BERNARDI SECURITIES INC

MUNICIPAL BOND SPECIALISTS

May 14, 2024

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Re: File Number SR-MSRB-2024-01

Dear Secretary Countryman:

I am writing to provide my views related to proposed amendments to Rule G-14 on time of trade as filed by the MSRB in January.

This letter is in response to the Commission's April 22, 2024 Release; "Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change Consisting of Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades In Municipal Securities to the MSRB".

Thank you for the opportunity to respond.

The Municipal Securities Rulemaking Board (MSRB) is a leading force protecting investors and municipal bond issuers. Its rules help promote a fair, efficient and more transparent market. The municipal bond market has improved dramatically in these areas since the 15-minute reporting timeframe became operational in 2005. MSRB trade data [1] confirms:

- more than 73% of trades are reported within one minute after trade execution
- nearly 92% of all trades are reported within 3 minutes
- nearly 98% of all trades in increments of $100,000 or less are reported within 5 minutes
- nearly 99% are reported within the required 15 minute trade reporting deadline

These metrics represent significant improvement compared to several years ago. And the MSRB's leadership has greatly contributed to this improvement in trade reporting times.

For 45 years the MSRB has served as the principal regulator of the municipal securities market. Therefore, I believe the Commission should continue to lean heavily on MSRB guidance regarding the subject topic. MSRB filing Release No. 34-99402; File No. SR-MSRB-2024-01 dated 1/26/2024 is a positive and workable proposal for investors and other municipal bond market participants. It sensibly balances the need for trade reporting speed with a diverse market of issuers in which most CUSIPS trade very infrequently. The proposed new requirements coupled with ongoing adjustments made by most industry participants will further reduce trade reporting time lags in a sensible and orderly manner.

I am wary of more aggressive proposals that may create unnecessary restrictions on market participants within a market that is dominated by over-the-counter trading and hold-to-maturity investors. I see a growing disconnect between a highly decentralized market of local issuers and investors, while firm's engaged in market-making become fewer, more concentrated and more centralized within a few geographies. In 2013 there were 1705 dealers registered with the MSRB; as of October 1, 2023 there were 1063 [2]. Burdensome rules will accelerate this dynamic.

I do not believe the MSRB proposal runs contrary to the Exchange Act. That written, I am not an attorney. But I do have more than four decades of municipal bond work related experiences in my rear view mirror. And these practical experiences lead me to conclude the following about Release No. 34-99402; File No. SR-MSRB-2024-01:

- it sufficiently increases the requirement of market participants to the numerous requirements cited in Section 15B(b) (2)(C) of the Exchange Act, given the nuances of the municipal bond market
- it is designed to prevent fraudulent and manipulative acts and practices
- it promotes just and equitable principals of trade
- it facilitates transactions in municipal securities
- it further removes impediments to a free and open municipal bond marketplace
- It does not impose undue burden on competition that is not necessary or appropriate

The proposal is sensibly written, requires an incremental progression of trade reporting times and does not stifle competition or impose unmanageable costs on market participants.

Respectfully, I believe a "progress not perfection" approach applies here and I urge the Commission to adopt the rule as proposed or a variation that is very close to it. It represents a marked improvement of the original 2022 proposal. As reference, I enclose a copy of a 9/30/2022 response letter to MSRB Corporate Secretary [3] citing concerns, including my belief market liquidity will be negatively affected if a 1:00 report time is mandated. My letter was one of several dozen letters submitted that overwhelmingly point out numerous shortcomings of the initial 1:00 proposal and problems that would ensue for investors and other market participants.

Recently, Citi Bank exited from the municipal bond business. For years, Citi Bank's bond department maintained one of the largest balance sheets of municipal bonds. Today it no longer provides this level of liquidity to the market. This fact reinforces my views as expressed in my 9/30/2022 letter.

This is not the time to add a rule mandating a 1:00 report time. Such a mandate would disincentivize firms to add capital to this market.

The municipal bond market is inherently de-centralized and comprised of tens of thousands of diverse securities. Decisions are locally made by people close to projects their constituents want, need and can afford. This feature is one of its strengths and a primary reason the market attracts investors from around the country and world.

As you know, market participants buying and selling municipal securities are subject to numerous regulatory requirements including: SEC Regulation Best Interest Rule, MSRB Mark Up/Down Rule G-15, PMP disclosure under MSRB Rule G-30, MSRB Fair Dealing Rule G-17, MSRB Best Execution Rule G-18, MSRB Fair and Reasonable Rule G-30, MSRB Material Disclosure Rule G-47.

These requirements coupled with the diverse universe of municipal securities requires an element of time considerably greater than 1:00 in order to properly complete certain transactions. The universe of such is smaller today than it was a few years ago. But it exists and time reporting challenges remain.

There has been significant progress made in recent years on reducing trade reporting times. The market has transitioned nicely in this area and is converging towards other markets like the corporate bond market. In April, 91.9% of our 1831 trades were reported in 1 minute or less and 99.1% were reported in under 10 minutes. 99.89% were reported in under the required 15 minutes, which bests the 99.40% [4] industry average.

I believe this trend will continue in the coming years aided in part by the MSRB proposal.

Scrapping the current MSRB proposal and replacing it with the original 1-minute reporting threshold will put an undue burden on firms like ours. We, too, are an investor in this market. Our service platform includes specialization in building customized separately managed account portfolios for bond investors. These clients are typically long-term investors, not short-term traders. This is not an asset class or sector that lends itself to short-term trading strategies, nor should it, given its features of enabling principal preservation and fixed rate of return.

Certainly, all investors benefit from greater and more timely transparency. However, an arbitrary 1-minute threshold at this time is unnecessary for an asset class that is often traded infrequently. The premise that a 1:00 speed report time will increase market liquidity is a misguided notion.

In closing, I urge the Commission to adopt the MSRB's proposed amended rule changes as filed with the Securities and Exchange Commission on January 12, 2024.

Sincerely,

Ronald P. Bernardi
President and CEO
Bernardi Securities, Inc.

[1] MSRB
[2] Bloomberg Brief, 5/14/24
[3] Enclosure, Bernardi Securities, Inc. response dated September 30, 2022
[4] Source: https://www.sec.gov/files/rules/sro/finra/2024/34-99404.pdf

September 30, 2022

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW
Washington, DC 20005

Re: MSRB Notice 2022-07- Request for Comment

Dear Mr. Smith:

Thank you for the opportunity to comment on the proposed shortening of the 15 minute trade reporting timeline.

The MSRB is a leading force helping improve market transparency and efficiency. Both are much improved since January 2005 when the 15 minute reporting timeframe became operational. The MSRB's leadership in these areas is commendable.

I believe additional measures can be implemented to further improve market transparency and efficiency. Reducing time of trade reporting from the current 15 minute requirement is one such improvement.

But at a more incremental and sensible pace than what is proposed.

As cited in the Notice, the proposal would require dealers to report transactions effected during the business day to "..... an RTRS Portal as soon as practicable, but no later than within one minute of the Time of Trade."

The proposed 1 minute reporting requirement is far too short.

It is an impractical standard given the limitations of current technologies combined with the ever evolving processes buy and sell side market participants rely on to trade municipal bonds.

A 1 minute requirement will negatively impact the market place, specifically mid-size and smaller broker-dealers and the investor and the issuer clients they serve.

If adopted, it will negatively impact the ability of many broker-dealers and broker's-brokers to comply. And it will increase compliance costs substantially for a large segment of the broker-dealer community. A portion of these costs will ultimately be borne by investors.

Many firms use semi-automated system and many others use a manual system to execute trades with their clearing firm. Converting to a fully automated system is far too expensive and therefore an impractical solution for many firms.

If enacted, the proposed change will force a number of firms to cease trading municipal bonds. And others will simply reduce their respective footprints. The supply and quality levels of services to investors will decline.

These are bad outcomes for a market in need of additional liquidity providers.

Our firm executes anywhere from 1200 to 1500 municipal bond trades monthly. We use a semi-automated system and execute trades in a variety of ways using Bloomberg VCONS, ATS and the telephone.

Many of the trade details for all of our trades require manually entering information into various data fields: a never before traded CUSIP, a new trading counter party, dollar price, par value. Entering this data, double checking before hitting the "Enter" key..... it all takes time.

For trades that occur telephonically, the process requires even more time.

Additionally, once a trade has been approved and executed, the trade details are electronically transmitted to our clearing agent which then transmits the data to RTRS. This transmission of data also cuts into the trade time reporting window.

In instances where multiple transactions occur, for example, a bid list of 5-10-15 different cusips: items are approved for sale essentially simultaneously. A trader can only enter so many trades in a given time period. Even by using a "semi-automated" system, it is not possible to meet the one-minute requirement.

In instances of trades executed through an ATS or Bloomberg VCON alerts: a trader receives a pop-up window alert regarding the pending trade. What happens if there is a misfunction and pop-up does not appear? Or the trader has stepped away from the desk for a few minutes or is momentarily distracted by another issue? The one-minute window leaves insufficient margin in these frequently occurring situations.

We built out a semi- automated system to incorporate the human element. Our best practice trade process purposely relies on a person to check and verify several factors before trade execution. Our trade process protocol reduces trade error frequency. Our process helps ensure compliance with due diligence, best execution and other obligations.

Mandating a 1 minute reporting requirement will obliterate this very successful best practice.

Mandating a 1 minute trade requirement would severely test our ability to accurately submit trades given our trading volume.

It is my view the MSRB should not mandate a rule that would compel us to abandon time tested, successful best practice procedures that benefit all parties with which we interact.

If the proposal is enacted, our likely response: reduce our secondary market bid and trading activity with broker's-brokers and broker-dealers most noticeably in smaller size block sizes.

The data provided in the MSRB Notice and its September 12, 2022 Memorandum is insightful. Here are several comments:

a) 97.3% of all trades are reported within 5 minutes or less and 91% within 2 minutes.

   These are impressive reporting percentages given the rule allows for a 15 minute window. These numbers demonstrate the industry is a reliable force and will continue to drive reporting times lower absent the proposed 1 Minute mandate.

b) the reporting percentage falls to 77% for trades reported within 1 minute.

The disparity in reporting time between trades cited in a) versus b) leads me to conclude:

- parties are reporting trades in a timely manner, complying with the portion of the rule requiring trade reporting "....as soon as practical...".

- the data tells me the 5 minute post is the present day reasonable threshold, not 2 minutes and certainly not 1 minute.

c) 98.1% of trades $ 100,000.00 or less and 94.6% of trades greater than $100,000.00 but less than $ 1,000,000.00 are reported within 5 minutes.

   This is significant progress from a few short years ago.

   Contrast with: only 87.6% of trades greater than $1,000,000.00 to $5,000,000.00 reporting within 5 minutes and only 80.3% of trades in excess of $5,000,000.00 are reported within 5 minutes.

   These trades represent the largest trades occurring in the market. These data points indicate the market is bifurcated regarding reporting times. Since much of the rest of the market looks to these large trades for pricing direction it makes sense to improve time of trade reporting on these largest transactions. Doing so will likely have a positive impact on transparency and efficiency throughout the marketplace.

   In my view, MSRB efforts should focus on reducing time of trade reporting on these two largest trade buckets before moving ahead in any other respect.

   Is it possible to get the reporting time of these trades in line with (or closer to) the 5 minute reporting metric as cited in a) above?

   Is a maximum 5 minute timeline window reasonable for this bucket of trades or will trade execution be damaged if window is reduced from its current 15 minute requirement? Has the MSRB conducted robust discussions with active market participants on both the buy side and sell side of these large sized transactions seeking their input?

At this time MSRB efforts should focus solely on working to reduce time of trade reporting on these larger trades before moving ahead on any other issue.

First resolve how to improve reporting times on these buckets of trades and then re-assess a sensible next step.

The current proposal will result in faster report times, but at a significant cost to a wide swath of the marketplace, both buy side and sell side.

A thinner, more concentrated, less efficient market will ensue.

In my view, all of the above are bad outcomes.

I urge the MSRB to revise its proposal.

Sincerely,

Ronald P. Bernardi

President and CEO

Bernardi Securities, Inc.