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September 11, 2003

Mr. Harold L. Johnson
Deputy General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314

Re: Comments Related to Implementation Plan for Real-Time Trade
Reporting as outlined in MSRB Notice 2003-23

Dear Mr. Johnson:

The Bond Market Association (the "Association")¹ is pleased to respond to the request by the Municipal Securities Rulemaking Board (the "MSRB" or "Board") for comments concerning real time trade reporting and the related changes to Rules G-12 and G-14, as described in MSRB Notice 2003-23 (the "Notice"). The Notice sets out the MSRB's proposal for implementing a system to capture municipal securities trade information on a real-time basis by mid-2004 and also to immediately disseminate the transaction prices that are reported.

For the reasons described below, the Association believes that questions of implementation of the real time trade reporting system and price dissemination involve a different set of practical and policy questions and therefore is responding to each of these issues separately. The Association is submitting a separate comment letter concerning public dissemination of municipal bond transactions and price transparency issues.

The comments contained in this document are limited to operational issues anticipated in implementing MSRB's plan for trade reporting (submission of transaction data to MSRB's Real-time Transaction Reporting System, "RTRS") within fifteen minutes from time of trade. The changes proposed to MSRB Rule G-12 will require dealers to submit all inter-dealer trades for comparison by a registered clearing agency within fifteen minutes of trade execution. The Association also understands the proposed changes will require dealers to: a) monitor the status of their submissions; b) check for submissions made against them in the "comparison system"; c) reply promptly; d) identify any trade breaks; and e) take all steps necessary to repair trades *as soon as possible*.

¹The Association represents securities firms and banks that underwrite, trade and sell debt securities, both domestically and internationally. The Association's Member firms collectively represent in excess of 95% of the initial distribution and secondary market trading of municipal bonds, corporate bonds, mortgage and other asset-backed securities and other fixed income securities. More information about the Association is available on its website, www.bondmarkets.com.



Proposed changes to G-14 stipulate that trades with all counterparts (dealers, institutional and retail accounts) be reported within fifteen minutes from time of trade. The addition of "General Procedures" designates NSCC/FICC as a "portal" to facilitate transaction reporting whereby NSCC will provide both a message-based trade input method and web-based access to MSRB's RTRS system. Similarly, while not stated explicitly in the proposed changes to G-12, NSCC/FICC's Real-time Trade Matching system, "RTTM", will provide an appropriate vehicle to effect inter-dealer trade comparison by a registered clearing agency.

Separating Trade Reporting from Dissemination

As noted, the Association believes that it is important to consider the issues of trade reporting and dissemination as separate and distinct questions, in terms of both practical and public policy implications.

The Association has consistently supported the goal of comprehensive trade reporting, provided that it is accomplished in a manner and on a timetable that does not impose undue systems and compliance costs on Member firms, and is implemented in a way that maintains market efficiencies and minimizes costs to dealer firms.²

In contrast to trade reporting, which is important from the standpoint of providing information that regulators deem important in ensuring that firms are complying with their regulatory obligations, dissemination of information on a real-time basis involves questions of impact on liquidity and the willingness of dealers to commit capital to trading in thinly traded securities. Achieving the goal of trade reporting on a real-time basis does not by any means resolve the question of whether some subset of the information that is reported should be disseminated to the marketplace at large on the same basis. These issues are fully described in our comment letter on the dissemination aspects of the Notice.

The Association Supports STP Solutions

The Association wholeheartedly supports the approach MSRB has taken in using RTTM for submission of transaction data to RTRS. The Association and its Members wish to commend the MSRB for its outstanding effort in working with the National Securities Clearing Corporation ("NSCC") and the Fixed Income Clearing Corporation ("FICC")³ to implement a reporting solution that leverages the investment the industry has already made in FICC's Real-time Trade Matching ("RTTM") system.

The Association believes there are significant benefits in using RTTM for municipal trade reporting including the opportunity to have a single communication pipeline and

² See October 11, 2001 Comment Letter from Association re: Real Time Trade Reporting.

³ National Securities Clearing Corporation and Fixed Income Clearing Corporation are subsidiaries of the Depository Trust and Clearing Corporation ("DTCC").



consistent message format for both trade reporting and inter-dealer comparison that utilizes an industry standard protocol (ISO 15022). In addition, two-way connectivity using NSCC as a portal for trade submission, acceptance/error notification and error correction (NSCC Access Network and/or RTTM Web Interface) provides a consistent user interface and processing methodology.

The Association has been a strong proponent of straight through processing ("STP") and has spearheaded numerous initiatives in that regard. Specifically, the Association has been involved in standards development to support e-commerce and automation. These efforts have resulted in the launch of FIX version 4.4 messages to meet fixed income requirements and inclusion of descriptive fields for fixed income in the Market Data Definition Language ("MDDL") data dictionary. In addition, the Association has been working with its Members and DTCC at documenting business practices to seek efficiencies and improve access to more timely and accurate information – particularly in the new issue market.

More broadly, the Association's STP Steering Committee was formed to work in concert with the Securities Industry Association to identify and resolve impediments to STP. Efforts are aimed at bringing greater efficiency to the marketplace in the form of improved processing, reduced risk, and cost savings - all of which will benefit the investor through better customer service, enhanced liquidity and more product offerings. The Association also continues to develop educational programs, conduct conferences, hold workshops and publish literature for use by its Members and their clients on issues related to straight through processing.

Transitioning from Current to Future State of Municipal Securities Processing

As the industry strives to achieve straight through processing and mitigate risk, the move to real-time trade matching is an effective way to increase operational efficiency, reduce settlement risk and improve the opportunity for business continuity/recovery in the event of an emergency. Trades can be continually captured, transmitted electronically and forwarded for processing in a condensed timeframe. The government securities market has already seen benefits as a result of Government Securities Clearing Corporation's ("GSCC") implementation of RTTM over the last two years. More recently, the Mortgage-Backed Securities Clearing Corporation ("MBSCC") completed a conversion to RTTM for mortgage-backed securities processing. The municipal market looks forward to the migration of municipal bonds, corporate bonds and unit investment trusts to the RTTM platform, and welcomes the opportunity to have all its fixed income trades processed in the same environment. We commend the MSRB for coordinating the move to RTRS to coincide with NSCC's transition to RTTM⁴ such that we may accomplish our industry goals of real-time reporting of municipal transactions and comparison of inter-dealer trades simultaneously.

⁴ GSCC, MBSCC, and NSCC are affiliates of DTCC under the FICC umbrella. RTTM is a product of FICC provided to NSCC under a service agreement.



Batch to Real-time. In order to prepare for the migration to RTTM, dealer systems that are currently processing in batch mode must be upgraded to accommodate real-time processing. This is a sizeable undertaking and represents a large financial commitment on the part of our Members (including executing broker dealers and clearing firms) and their service bureaus. Many firms are seizing the opportunity to migrate to entirely new platforms, both front-office and back. Some are re-engineering their internal proprietary systems, while others are moving to service bureaus or third party vendor platforms to support their future needs. For many, the changes are significant and costly, with much of the burden falling on internal IT departments that have been the targets of downsizing in recent years.

Impact on Workflow. Separate from the extensive changes necessary to upgrade dealers' processing platforms, an equally great challenge will be the associated changes in workflow and behavior. For many, a complete redesign of the trade process flow from the front through the back-office is required, with various tasks and functions (both manual and automated) being reallocated to meet the timing requirements for trade submission, status monitoring and repair. Changes in workflow will impact staff resources, management and systems of numerous departments including trading, compliance, middle office, P&S and operations.

While dealers of all types must institute change in many aspects of the trade process flow, clearing firms and correspondents must be particularly mindful in planning and implementation to ensure that trade entry and modification procedures maximize timeliness and accuracy, while minimizing exposure to risk and avoiding reconciliation issues. In any case, all firms must consider education, training and careful coordination to be imperative once roles and responsibilities are redefined including: entry of trade information and security details (if necessary), monitoring trade status messages, making immediate corrections, and all other activities required to support real-time trade reporting.

Trading Speed for Accuracy. Firms are finding themselves having to make decisions whether to have reporting driven by their front-office systems or their back-office systems. The requirement that trades be submitted within 15 minutes of execution presents a dichotomy related to rapid trade reporting vs. automated trade processing. While some firms have opted to utilize their front-end trading systems for trade reporting in order to meet timing requirements, others prefer to depend on their back-office systems to ensure accuracy.

Reasons cited for selecting the front-end are primarily related to the need for speed and tend to be based not on the merits of reporting from the trading platform, but on the deficiencies of many back-office systems in certain circumstances. Limitations may include the inability to process a) an unallocated customer block trade, or b) a bond for which a record has not already been established in the master security file. (For a more complete discussion of issues related to the security master file, see sections "Non-STP Solutions" and "Timely Access to Indicative Data" which follow.) In addition, firms that process many other types of securities in their back-office systems are resistant to making



the major system changes or “work-arounds” that may be necessary to accommodate the needs of a single municipal product group.

Many firms take caution in allowing the front-end trading platform to generate trade reporting messages independent of those processed by the back-office system. These firms believe that multiple, unrelated message streams will present risk management concerns and have the potential to create numerous downstream processing errors. Dealers with in-house processing systems as well as service bureaus anticipate problems when reconciling trades “as reported” by a front-end platform to those that were processed by the back-office system which sets the bonds up for settlement and posts the transactions to the firm’s books and records. This is particularly a problem where post-allocation adjustments are needed.

The Association’s Concerns Related to MSRB Proposals for 15-Minute Reporting

While the Association is in favor of MSRB’s selection of RTTM as a “portal” to RTRS, there are several concerns regarding implementation details.

Non-STP Solutions. In some cases, the 15-minute timeframe for MSRB reporting proliferates non-STP solutions. The industry objective in recent years has been to streamline processes by eliminating duplicate treatment of information/transactions, reducing manual input to the point of handling only exceptions and allowing normal trades to be processed without intervention.

While the MSRB and NSCC/FICC have worked hard to engineer a single pipeline/single message approach, MSRB timing requirements may force transaction messages to take different paths for reporting vs. processing (as described above). In order to meet the 15-minute timeframe in the near term, many routine trades may need to be manually handled as an exception and require duplicate entry, rather than allowing the trade to take its normal course.

For example, a trade done in a security that is not yet in a firm’s security master file may require the security description to be viewed on a screen or a fax and manually input into a temporary database in order to meet the 15-minute window. A wider window will allow a vendor service the additional time needed to make the data available to internal systems electronically, and permit the trade to flow through the system in an automated fashion. Admittedly, once a new manual process or this “exception handling” workflow is in place, it is likely that over time various aspects can and will be automated; however, it will take time and in order to comply with the 15-minute requirement, the industry should anticipate a step back in the short-term before it is able to move closer to STP over time.

Timely Access to Indicative Data. As discussed, gaining immediate access to the descriptive information required for processing can be particularly troublesome when an issue has been bought by a dealer for the first time - whether that security is newly issued or is trading in the secondary market. Because the municipal universe exceeds 1.5 million CUSIPs, it is cost-prohibitive and operationally inefficient for firms to maintain



the complete database internally, particularly in light of the fact that, according to MSRB published statistics, only 6-8% of the CUSIPs are traded over the course of a month.

Dealers are dependent on their vendors to provide the information necessary to update their security master files as needed for processing purposes. While most dealers and service bureaus have integrated data services with their processing systems, it still can take approximately 7-11 minutes to set up a security traded in the secondary market that is not already in the securities master file. This may be particularly burdensome when a dealer is buying a portfolio of securities from a client. The time it takes from the point of trade execution to enter the trade on the front-end only to discover the security is not in the database used by the back-office, will determine whether the trade will meet or exceed the 15-minute window for reporting.

New issues pose a unique problem on the first trade date due to the lack of information available to the data vendors. As described in a previous example, to meet the 15-minute timeframe will require information to be keyed in manually from the syndicate wire rather than processed in an integrated, systemic manner. Dealers that are not part of the syndicate underwriting will not have direct or immediate access to the information on the wire, although the lead manager is required to provide Kenny Information Services ("KIS") (as agent for NSCC) with complete information. This information is currently transmitted via telecopy and manually entered by KIS into their database. Similarly, i-Deal (owner of DalComp, a municipal syndicate book-running service used by many dealers) allows users to request syndicate information to be sent to selected data vendors; however, it too is transmitted via telecopy and requires vendors to manually rekey data into their databases. These archaic methods, which offer the lead manager no ability to "preview" information or check its accuracy before it is disseminated, present serious issues related to data quality and timeliness.

Implementation Schedule. The Association's Members look forward to having a full six months to test submission/interaction with RTRS from the time RTTM goes into full production.⁵ We believe it is MSRB's intention to allow six months for dealers to test their submissions to RTRS using the RTTM platform; however, it is not explicitly stated in the Notice that for each day RTTM's actual implementation date may be delayed, compliance requirements for RTRS will be delayed an equal number of days. We also expect that RTTM will be fully tested by NSCC/FICC before inviting dealers to test. We suggest allowing a minimum of 3 months' participant testing prior to declaring RTTM to be "live" and fully implemented.

Due to the large number of systems and processes that will be affected by the changes, the Association asks that these test periods not be condensed. Our Members must test each of their internal processes impacted by RTTM. Activities during this period will also entail refinement of new workflow including task reallocation; training of personnel to perform new tasks; coordination with clearing firms, correspondents and other dealers

⁵ See October 11, 2001 Comment Letter from Association re: Real Time Trade Reporting.



as counterparties; and use of both message-based and web-based methods for trade input, status monitoring and trade corrections.

The Association believes that "progress reports" will be helpful in ascertaining a dealer's performance and highlight areas for improvement during the test period and following implementation. While progress reports will provide a yardstick for self-measurement vis-à-vis industry averages, we discourage use of the results by regulators until all have had ample opportunity to work out the "kinks" in their processes.

With respect to monitoring "time of trade" and the manner in which "lateness" will be measured, our Members question the basis upon which the valid timestamp will be determined in the case of an inter-dealer discrepancy. We request that the MSRB clarify this point. Also related to progress reports, dealers have voiced concern regarding the accuracy of data being applied to the Dealer Feedback System. Several examples were cited by Members in the current environment where inaccurate trade counts are being reflected in MSRB reports, and other miscalculations are occurring as a result of inconsistent processing of syndicate trades.

Clarification related to Syndicate Takedown Procedures. Over the years, several trade submission procedures have been introduced to streamline the comparison process for inter-dealer trades. One such example is the opportunity for a managing underwriter of a new issue syndicate to send "Unilateral Submissions" to process the bonds allotted to other dealers in the syndicate. In the current environment, some dealers submit syndicate trades for processing incorrectly, resulting in lower report card scores for all those involved with the underwriting. To ensure accuracy going forward, we ask that the NSCC and MSRB reiterate and reinforce new issue procedures in the new RTTM environment.

Coding of ATS Trades. Another concern is with respect to matching trades executed through a registered Alternative Trading System ("ATS"). MSRB's expectation that dealers and ATSs will indicate a trade was performed on an ATS is both problematic and unnecessary. Often, dealers are not aware that the broker is a registered ATS. Trades of this type are likely to be coded improperly by the dealers which will prevent them from matching the ATS's input.

Firms registered as an ATS are regulated by the Securities and Exchange Commission (the "Commission") and already provide the Commission with extensive trade information. If the Board's intent in requiring an ATS indicator is for purposes of surveillance and monitoring volume, we would support the Board's request to the Commission to share with them the information being supplied by the registered ATSs.

Short term debt instruments. Reporting on short term debt instruments, specifically Variable Rate Demand Obligations ("VRDOs"), Commercial Paper ("CP") and Auction Rate Instruments within fifteen minutes is another challenge that has Association Members concerned. These instruments are sold at auction, where the outcome is unpredictable. As these issues tend to be large and involve numerous investors, the winning bidder will be faced with reporting many transactions in an extremely narrow



timeframe. Because all these prices are reported at par, dealers question the value of entering high volumes of data within 15-minutes of execution, where no meaningful price information has been exchanged for purposes of transparency.

Association Recommendations

Keeping our goals in mind of achieving STP and meeting MSRB reporting requirements, The Association voices the above-outlined concerns, and on behalf of its Members, responds with the following recommendations related to implementation of MSRB's plan for Real-time Trade Reporting, as described in Notice 2003-23.

Phased Approach to Testing and Implementation. Considering the scope and depth of the system, workflow and behavior changes required, Members recommend a phased approach to testing and implementation of RTRS as follows:

Members require a minimum of six months' testing of RTRS set to begin when RTTM is released for "live" production. Upon declaring RTTM fully operational (expected by January, 2004), begin with submission of all inter-dealer trades within 15-minutes of execution, with the exception of new issue transactions. (See recommendation below regarding exemption of new issue securities.) Require customer trades to be submitted to RTRS using the RTTM platform but do not mandate 15-minute submission for customer trades until inter-dealer submissions to RTRS have been operational for at least six months. Assuming MSRB's RTRS reporting through RTTM begins in July, 2004⁶, the industry objective of real-time submission of inter-dealer and customer trades will be achieved by January, 2005.

During the testing and phase-in period suggested above, we recommend that the MSRB provide reports that will help dealers measure their success and pinpoint areas that need improvement. We trust that the "progress reports" will not be used by regulators in assessing individual firm's performance, but will serve to establish the industry's commitment and advancement to 15-minute reporting.

Exempt New Issues from 15-minute Timeframe. Generally, new issues being released to the market on the first day of trading should be submitted as soon as possible, but not later than end-of-day. This will allow time for accurate information to become available through vendor systems and will facilitate integrated processing rather than create the need for exception processing. However, there are instances where CUSIP numbers have not been assigned due to late-day execution of a bond purchase agreement ("BPA") or new issue award. These trades would be submitted immediately upon receipt of a CUSIP⁷ which may be the day following BPA execution or new issue award. Until the industry

⁶ This assumes RTTM becomes operational in January, 2004 after a 3-month test period. An RTTM launch date later than January, 2004 should delay MSRB's July, 2004 effective date for RTRS submission an equal number of days.

⁷ This applies also to bonds trading in the secondary market that await assignment of a new CUSIP number (e.g. purchase of secondary market insurance).



has devised a method to make reliable information accessible to all within 15-minutes of the award of a new issue or execution of a bond purchase agreement⁸, it is inequitable to impose this reporting requirement on those that have limited means to comply. We invite the MSRB to work with the Association, DTCC and others on the projects we have initiated to resolve deficiencies related to information availability in the new issue segment.

Also, to streamline and expedite transaction reporting where the simultaneous execution of multiple trades has occurred in the *same security* and at the *same price*, we ask that dealers be given the option to aggregate customer trades and represent them as a single transaction for purposes of reporting.⁹ We believe this is consistent with MSRB's request for customer transactions to be reported at the block level, *not* the sub-account level; thus, the objective of price transparency will not be compromised in offering this option to report aggregated trades. Inter-dealer trades would continue to be reported separately, as required to support automated comparison.

Clarification related to Syndicate Takedown Procedures. To expedite processing and increase the accuracy of "progress reports" going forward, we ask that the NSCC and MSRB reiterate and reinforce new issue procedures in the new RTTM environment, including the need for syndicate managers to submit "locked-in" trades.

Coding of ATS Trades. The Association recommends removal of the stipulation that trades executed with an ATS must be coded accordingly. Members believe that trades executed by or through an ATS should be coded as any other inter-dealer trade; that is, with each counterparty (e.g. dealers and ATS) indicating on its own trade submission whether it acted as principal or agent in the transaction. Alternatively, an ATS indicator reported solely by the ATS on the trade submission, with no such indicator required on the dealer's submission, should be sufficient for MSRB surveillance purposes.

Exempt Short Term Debt Instruments from 15-minute Timeframe. We request relief from 15-minute reporting of VRDOs, CP and Auction Rate Instruments, particularly in light of the fact that the price of "par" that is published on these securities has minimal value to investors. Instead, we suggest submission of these trades as soon as possible, but not later than the end-of-day. The Association agrees that information regarding cash inflow and outflow among the short term and longer term instruments serves to describe the market environment and trends related to the movement of funds. End-of-day reporting will support MSRB's ability to track the movement of money among municipal instruments.

⁸ MSRB has provided guidance in the form of an interpretative letter dated April 30, 1982 which describes "trade date in the case of a competitive new issue, a date no earlier than the date of award of the new issue of municipal securities, and, in the case of a negotiated new issue, a date no earlier than the date of signing of the bond purchase agreement."

⁹ We request this option be available to the underwriting desk for a new issue, to remarketers of VRDOs and other short term instruments, and to the trading desk to facilitate customer trade reporting for secondary market activity.

Conclusion



In summary, we appreciate the opportunity to provide our views to the MSRB on these critical issues. We trust that our comments will be carefully considered as the Board completes implementation plans for transaction reporting and finalizes the G-12 and G-14 rule changes. Please recognize also, that these changes come at a time when the dealer community finds itself under increasing regulatory compliance pressure on numerous fronts, including TRACE and Anti Money Laundering requirements, where implementation seemingly takes divergent paths. We do however, continue to seek ways to support price transparency, improve processing efficiency, reduce risk, and respond to investors' demands for liquid markets and improved services at reduced cost.

Please address any questions or requests for additional information to the undersigned, via e-mail Lhotchkiss@bondmarkets.com or phone 646-637-9218. We would be glad to provide additional assistance or discuss these issues further with any members of the MSRB or its staff.

Sincerely,

Lynnette Kelly Hotchkiss
Senior Vice President and
Associate General Counsel

cc: *Securities and Exchange Commission*

The Honorable William H. Donaldson, Chairman
The Honorable Cynthia A. Glassman, Commissioner
The Honorable Harvey J. Goldschmid, Commissioner
The Honorable Paul S. Atkins, Commissioner
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The Bond Market Association



Executive Committee, Municipal Securities Division
Legal Advisory Committee, Municipal Securities Division
Policy Committee, Municipal Securities Division
Sales and Marketing Committee, Municipal Securities Division
Operations Committee, Municipal Securities Division
Syndicate and Trading Committee, Municipal Securities Division