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To: Municipal Securities Rulemaking Board
Re: Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14

I am president of Sanderlin Securities, a municipal bond broker dealer in the secondary market. I appreciate this opportunity to comment on the proposed amendment to MSRB Rule G-14. I believe that there is no benefit to making the proposed change, and that if it is passed, it will actually harm municipal securities investors.

Sanderlin Securities is a "small" broker dealer, but we do handle what we feel is a fairly significant amount of trading volume in our part of the municipal bond market. In 2021, we traded over $300 million par amount of bonds in 8594 trades, making the average size of trade: $35m par amount. Based on this average size, we feel like we provide liquidity to retail investors—the mom and the pops—when they put their bonds out for the bid with their financial representative.

We tracked our trades in August to see how well we would have done remaining compliant with the reduced time requirement to report trades. We did 537 trades in the month of August (a slow month for our firm). We reported 47 (8.75%) in less than one minute; 298 (55.49%) trades were reported between one minute and two minutes; 160 (29.8%) trades were reported between two minutes and five minutes; and 32 (5.96%) trades reported in greater than five minutes. Less than ten percent of the trades we did this past August would have been compliant with the proposed change to MSRB Rule G-14.

In order for Sanderlin Securities to be compliant with this proposed change, we would have to purchase TOMS, Bloomberg's Order Management System, at a price tag of $250,000 per year[1]. We've engaged Bloomberg on the matter to see if there was a trimmed down version. There is, but for the number of trades we do, we don't qualify for that version. There are other order management systems available, but they all come with a hefty price tag. An additional expense of $250,000 per year would be very difficult for us to take on. In the MSRB write up on the matter, they seem to acknowledge this and appear to be apathetic to losing *more*[2] small firms, when it is stated: "as these trades would likely

[1] Currently, Sanderlin Securities enters our trades using our clearing firms provided order entry system.
[2] In the five year period of 2017-2021, there was a 9% decline in FINRA Registered Firms. The small firms (firms with fewer than 150 registered representatives) were the overwhelming majority of this decline (305 out of the 332). In the time period of 2012-2021, the decline in FINRA Registered Broker Dealers is 21%. I could not locate the data to show what percentage of this decline in the ten year period was attributed to small firms, but based on the percentage from 2017-2021, we can estimate that it is an overwhelming majority.

migrate to other large dealers." I can assure you, our trades would not migrate to "other large dealers". Our customers were unable to obtain the service they require at the large firms they previously patronized. Sanderlin provides a bespoke service in small lots that is simply unavailable elsewhere. Our customers will not migrate to large firms, they will simply go to Treasurys.

Let me put this in even more practical terms to show the negative impact on the municipal securities investor. I did a query through one of the ECNs we use to buy and sell bonds, to get a "color recap" for the bonds we bid in August 2022 (as mentioned previously, a slow month). We put a bid on 4778 bid wanteds in the month of August on this ECN. The color recap shows how many bidders there were on each bid wanted. I exported the data to find the average number of bidders on the 4778 bid wanteds we bid. The average was 5 bidders.

If Sanderlin Securities is forced to cease operations, due to the additional cost of this change, our bids will no longer show up on these 4778 bonds put out for the bid in August. So, instead of the municipal security investor getting five bids on their bid wanted, they get four, a 20% decline. More bids equals better pricing[3]! On an average day, the two traders at our firm bid over 600 bonds. Those 600 bids would no longer be available to the municipal securities investors and are most certainly not migrating to larger firms.

Sanderlin Securities has been in business over twenty years. During that time, we have never had a complaint or been part of a settlement for anti-competitive or disallowed practice. Our record with all regulatory bodies is immaculate. A fact very few, if any, of the larger firms can state.

On numerous occasions during Sanderlin's existence as a broker dealer, we experienced markets where liquidity in the municipal bond market declined significantly[4]. Our firm has always remained a bidder during times of market turmoil. During the COVID pandemic, we've remained in the office since Day 1[5], bidding bonds as always before. The firms that exited the markets (stopped bidding) during these tumultuous times were the "larger firms." Sanderlin's percentage of aggregate indebtedness (AI) to net capital (NC) is 1.65%[6]. In our twenty plus years of existence, our AI to NC has always been around this number. This is why we are always bidders, no matter the market we find ourselves in. We don't use absurd leverage for our trading operations, allowing us to always remain active in the markets.

The MSRB's explanation for this amendment suggests that the Board has identified a correlation between size of trade and reporting of greater than one minute: see Table 1 Trade Report Time by Trade Size. We don't usually transact in large lots, so I cannot comment on what is going on regarding the correlation between lot size and reporting time. If it is the Board's feeling that something iniquitous is occurring during that time period that is harmful to the retail investor, I suggest one minute trade reporting requirement to trades that have a par amount of one million or greater. Why punish broker dealers that aren't even part of the problem? Migrating trades to larger firms will result in fewer firms

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source: https://www.finra.org/sites/default/files/2022-03/2022-industry-snapshot.pdf

[3] A fact that is empirically proven later in this comment letter.

[4] The two most significant examples being the post Lehman collapse (Global Financial Crisis) and during the early months of the COVID pandemic.

[5] We are fortunate to have an office that allowed us to depart from our traditional trading desk setup and pivot to a work space where each employee was safely segregated from their coworkers. We were able to never work from home and as a result of this spacing, we suffered no COVID transmission among our employees.

[6] Source: Sanderlin's July 2022 FOCUS Report Part IIA

and less competition. These firms have never offered services in small areas of the market the many firms like us do.

Keeping with the argument that this change hurts municipal securities investors, while providing no benefit, I'd like to provide further empirical evidence. I randomly chose a trading day[7] for this example. Using the software[8] we use to track our trading activity, I can see that on May 4, 2022, Sanderlin had 18 purchase trades. I then looked at each CUSIP to see when after our purchase that bond traded again. Below is a table showing the results:

Bot Date	CUSIP	Bot Qty	BOT Time	Next time (or date) of Trade*
5/4/2022	56682PBC4	5	10:32:45	6/27/2022
5/4/2022	5515625V9	2.5	10:39:04	No trade since
5/4/2022	20774YKN6	5	11:01:00	5/24/2022
5/4/2022	65821DLJ8	35	11:33:01	5/5/2022
5/4/2022	13032UGN2	35	11:57:04	5/5/2022
5/4/2022	072024UR1	50	12:15:53	5/5/2022
5/4/2022	37855PHJ4	5	12:56:02	No trade since
5/4/2022	45204EA40	10	13:03:17	5/9/2022
5/4/2022	154872AU9	200	14:03:12	6/1/2022
5/4/2022	74526QPL0	30	13:34:13	5/9/2022
5/4/2022	56036YDH5	10	13:35:14	15:04:08
5/4/2022	745190UK2	30	14:02:30	5/10/2022
5/4/2022	64542UCN2	10	14:08:43	9/16/2022
5/4/2022	841531DE3	10	14:17:20	5/5/2022
5/4/2022	34061QAH0	45	14:24:01	15:35:06
5/4/2022	34153PR42	85	15:52:10	5/10/2022
5/4/2022	927793WN5	20	16:31:00	5/5/2022
5/4/2022	13032UGP7	25	14:05:12	5/5/2022

*if we sold the bond to one of our customers or the trade was associated with our trade e.g., purchase from customer, I didn't include that time of trade in the analysis.

Of the 18 purchases made on May 4th, a randomly select trading day, the closest time that another trade went off on one of the CUSIPs was 71 minutes later. I fail to see how any of the subsequent municipal

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[7] Actually, I asked the other trader to randomly choose a trading day within the past six months.
[8] Cost of software: $900 per year, a doable expense.

security investors in these bonds would have gained any benefit from me reporting these trades in less than sixty seconds. I will gladly provide similar data for any trading day; I feel certain we will draw the same conclusion: No benefit to the investor.

As a result of passing this amendment, you will have less firms like Sanderlin Securities in the municipal market. The MSRB Notice for this amendment seems to indifferently acknowledge this point when it states:

> *if these dealers [small broker dealers] choose to relinquish their secondary market trading business, there **should*** [emphasis mine] *not be any significant reduction in the supply of services to investors, as these trade would **likely*** [emphasis mine] *migrate to other larger dealers.*[9]

I hope in the above examples I have been able to elucidate how investors will not only see a reduction in the supply of services they receive, but these trades will not migrate to other larger dealers.

"The Municipal Securities Rulemaking Board was established by Congress in 1975 and charged with a mandate to protect municipal securities investors, municipal entities, obligated person and the public interest."[10] It seems to me that in order to uphold this mandate, the Board would do all that is possible to ensure the "municipal securities investors" are protected. It is my opinion, that if the amendment to MSRB Rule G-14 is passed, it will do significant harm to municipal securities investors.

I would like to conclude by giving further empirical evidence of the harm this proposed amendment will have on municipal securities investors. Literally, as I finished writing this comment letter (first draft), I had a bond confirmed to me from an ECN. We bought 290m of CUSIP 71885FCJ4. We were the high bid with only one other bid[11]. Our bid was $100.844 per bond; the cover bid was $100.47 per bond. Since reporting the trade (in greater than a minute, I should note), I can see from the tape that the bond was purchased from a customer at my bid price of $100.844. That customer would have gotten $1084.60 less if my bid was not there[12]. That seems pretty clear evidence of the harm done to a municipal securities investor as a result of less bids/liquidity. Where were the larger firms on this trade to ensure there were no "reduction in the supply of services to investors"? As an investor myself, I can assure you the main service I am concerned with offered by my broker dealer is the price I pay for bonds and the price I get when I decide/need to sell bonds.

I will now attempt to reply to each of the questions asked at the end of the request for comment by the MSRB:

Benefits:

I hope I've been clear in my above response that I see no benefit to any parties (other than the entities selling the automated order entry systems and the larger firms who will enjoy less competition) regarding this proposed amendment. Ergo, this section is left blank.

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[9] Source: https://www.msrb.org/-/media/Files/Regulatory-Notices/RFCs/2022-07.ashx??n=1

[10] Source: https://www.msrb.org/msrb1/pdfs/Role-and-Jurisdiction-of-MSRB.pdf

[11] The market has been selling off considerably recently due to a myriad of reasons causing bidders to stay away, but as mentioned earlier, Sanderlin is always a bidder for bonds that meet our parameters. The trade I am citing is from 9/22/22.

[12] My bid 100.844 – cover bid 100.47= $3.74 per bond *290=$1084.60

Costs and Burdens

1. Would a one-minute trade reporting requirement have any undue compliance burdens on dealers with certain characteristics or business models (e.g., large firms versus small firms, firms with greater trading volume versus lesser trading volume, bank dealers versus broker-dealers, etc.)? If so, please provide suggestions on how to alleviate the undue burdens.

The one-minute trade reporting requirement would absolutely create an undue compliance burden on smaller firms that don't already pay the hefty price tag for Bloomberg TOMS or another similar product that automates the processing of your trades.

As stated previously, the burden could be alleviated by putting the minimized time requirement on trades of one million or greater.

2. Are these undue compliance burdens unique to minority and women owned business enterprise (MWBE), veteran-owned business enterprise (VBE) or other special designation firms? If so, please provide suggestions on how to alleviate any undue burden or impact.

I suspect not. They are unique to firms that cannot afford the hefty price tag of an automated order entry system.

3. What are the likely direct and indirect costs associated with the Proposal? Who might be affected by these costs and in what way? a. Is there data on these costs that the MSRB should consider? If so, please provide such information. b. If firms would have to make system changes to meet a new timeframe for trade reporting, how long would firms need to implement such changes?

I hope the answer to these questions was made clear in my above response. As with any of this, if not, please contact me to discuss further.

Operational Considerations

1. The time to report a trade is triggered at the time at which a contract is formed for a sale or purchase of municipal securities at a set quantity and set price; is this definition of "Time of Trade" the appropriate trigger? If not, what other elements of the trade should be established before the reporting obligation is triggered?

It is my feeling that this "Time of Trade" trigger is appropriate.

2. The data in Table 1 above indicates that 76.9% of trades reported to the MSRB were reported within one minute. Are there any commonalities with the trades (other than those noted above) that were reported within one minute or reported after one minute?

I feel the commonality is that 76.9% of trades reported in less than one minute are reported using an automated order entry system. For larger firms, the cost of $250k per year for this automation is nominal when spread out amongst their greater than five hundred registered representatives. For a smaller firm, it is burdensome at best, crushing at worst.

3. The data in Table 1 above indicates that larger-sized trades take longer to report than smaller-sized trades. What is the reason(s) it takes a firm that reports larger-sized trades more time to report a trade (e.g., voice trades)? a. For dealers that report larger-sized trades, would the process(es) for executing and/or reporting those trades need to change to be able to report those trades in a shorter timeframe? If so, how? b. Would dealers need retail and/or institutional investors to modify any of their processes so that larger-sized trades could be reported in a shorter timeframe?

Our data shows no correlation between the reporting time of a trade at Sanderlin Securities and the size of the trade.

4. The data in Table 2 above indicates dealers that report a smaller number of trades per year, take longer to report trades than dealers that report a larger number of trades. What is the reason(s) it takes a firm that reports a small number of trades more time to report a trade?
I suspect it is the same reason it takes us longer to do anything we don't do often: If you only do something every now and then, you have to essentially remind yourself what you are doing every time. With increased frequency of any activity comes increased efficiency[13].

5. Based on the MSRB's analysis, trades conducted on ATS platforms are reported to RTRS in less time than non-ATS trades, with 84.4% of inter-dealer trades on an ATS platform being reported within one minute while only 74.9% of non-ATS trades were reported within one minute. What is the reason(s) it takes more time to report trades executed away from an ATS?
I would venture a guess that firms that are executing exclusively on ATS platforms have automated their order entry. Sanderlin transacts on ATS platforms, with Brokers' Brokers, and off the MBWD bid lists on Bloomberg. It takes us the same amount of time to report a trade regardless of the venue we bought or sold it on.

6. Submitting transactions to RTRS using a service bureau appears to result in faster trade reporting time than a dealer using the RTRS Web interface. On average how long does it take a dealer to report a trade through the RTRS Web interface? How could the MSRB improve the process for reporting through the RTRS Web interface? In what instance would a dealer choose to or need to use the RTRS Web interface?
Sanderlin's clearing firm handles the reporting of our trades to RTRS. I can say with confidence they do this reporting within one minute of the time we submit our trade using their order entry system. I know this because I just looked at a trade I had earlier today and from the time I submitted the trade to our clearing firm using their order entry system to the time I received the affirming email from RTRS was less than one minute.

7. Would reducing the timeframe to as soon as practicable, but no later than within one minute affect the accuracy of information reported and/or the likelihood of potential data entry errors? If so, what is the reason for such impact?
ABSOLUTELY! The reason is the trader would be rushed to input the data in under 60 seconds. What happens when you do anything in a hurry? Mistakes.

8. Are there any necessary process(es) a dealer needs to complete before trading a bond for the first time that could impact the ability to report a trade within a reduced timeframe (e.g., querying an information service provider to obtain indicative data on the security)? a. Please describe the process(es) and how often it is necessary to implement the process(es). b. Please estimate the time necessary to complete such process(es). c. Describe how, if at all, the process has changed in the last 10 years?
The most notable process I would cite is when your clearing firm's security master doesn't have a CUSIP set up. You have to then contact their security master department, alerting them for the need to set up a CUSIP. This can usually be done in under fifteen minutes. There is no possible way it could be done in under sixty seconds.

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[13] To the extent a firm's equipment and software allow e.g., we processed an average of 34 trades per day in 2021, but we still wouldn't be able to meet the one minute time requirement on 90% of those trades due to we don't have the automated order entry system.

9. Rule G-14 currently provides exceptions for certain trades to be reported at end of day. Are these exceptions still necessary? If so, is end of day still the appropriate timeframe for reporting these transactions?
I'm not aware of these exceptions, so I can't comment on them.

10. Would reducing the reporting timeframe to one minute require additional trade reporting exceptions, other than end of day exceptions, to allow for certain trades to be reported at a different time (e.g., 3 minutes)? If so, please identify the types of trades that would require an exception and why such are believed necessary? For example, do trades executed on swap rather than on a cash basis require more time to report?
This is an operational element I have no experience with, so I cannot comment intelligently upon it.

Market Structure Considerations

1. Would approval of this Proposal have an impact on any current trading patterns or processes not already identified above? Would certain types of trades be less likely to occur? If so, what type of trades would be most impacted, and would that impact the fairness and efficiency of the market?
I'm hopeful my above comments on this matter have sufficiently answered this question. I would add that I feel the trades most impacted are the one of belonging to the "Mom and Pops"—the odd lot trades. The larger firms, from my experience, don't want to mess with lot sizes less than 100m.

2. The MSRB is aware of differences in the market structure in the municipal bond market compared to other fixed income markets. These differences include the substantial number of issuers and individual securities as well as the lack of uniformity for the structure of many municipal bonds including optional and mandatory redemption provisions.14 Do these differences cause municipal bond trades to take longer to report than the reporting of other fixed income trades, such as corporate bonds? If so, why?
For our firm, the nuances of different municipal bonds don't cause us a longer amount of time to report a trade.

3. Are there any other potential market structure implications the MSRB should be aware of? For example, could the Proposal alter the competitive balance in the current market?
I am very hopeful that my position on this question was made clear in my overall response. If not, allow me to summarize it: This proposed amendment will cause great harm to the smaller firms, putting more of them out of business due to the cost burden to remain compliant. Less participants in the municipal market means less liquidity, among other things. This will harm the municipal securities investors.

Sincerely,

Matthew Kamler

Matthew Kamler
President
Sanderlin Securities