

SANDERLIN SECURITIES LLC

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February 14, 2024

To: U. S. Securities Exchange Commission

Re: Request for Comment on SR-MSRB-2024-01 Notice of Filing of a Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB

I am the President of Sanderlin Securities, a municipal bond broker-dealer specializing in trading the secondary market. I am grateful for the opportunity to provide feedback on the proposed amendment to MSRB Rule G-14. I firmly believe that implementing the proposed change would not yield any benefits; rather, it would detrimentally impact municipal securities investors.

Although Sanderlin Securities operates as a "small" broker-dealer, we manage what we feel is a substantial trading volume within our segment of the municipal bond market. In 2021 alone, we transacted in over \$300 million in par amount of bonds through 8594 trades, resulting in an average trade size of \$35m par amount. We are proud of our ability to provide liquidity to retail investors—individuals often referred to as the "mom and pop" investors—when they seek bids through their financial representatives.

In August 2022, we conducted a thorough analysis of our trades to assess our compliance with the proposed reduced time requirement for reporting trades. Throughout the month, which was relatively slow for our firm, we executed a total of 537 trades. The breakdown of our reporting times is as follows:

- 47 trades (8.75%) were reported in less than one minute.
- 298 trades (55.49%) were reported between one and two minutes.
- 160 trades (29.8%) were reported between two and five minutes.
- 32 trades (5.96%) were reported in greater than five minutes.

It's noteworthy that less than ten percent of the trades conducted in August would have met the compliance criteria under the proposed change to MSRB Rule G-14.

For Sanderlin Securities to adhere to the proposed change, we would need to invest in TOMS, Bloomberg's Order Management System, priced at \$250,000 per year. We've engaged

Bloomberg to explore alternatives, but the trimmed-down version isn't suitable for the volume of trades we handle. While there are other order management systems on the market, they all come with substantial price tags. Adding an extra \$250,000 per year to our expenses would pose significant challenges for us.

In the MSRB documentation, there appears to be a lack of concern regarding the potential loss of small firms, as indicated by the statement: "as these trades would likely migrate to other large dealers." However, it's important to note that our trades wouldn't simply shift to "other large dealers." Our clients specifically seek the personalized service and handling of smaller lots that Sanderlin Securities uniquely provides. If unable to find such service, they are more likely to turn to Treasury investments rather than migrating to larger firms.

Allow me now to provide a clearer picture of the potential negative impact on municipal securities investors. I conducted a query through one of the ECNs we utilize for bond transactions to obtain a "color recap" for the bonds we bid on in August 2022, a month previously noted as slow. During that period, we placed bids on 4778 bid wanteds through this ECN. The color recap details the number of bidders for each bid wanted, and upon exporting the data, I determined that the average number of bidders on these 4778 bid wanteds was 5.

If Sanderlin Securities were to cease operations due to the additional cost incurred by this proposed change, our bids would no longer be visible on the 4778 bonds offered for bid in August. Consequently, instead of municipal security investors receiving five bids on their bid wanteds, they would receive four bids—a 20% decline. It's crucial to understand that more bids lead to better pricing for investors. On an average day, the two traders at our firm bid on over 600 bonds. If we were to cease operations, these 600 bids would no longer be available to municipal securities investors.

Sanderlin Securities boasts over twenty years of operational excellence, marked by an impeccable record devoid of complaints or involvement in settlements related to anti-competitive or disallowed practices—a distinction that few, if any, larger firms can claim.

Throughout our tenure as a broker-dealer, we have weathered market fluctuations where liquidity in the municipal bond market significantly declined. Despite such challenges, our firm consistently remained an active bidder, demonstrating resilience even during periods of market turmoil such as the Global Financial Crisis or the COVID-19 pandemic. While larger firms withdrew from the market, we remained steadfast, continuing to bid bonds as we always have.

Our commitment to responsible trading practices is reflected in our conservative leverage approach, with our percentage of aggregate indebtedness (AI) to net capital (NC) consistently maintained near 2.0% over our two-decade existence. This prudent approach allows us to

uphold our status as active participants in the markets, regardless of prevailing market conditions.

The MSRB's rationale for the proposed amendment suggests a correlation between trade size and reporting times exceeding one minute, as indicated in Table 1: Trade Report Time by Trade Size. While we typically do not engage in large lot transactions, I cannot offer insights into the correlation between lot size and reporting time. However, if the Board perceives a need to address potential issues during this period that may harm retail investors, I propose implementing a one-minute trade reporting requirement solely for trades with a par amount of one million or greater. Punishing broker-dealers like us, who are not implicated in the identified problem, will ultimately reduce liquidity for investors.

In furthering the argument that the proposed change negatively impacts municipal securities investors without providing any discernible benefit, I present additional empirical evidence. I conducted an analysis of our trading activity on May 4, 2022, a randomly chosen trading day¹, by examining 18 purchase trades made by Sanderlin Securities. I then tracked each CUSIP to determine when the bond traded again after our purchase. Below is a table summarizing the results:

<u>Bot Date</u>	<u>CUSIP</u>	<u>Bot Qty</u>	<u>BOT Time</u>	<u>Next time (or date) of Trade*</u>
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

¹ I asked the other trader to randomly choose a trading day within the past six months.

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.*

Among the 18 purchases made on May 4th, the closest time another trade occurred on one of the CUSIPs was 71 minutes later. This data suggests that reporting these trades in less than sixty seconds would not have provided any discernible benefit to subsequent municipal security investors in these bonds.

I am prepared to provide similar data for any other trading day, as I am confident that we would arrive at the same conclusion: There is no tangible benefit to the investor from reporting these trades in less than sixty seconds.

A possible consequence of passing this amendment is fewer firms like Sanderlin Securities will remain active in the municipal market. The MSRB Notice for this amendment appears to passively acknowledge this point when it states: "If these dealers [small broker-dealers] choose to relinquish their secondary market trading business, there should not be any significant reduction in the supply of services to investors, as these trades would likely migrate to other larger dealers." I hope the examples provided above have clarified that investors will not only experience a reduction in the services they receive, but also that these trades will not migrate to other larger dealers.

Upon completing my initial draft comment letter to the original MSRB request for comment, I encountered a situation that further underscores my argument that this change will negatively impact individual investors. We received a notification of a bond purchase from an ECN. We acquired 290m of CUSIP 71885FCJ4, where we were the high bid with only one other bid present. Our bid was \$100.844 per bond, while the cover bid was \$100.47 per bond. Subsequent to reporting the trade (in over a minute, I should note), upon reviewing the tape, it became apparent that the bond was purchased from a customer at our bid price of \$100.844. If our bid had not been present, that customer would have received \$1084.60 less².

² Our bid, 100.844, minus the cover bid, 100.47, *290 bonds=\$1084.60.

This incident serves as clear empirical evidence of the harm inflicted on municipal securities investors due to reduced bids and liquidity. I ask, where were the larger firms in this trade to ensure there was no "reduction in the supply of services to investors"? As an investor myself, I can affirm that the primary service I am concerned with, offered by my broker-dealer, is the price I pay for bonds and the price I receive when I decide or need to sell bonds.

In conclusion, the proposed amendment to MSRB Rule G-14 would have far-reaching negative consequences for municipal securities investors without offering any tangible benefits. We urge the Commission to reconsider the proposed change and explore exceptions, such as the manual input exception, that will allow small firms, like Sanderlin, to continue providing liquidity for municipal bond investors.

Thank you for considering our feedback and for your commitment to the integrity of the municipal securities market.

Sincerely,
Matthew Kamler
President
Sanderlin Securities