

VIA AIRBORNE EXPRESS

August 29, 2003

Mr. Justin Pica
Uniform Practice Specialist
MSRB
1900 Duke Street, Suite 600
Alexandria, VA 22314

Dear Mr. Pica,

This letter is respectfully submitted on behalf of UBS Financial Services Inc (“UBSFS” or the “Firm”) in response to MSRB Notice 2003-23, “Request for Comment: Plan for Real-Time Price Reporting” (NTM 03-23). For ease of reference, the questions posed in NTM 03-23 to which the firm is responding are in bold and are followed by the firm’s response.

Should there be a “phase-in” of real-time transaction reporting by beginning with a subset of all municipal issues and following a schedule for expanding this subset to gradually become more comprehensive? If so, what parameters should be used to select issues for inclusion or exclusion in the initial phases (e.g. rating or size of issue)? How would a phase-in period fit into the overall purpose of the program to promote pricing efficiency and investor protection?

Yes. The proposed 15-minute reporting requirement will undoubtedly introduce some elements of operational risk to the firm. Therefore, in order to minimize the likelihood of such accompanying risks occurring, the firm proposes a two-phase approach to implementing Real-Time Price Reporting. This two-phase approach would require firms to report all inter-dealer trades in the first phase and then adding customer trades in the second phase. With respect to the timing of the phase in period, the firm strongly suggests that the second phase commence no earlier than six months from the start of the first phase.

With respect to price dissemination, the Firm believes that in the event that compliance with the proposed 15-minute reporting requirement is substantially less than perfect, the MSRB should not proceed with the immediate dissemination of trade information. To this end, and in order to ensure the accuracy of immediately disseminated market data to the public, the firm suggests that the MSRB postpone the immediate dissemination aspect

of the proposed rule change until it determines that all reporting firms are, on average, 90% compliant in each phase with the 15-minute reporting requirement.

Lastly, considering the importance of anonymity in certain subsets of municipal securities and the marketplace's need for firms to commit capital, the MSRB should make every effort to preserve anonymity. Accordingly, the firm believes that the MSRB should not disclose exact trades sizes for investment grade trades equal to or great than 5MM and high yield trades equal to or greater than 1MM. This will enable the MSRB to achieve its goal of transparency with minimal impingement on liquidity.

Are there transactions for which it is impossible for technical or operational reasons to report within 15 minutes and therefore should be exempted from the 15-minute reporting requirement?

Yes. For issues that the firm has not previously traded, technical and operational complications may prevent the firm from reporting within the required 15 minutes. Specifically, with regard to UBSF's situation, if the firm has not previously traded a certain bond, that bond's specific characteristics (e.g., cusip number, issuer, coupon, maturity, description, call date) will have to be entered into the firm's Glossary (a database of securities) before the trade is processed and reported. Since there are more than 1.4 million outstanding municipal bond issues and since many of these bonds trade by appointment only, it simply is not always possible to pre-enter every issue into Glossary, which would thus necessarily result in some cases late reporting.

How should syndicate transactions be handled in terms of the 15-minute reporting requirement?

The fundamental difficulty with syndicate transactions is that firm's are, in large part, dependent upon third party data services for descriptive data on new issues. JJ Kenny, for example, updates records on an evening batch system on the evening of the trade date. For this reason, many firms will be unable to report syndicate trades within the proposed 15 minute time frame. Such delay in reporting, however, should not cause the MSRB concern generally, since information regarding the price of a bond on issue date is significantly less important to an investor than real-time trade data for a bond that trades in the secondary market. Furthermore, given the level of participation of institutions in the new issue market, and the fact that institutional customers do not always provide account information on a timely basis, the firm suggests that rather than imposing a 15-minute trade reporting requirement for syndicate trades, the MSRB continue with the current "end of day" time frame for the submission of syndicate trades.

Given that variable rate instruments generally are sold only at a price of par, is there a need for these trades to be submitted in real-time?

Because the relevant data for investors in auction rate certificates (ARCS) is the clearing bid rate, rather than the security price, and variable rate demand obligations (VRDOs) are



reset daily, weekly, or monthly, investors would receive little, if any, benefit from receiving trade information in real-time.

The MSRB should consider an alternate reporting process, and in the interim, exclude these securities from the proposed 15-minute reporting requirement.

As noted, RTRS will provide a control number to reference transactions and this control number will be used to note that the transaction later was cancelled or modified. Is this the best means to handle trade data corrections submitted by dealers?

The Firm believes that the use of a control number will be an effective way to identify transactions that were cancelled or modified.

With respect to your request for comment on transaction information to be disseminated, the Firm believes that identifiers used to indicate riskless principal trades, agency trades, broker's broker trades, and ATS trades will help avoid double counting and other reporting problems.

UBSFS appreciates the opportunity to respond to the MSRB's Real Time Trade Reporting proposal. The firm is fully committed to transparency in the debt market and respectfully requests that the MSRB considers these suggestions.

If you have any questions or would like further clarification regarding the above, please feel free to contact me at (212) 713-2548.

Respectfully Submitted,

Charles Paviolitis

Charles Paviolitis
Managing Director
Institutional Trading, Municipal Bond Department