VIA ELECTRONIC SUBMISSION

October 3, 2022

Ronald W. Smith
Corporate Secretary
MSRB
1300 I Street NW
Washington, DC 20005

Re: MSRB Notice 2022-07: Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14

Dear Mr. Smith,

Cambridge Investment Research, Inc. ("Cambridge") appreciates the opportunity to comment on the proposed rule change contemplated in Notice 2022-07 (the "Proposal") that would amend the Municipal Securities Rulemaking Board ("MSRB") Rule G-14 with regard to the reporting and public dissemination of information regarding purchase and sale transactions effected in municipal securities. Cambridge understands that this proposed change would require firms to submit a report to the Real-Time Transaction Reporting System ("RTRS") as soon as practicable, but no later than within one minute of the time of trade for transactions effected in municipal securities.

Cambridge recognizes and appreciates MSRB's interest in rethinking the manner in which firms disseminate transaction data. However, for the reasons detailed below, Cambridge questions the practicality of the proposed one-minute limitation for the submission of reports to RTRS and requests that the MSRB consider the following recommendations and concerns related to the Proposal.

I. NECESSITY FOR THE PROPOSAL

Cambridge understands and appreciates the MSRB's desire to improve price data transparency. However, Cambridge questions the necessity of a one-minute reporting requirement for municipal securities, as they are not quoted or traded with the same frequency or volatility as are stocks. As the MSRB indicates in the Proposal, the municipal market consists of "relatively illiquid

1776 Pleasant Plain Road • Fairfield, Iowa 52556 | Phone: 800-777-6080 | Fax: 641-469-1691
cambridge@cir2.com | www.cir2.com

securities" which "historically has been associated with low trading volume for a majority of CUSIP numbers," where "only about one percent of municipal securities trade on a given trading day."

Cambridge believes that as drafted the Proposal will create an increase in late-reported trades without meaningfully improving the transparency of price data for the great majority of municipal securities. For transactions executed in municipal securities, the MSRB notes that 76.9% of trades were reported within one minute of execution during 2021. The data sampled by the MSRB would, under the Proposal, cause 23.1% of reportable transactions to fail. These failure rates are heavily weighted toward smaller and less active firms, as those firms in Groups 3 and 4 met the one-minute threshold only 48% and 52% of the time, respectfully.

MSRB data reflects that in 2021 97.3% of trades required to be reported within 15 minutes were reported in five minutes or less, and that from 2005 to 2021, average overall reporting times quickened "so that a shorter reporting timeframe would have already been satisfied by most reported trades." Cambridge recognizes that continued advances in technology and integration have improved significantly average reporting times over the past seventeen years. However, Cambridge urges the MSRB to consider the distortion created by reliance on data from the largest, most active firms: since 67.7% of trades were conducted by the largest firms in Group 1, while the smaller, less active firms in Groups 3 and 4 conducted only 5.5% and 0.7% of trades, respectively.

Cambridge also encourages the MSRB to consider which methods of transacting and reporting are more likely to face challenges under the shorter proposed reporting requirement, and which firms and business models will be disproportionately affected as a result. The difference between a one-minute, five-minute or even fifteen-minute reporting requirement is negligible in an environment where the great majority of securities will not trade for days, weeks, or even months.

Finally, Cambridge believes it would be beneficial for the MSRB to provide more granular detail regarding assumptions underlying the analysis of 251,635 "same-CUSIP number matched trades" from January through December of 2021. The MSRB indicates that 27.9% of analyzed trades had "at least one matched trade executed more than a minute before the analyzed trade's execution" and implies that such trades would benefit from the execution information which would be provided if the reporting requirement was reduced to one minute or less.

It is important to understand how many of these trades involved initial allocations of new / newer issues and how many were executed by the same party or between the same parties. Without recognition of the potential for redundancy among the parties executing the analyzed transactions, it is unclear how many trades would benefit from the Proposal.

Based upon the data, it is clear that the Proposal, if enacted, would create a much greater percentage of reporting failures for firms. Cambridge believes that any potential benefit in shortening the trade reporting time appears to be outweighed by the increase in reporting failures and, as discussed in more detail below, reporting errors.

II. Benefits to Investors

The MSRB cites research that concludes that the 2005 change from an end-of-day reporting requirement to a fifteen-minute requirement reduced average effective spreads for customer trades by between eleven and twenty-eight basis points. Further, while acknowledging the difference between that scenario and the fourteen-minute adjustment presently proposed – projects hypothetical benefits based on assumptions of an additional five basis point reduction in effective spreads, if fourteen minutes are cut from the current reporting timeframe.

Cambridge believes that the projection of estimated benefits to be gained through the proposed fourteen-minute reduction to the reporting timeframe are inflated in proportion to the estimated benefits derived from removing nearly a full business day from the reporting timeframe in 2005, per the research cited. Subsequently, assumptions regarding additional investment in the municipal markets based on the realization of those projected benefits may be less likely.

III. Operational Considerations

Further, in response to the MSRB's specific question, Cambridge believes that the proposed changes, if adopted, would lead to more mistakes, since the potential for repairing an erroneous report without generating a true trade correction would shrink from fifteen minutes to one minute under the Proposal. Cambridge trusts that in all circumstances – but especially those which require manual keying for trade entry or allocation of transaction data – trading and clerical personnel will be more likely to make mistakes, generate more late reports, cause more cancellations and corrections activity, and create trading errors when attempting to comply with the proposed one-minute standard. Additionally, if a mistake is discovered, the chance of successfully rectifying an erroneous report within the proposed one-minute timeframe is minimal.

IV. Costs and Burdens to Dealers and Market Participants

The Proposal describes smaller firms having "difficulty with the proposed one-minute reporting requirement" based on MSRB analysis showing "smaller firms lagging behind larger firms in reporting time." The Proposal supposes that the firms most likely required to make changes and efforts to comply with the proposed one-minute standard "tend to be smaller and sometimes privately-owned dealers," that smaller firms "may find it difficult to meet the new reporting times due to the high costs relative to the amount of business they conduct," and that although these firms "may be impacted by the proposed change," the impact to the marketplace is "expected to be minor given these dealers' relatively minor presence." Most concerningly, the Proposal concludes that the reason this impact would be insignificant is because "if these dealers choose to relinquish their secondary market trading business," their trades "would most likely migrate to other larger dealers." Cambridge respectfully disagrees with the sentiment that smaller firms should be forced away from transacting in the marketplace by overly cumbersome requirements to submit reports on those transactions.

The Proposal further acknowledges that reducing the reporting timeframe would necessitate changes in efforts and behavior by firms in order to comply; however, the Proposal places continued emphasis on these concerns based on "technology upgrades, human efforts, compliance programs, revising policies and procedures, and education or training standards," but does not contemplate the relevance of varied transaction methods underlying the methods utilized for reporting to RTRS.

Cambridge encourages the MSRB to consider variations in transaction types which necessarily affect reporting methods and reporting times. For many firms, a significant number of transactions are confirmed by voice, which requires manual keying for dealer and client sides of transactions. When multi-entry transactions require manual keying with numerous client allocations (such as a buy order involving allocations to twelve separate client accounts), it may be impossible to meet a one-minute reporting timeframe.

Similarly, if a series of individual executions (such as a group of fifteen sell orders when liquidating an account) are confirmed by voice, a one-minute reporting timeframe would require the transacting parties to confirm and synchronize trades, one at a time, then manually key them in a recurring series of individual transactions to avoid violating the one-minute reporting standard. Such scenarios can present challenges to timely reporting during many methods of transacting, even for firms with integrated RTRS reporting tools.

Cambridge encourages the MSRB to consider the potential for firms to choose limiting or even ceasing to work with contra parties providing beneficial access to fixed-income services and executions as a result of difficulties complying with the proposed one-minute reporting standard. Many firms and their financial professionals leverage numerous third-party relationships to ensure broader access to bonds and inventories when buying, to locate more bids when selling, and for assistance in constructing custom ladders or model portfolios for retail clients.

If these relationships were to become high-risk for reporting failures under a one-minute standard, firms may be faced with a choice between meeting the one-minute reporting standard and giving up access to valued services, broader market access, and potential price benefits provided by those third-party relationships. This can be especially valuable in the municipal securities market, where regional access and expertise are of great importance for firms striving to meet the specific needs of clients based on considerations of location and taxation.

Cambridge requests that the MSRB further evaluate the impact of the proposed one-minute reporting timeframe based on the numerous ways whereby transaction and allocation methods may necessitate additional time to comply with standards, and to again consider the disproportionate impact the proposed changes would cause for firms not among the largest and most active firms in Group 1. The Proposal creates an environment where firms can no longer consistently comply with transaction reporting requirements and will be subject to regulatory actions as a result of this non-compliance or, as noted in the Proposal, be forced away from secondary market trading or to migrate to larger dealers.

Cambridge appreciates the opportunity to offer comments regarding the proposed rule to increase transparency and improve access to timely transaction data for municipal securities through RTRS. Cambridge would be happy to discuss further any of the comments or recommendations outlined in this letter.

Respectfully Submitted,

/s/ Seth A. Miller
Seth A. Miller
General Counsel
President, Advocacy and Administration