the New Disclosure Rule. Unfortunately, we all know where the road paved with good intentions leads to.

If this is adopted the customer might think that he/she is better off. Unfortunately the opposite is true. Right now firms can search the whole country for the best bond to satisfy the clients need and then mark it up perhaps one or two points for their efforts. Obviously, if this markup is shown the client is not going to be happy. Under the new procedure there will four classes of brokers:

1. Small firms that do not carry inventory. - These firms will be out of the bond business and all the diversity that they provide will be lost.

2. Small firms that carry inventory – these firms will ONLY show bonds in their inventory. This will result in a very narrow choice for their customers.

3. Large firms that carry inventory – these firms will benefit greatly from the change. The customer will have a larger choice than the small firm can provide, but no matter how large the firm is, it will never equal the choices now available by any firm being able to check for the best bond and the best price. The lack of competition will also allow these firms to put more spread into the bonds (this won't have to be disclosed because it will come from inventory). The customer will pay more or get less but not know it.

4. Discount firms using street inventory- One would think that this would be the ideal solution for the client. Low mark ups and a national inventory. There are two reasons why this will not work.

   A. These firms do not give any advice. All the decisions are left up to the customer. (Their new account forms expressly states that the take no responsibility for customer choices). As all professionals know bonds (especially municipals) are a very complex investment and should not be looked at as something that anyone can decide upon by just using a few metrics such as yield, coupon, maturity, and ratings. Just to give three examples, how many customers are aware of the difference between limited and unlimited go's; extra ordinary redemptions, or how a certificate of participations works. Even if the customer knows enough to ask a question, there is no one to speak to.

   B. The national inventory will not offer the diversity that is now available. Just a handful of large firms will control the market which, for lack of competition, will result in much larger spreads to the street. The customer will pay more or get less on a sale even if the commissions are vastly reduced.

Capitalism is based on competition. By eliminating whole classes of competitors the customers will suffer as to choice and price. Right now I am the fixed income manager of a small firm the does not keep inventory. I have spent 38 of my 46 year career at several different small firms. I and my RR's have NEVER lost out to a large firm on an order based on competing with the large firm's inventory and price. We offer the inventory of every trading firm in the country and by careful shopping and using judicial mark ups we are always competitive. The only winners under the proposed plan will be the large firms.

The increased spread that will result will not only hurt the retail client. Once again the lack of competition will rear its ugly head and the municipal issuers will pay more to bring their offerings to the market. This means that every single taxpayer will be penalized by this proposal.

In summary this is a classic LOSE – LOSE situation. This customer will think that he/she is saving money when in effect the increased spreads will far exceed the markup savings. This is a cruel hoax that should not be fostered on the small investor. This is in addition to the increased costs that will be borne by the issuers.

One additional thought: There is a sense among regulators that a profit on individual trades is basically unfair. Instead of commissions/mark ups there is pressure to create managed accounts using an annual fee of 1% or more on the value of the account. Under past practices the client who buys 100m bonds might incur a markup of perhaps one to two thousand dollars. Under managed accounts, the customer would pay one thousand dollars **PER YEAR** for as long as the position is kept. I can't see how this benefits the customer.

Sincerely yours,

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