TMC Bonds | TMCBONDS.COM FIXED INCOME MARKETPLACE

VIA ELECTRONIC MAIL TO rule-comments@sec.gov

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. SR-MSRB-2012-04

Dear Ms. Murphy:

TMC Bonds, L.L.C. ("TMC") welcomes the opportunity to respond to the Securities and Exchange Commission ("SEC") regarding File No. SR-MSRB-2012-04 for the proposed changes to G-43 on Broker's Brokers and G-8 on Record Retention.

TMC is an electronic exchange for trading fixed income securities. Started in May 2000, TMC has grown to become a leader in facilitating electronic trading (for both taxable and tax-exempt bonds) over its open and anonymous platform. For municipal bonds, over 260 unique firms trade on the TMC platform daily, executing roughly 4,000 transactions. In 2011, TMC had over 500,000 Municipal Bids Wanted. TMC's daily trading volume accounts on average for approximately 20-25% of the secondary inter-dealer trading in municipal bonds.

While TMC supports the efforts by the MSRB to define more clearly the rules for the Bids Wanted process, the proposed changes to Rule G-43 attempt to define Alternative Trading Systems ("ATS") partly by the presence or absence of "voice" support. TMC believes that voice support is an important component of an efficient marketplace. Additionally, TMC does not believe that it is the role of neutral intermediaries to create evaluation models for principal traders; instead, a neutral intermediary's primary role is to run a fair auction. Rule G-18 already requires dealers to make a reasonable effort to obtain a fair price for customers.

1. **G-43's proposal for the "ATS carve-out" significantly impairs the ability for firms to run beneficial hybrid models, which combine the best attributes of both voice and electronic media.**

Proposed Rule: G-43(d)(iii)(A)—[An ATS] utilizes only automated and electronic means to communicate with bidders and sellers in a systematic and non-discretionary fashion (with the exception of communications that are solely clerical or ministerial in nature and communications that occur after a trade has been conducted).

The MSRB's desire to allow only electronic communications by ATS', or be subject to unreasonable regulatory burdens designed for traditional voice brokers, does not promote market transparency. While the MSRB recognized in its comments that ATS's operate differently than traditional voice brokers via the proposed ATS exemption, the final language dictates an all-or-none outcome, in that there is either: (1) no voice support for the ATS classification, or (2) voice support and being subject to rules that can only be logically be applied to a low volume traditional voice brokerage business. It does not acknowledge a third option of a hybrid role that blends the best of electronic communications and voice support. Please note that "voice support" is frequently software support to help navigate a massive amount of data. A unique facet of the municipal market is its diffuseness; there are myriad credits, millions of individual CUSIPs, and mostly small issues. TMC's contention is that it does not make sense to impose a regulatory environment that is suitable for the more liquid markets (e.g., Treasuries, corporates), where electronic-only means of communication are totally feasible and, in fact, are the norm.

TMC seeks clarification of the role of customer support personnel (especially those working for an ATS)—given that one strict interpretation of the above is that ATS's should eliminate the positions of those whom the municipal bond community have come to depend upon for technical and market support. TMC believes that this would be counter-productive to the MSRB's intentions of an optimal marketplace. To restate, the problematic portions of the G-43(d)(iii)(A) are that communications must be only electronic, with an exception for voice brokerage communications, conducted solely on a post-trade basis and of a clerical nature. A strict interpretation of the proposed Rule G-43 drives TMC to point out some of the ramifications of adopting the current language:

1. The proposed rule does not account for system outages where computer system glitches (either on TMC's part or of various other technology providers, e.g., Bloomberg, firms' internal systems) require voice communication.
2. A trader not logged onto the TMC website would not be aware of a particular offering or bid wanted, unless someone could contact a trader, as suggested by proposed Rule G-43(b)(i), which mandates that a bid wanted be widely circulated.
3. With thousands of bids wanted and 35,000 municipal offerings on the TMC platform, customer support staff enhance market liquidity by highlighting bonds that professional traders often have not noticed.

4. Large firms post thousands of markets daily from their own internal systems; in many cases, when a bid is shown against an offering, their systems do not provide notice to traders, and they rely on voice support to point out the bid.
5. Sophisticated Municipal Market Professionals often have less rigorous tools and seek voice assistance for navigating electronic platforms.

To restate, TMC believes that its customer support personnel are valuable "human capital" that provide assistance on a pre-trade basis as well as a post-trade basis, providing market knowledge (versus solely clerical duties) in the proper functioning of a robust marketplace. The vast majority of trades on the TMC marketplace are completely electronic; interaction between voice staff and users complement the fundamentally automated nature of the marketplace.

2. G-43 Predefined Parameters:

Proposed Rule: G-43(c)(i)(F) if the broker's broker wishes to conduct a bid-wanted in accordance with section (b) of this rule, require the broker's broker to adopt predetermined parameters for such bid-wanted, disclose such predetermined parameters prominently on its website in advance of the bid-wanted in which they are used, and periodically test such predetermined parameters to determine whether they have identified most bids that did not represent the fair market value of municipal securities that were the subject of bid-wanteds to which the predetermined parameters were applied;

Requiring broker's brokers to use predefined parameters is a promotion of third party pricing services or other arbitrary benchmarks at the expense of the real goal (i.e., the most transparent process to affect the best bids for clients), which is akin to forcing a user to subscribe to a ratings agency to validate a credit judgment As proposed, the need for predefined parameters will be satisfied by brokers brokers subscribing to pricing services and using those evaluations as the basis for vetting a bid. It defies logic to believe or hope that intermediaries/voice brokers, with significantly smaller resources than their dealer clients, would have the means to create their own pricing models for approximately 2 million municipal CUSIPs.

TMC does not believe, however, that quantitative models will lead to an optimal marketplace; otherwise, it would be far simpler to require every trade to have a price evaluation from a third party vendor. However, current MSRB regulation already requires dealers to use reasonable care when determining price levels and thus satisfy the requirement of scrutiny when evaluating a bid. Intermediaries, whether they are an ATS, brokers broker, or an exchange should not be responsible for setting prices or price bands, but instead be responsible for running fair and efficient auctions. The process of establishing value rightly belongs to the parties acting as principals in a transaction, not to the party that is administering an auction or brokering a trade.

Thank you for giving us the opportunity to respond.

Sincerely,

Thomas S. Vales
Chief Executive Officer