SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-99402; File No. SR-MSRB-2024-01)

January 19, 2024

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; 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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on January 12, 2024, the Municipal Securities Rulemaking Board ("MSRB" or "Board") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The MSRB filed with the Commission a proposed rule change to (i) amend Rule G-14 RTRS Procedures under MSRB Rule G-14, on reports of sales or purchases ("Rule G-14"), to shorten the amount of time within which brokers, dealers and municipal securities dealers (individually and collectively, "dealers") must report most transactions to the MSRB, require dealers to report certain transactions with a new trade indicator, and make certain clarifying amendments, and (ii) make conforming amendments to MSRB Rule G-12, on uniform practice ("Rule G-12"), and the MSRB's Real-Time Transaction Reporting System ("RTRS") Information

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

Facility ("IF-1") to reflect the shortened reporting timeframe (collectively, the "proposed rule change").

If the Commission approves the proposed rule change, the MSRB will announce the effective date of the proposed rule change in a regulatory notice to be published on the MSRB website.

The text of the proposed rule change is available on the MSRB's website at https://msrb.org/2024-SEC-Filings, at the MSRB's principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the MSRB included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The MSRB has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Background

Since 2005, the MSRB has collected and disseminated information from dealers about their municipal securities purchase and sale transactions.[3] Dealers currently are required to report

[3] See Exchange Act Release No. 50605 (Oct. 29, 2004), 69 FR 64346 (Nov. 4, 2004), File No. SR-MSRB-2004-06; see also MSRB Notice 2004-29 (Approval by the SEC of Real-Time Transaction Reporting and Price Dissemination: Rules G-12(f) and G-14) (September 2, 2004).

their transactions to RTRS within 15 minutes of the Time of Trade,[4] absent an exception,[5] in accordance with Rule G-14, the Rule G-14 RTRS Procedures, and the RTRS Users Manual.[6]

The transaction information collected by the MSRB in accordance with Rule G-14 serves the dual primary purposes of market transparency and market surveillance.[7] To advance the goal of market transparency, the MSRB disseminates trade reporting information from RTRS to paid subscribers through certain data subscription feeds. These data subscription feeds serve as the core source of price-related information used by market participants, industry utilities and vendors that, among other things, operate pricing-related tools and services used throughout the municipal market to support execution of trades at fair and reasonable prices that reflect current market values. To further advance the goal of market transparency and to make such price-related information available to individual investors and other market participants contemporaneously with data flowing to market professionals through the RTRS subscription

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4 Rule G-14 RTRS Procedures Section (d)(iii) defines "Time of Trade" as the time at which a contract is formed for a sale or purchase of municipal securities at a set quantity and set price.

5 Transactions in securities without CUSIP numbers, transactions in municipal fund securities, and certain inter-dealer securities movements not eligible for comparison through a clearing agency are currently exempt from the reporting requirements under Rule G-14(b)(v).

6 The RTRS Users Manual is available at https://www.msrb.org/RTRS-Users-Manual. Prior to the creation of RTRS in 2005, the MSRB collected trade data on an end-of-day basis for next day dissemination and surveillance purposes through a predecessor transaction reporting system.

7 See Rule G-14(b)(i). Transaction information collected by RTRS is also used in connection with assessments under MSRB Rule A-13(d).

feeds, the MSRB disseminates trade reporting information free of charge to the general public through the MSRB's centralized Electronic Municipal Market Access ("EMMA®") website.[8]

To advance the goal of market surveillance, the MSRB maintains a comprehensive database of transaction information, which is made available to the examining authorities, including the Commission, the Financial Industry Regulatory Authority ("FINRA"), and other appropriate regulatory agencies. The availability of trade reporting data strengthens market transparency, promotes investor protection and reduces information asymmetry between institutional and retail investors.

Fixed income markets have changed dramatically since the current 15-minute requirement went into effect in 2005, including a significant increase in the use of electronic trading platforms or other electronic communication protocols to facilitate the execution of transactions. The MSRB has continued to explore ways to modernize the rule and provide for more timely, granular and informative data to further enhance the value of disseminated transaction data. In doing so, the MSRB has taken a measured and data-driven approach, using available trade reporting data and the public comment process to help inform its policy objectives and actions. The MSRB has utilized a series of concept releases, requests for comments and extensive outreach to solicit input from market participants and stakeholders.[9] As

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8 See MSRB Notice 2009-22 (MSRB Receives Approval to Launch Primary Market Disclosure Service of MSRB's Electronic Municipal Market Access System (EMMA) for Electronic Dissemination of Official Statements) (May 22, 2009).

9 See MSRB Notice 2013-02 (Request for Comment on More Contemporaneous Trade Price Information Through a New Central Transparency Platform) (Jan. 17, 2013); MSRB Notice 2013-14 (Concept Release on Pre-Trade and Post-Trade Pricing Data Dissemination through a New Central Transparency Platform) (July 31, 2013); MSRB Notice 2014-14 (Request for Comment on Enhancements to Post-Trade Transaction Data Disseminated Through a New Central Transparency Platform) (Aug. 13, 2014); MSRB

a result of these efforts and of RTRS re-engineering to ensure its on-going effectiveness as demands on the system were expected to rise over time, the MSRB has implemented various refinements to RTRS, RTRS Information Facility (IF-1), and the content and quality of trade-related information made available to investors and the public.[10]

The MSRB has found that, in 2022, approximately 73.7 percent of the trades in the municipal securities market that are currently subject to the 15-minute reporting timeframe were reported within one minute of execution, and approximately 97 percent of trades in the municipal securities market that are currently subject to the 15-minute reporting timeframe were reported within five minutes of execution.[11] In light of the technological advances and evolving market practices in the intervening 19 years since the MSRB first adopted the 15-minute reporting requirement, including the increase in electronic trading, and consistent with the MSRB's longstanding goals of increasing transparency and improving access to timely transaction data, the MSRB is proposing updates to modernize the reporting timeframes and provide timelier transparency. In this effort, the MSRB would continue to assess its RTRS reporting requirements in light of market developments, including reporting timeframes, and consider whether any further modifications are warranted.

Notice 2022-07 (Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14) (Aug. 2, 2022) (the "2022 Request for Comment").

10 See, e.g., Exchange Act Release No. 75039 (May 22, 2015), 80 FR 31084 (June 1, 2015), File No. SR-MSRB-2015-02, and Exchange Act Release No. 77366 (Mar. 14, 2016), 81 FR 14919 (Mar. 18, 2016), File No. SR-MSRB-2016-05 (expanding and adding trade indicators); Exchange Act Release No. 83038 (Apr. 12, 2018), 83 FR 17200 (Apr. 18, 2018), File No. SR-MSRB-2018-02 (modernizing RTRS Information Facility (IF-1)).

11 See infra "Self-Regulatory Organization's Statement on Burden on Competition – Trade Reporting Analysis" in Section 4(a) Table 1. Trade Report Time by Trade Size – Cumulative Percentages. January to December 2022.

Proposed Rule Change

The proposed rule change is intended to bring about greater market transparency through more timely disclosure and dissemination of information to market participants and market-supporting vendors so that the information better reflects current market conditions on a real-time basis, while carefully balancing the considerations raised by commenters throughout the rulemaking process.

The proposed amendments to Rule G-14 RTRS Procedures under Rule G-14 would:

- Establish a baseline one-minute trade reporting requirement;
- Establish a requirement that, with limited exceptions, trades be reported as soon as practicable and that dealers adopt policies and procedures in connection with this requirement;
- Create two new exceptions to the new one-minute reporting requirement, consisting of (1) a 15-minute exception for dealers with "limited trading activity," and (2) a phased-in approach for implementation from 15 minutes to an eventual five-minute reporting requirement for "trades with a manual component";
- Maintain and clarify all existing exceptions to the current 15-minute reporting requirement, as well as the 15-minute from start of next day reporting requirement for trades conducted outside the trading day, so that they would continue to apply under the new one-minute reporting requirement;
- Require that dealers reporting any trade with a manual component use a new special condition indicator when the trade is reported to the MSRB;
- Specify that dealers may not purposely delay the execution or reporting of a transaction, introduce any manual steps following the Time of Trade, or otherwise

modify any steps to execute or report the trade for the purpose of utilizing the manual trade exception;

- Provide that a rule violation would be found where there is a "pattern or practice" of late trade reporting without "reasonable justification or exceptional circumstances"; and
- Clarify within Rule G-14 RTRS Procedures the usage of all existing and new special condition indicators.

The proposed rule change would also make certain conforming technical changes to Rule G-12(f)(i) and IF-1. A more detailed description of the proposed rule change follows.

If the proposed rule change is approved, the MSRB would review the available trade reporting information and data arising from implementation of the changes to trade reporting introduced by the proposed rule change, including but not limited to the two exceptions to the one-minute reporting requirement. Such monitoring would inform any further potential changes by the MSRB, through future rulemaking, to the trade reporting requirements due to increasing marketplace and technology efficiencies, process improvements, continuing or new barriers to accelerated reporting, unanticipated market impacts, or other factors.

<u>New Baseline Reporting Requirement: One Minute After the Time of Trade</u>

Proposed amendments to Rule G-14 RTRS Procedures Section (a)(ii) generally would provide that transactions effected with a Time of Trade during the hours of an RTRS Business

Day[12] must be reported to an RTRS Portal[13] "as soon as practicable, but no later than one minute" (rather than within the current 15-minute standard) after the Time of Trade, subject to several existing reporting exceptions, which would be retained in the amended rule,[14] and two new intra-day reporting exceptions relating to dealers with limited trading activity and trades with a manual component that would be added by the proposed rule change, as described below.[15] Except for those trades that would qualify for a reporting exception, all trades currently

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12 Rule G-14 RTRS Procedures Section (d)(ii) defines "RTRS Business Day" as 7:30 a.m. to 6:30 p.m., Eastern Time, Monday through Friday, unless otherwise announced by the MSRB.

13 RTRS has three "Portals" for submission of transaction data, and aspects of RTRS are designed to function in coordination with the Real-Time Trade Matching ("RTTM") system of the Depository Trust & Clearing Corporation ("DTCC") in conjunction with its subsidiary National Securities Clearing Corporation. Rule G-14 RTRS Procedures Section (a)(i) describes the three RTRS Portals: Message Portal used for trade submission and trade modification as described in Section (A) thereof; RTRS Web Portal used for low-volume transaction submission and modification as described in Section (B) thereof; and RTTM Web Portal used only for inter-dealer transactions eligible for automated comparison as described in Section (C) thereof.

14 Three of these existing exceptions, consisting of List Offering Price/Takedown Transactions, trades in certain short-term or variable rate instruments, and away from market trades, require that trades be reported by the end of the day on which they are executed and do not rely on the Time of Trade. These three end-of-trade-date reporting exceptions would be retained without change and would be redesignated as Rule G-14 RTRS Procedures Section (a)(ii)(A)(1), (2) and (3), respectively. Two other existing exceptions for certain special circumstances would also be retained without change, consisting of dealers reporting inter-dealer "VRDO ineligible on trade date" transactions, which must be reported by the end of the day on which the trade becomes eligible for automated comparison, and of dealers reporting inter-dealer "resubmission of an RTTM cancel," which must be reported by the end of the next RTRS Business Day following cancellation of the original trade. These two exceptions would be redesignated as Rule G-14 RTRS Procedures Sections (a)(ii)(B)(1) and (2), respectively.

15 The two new intra-day reporting exceptions, consisting of trades by dealers with limited trading activity and trades with a manual component, would be designated as Rule G-14 RTRS Procedures Sections (a)(ii)(C)(1) and (2), respectively.

required to be reported within 15 minutes after the Time of Trade would, under the proposed rule change, be required to be reported no later than one minute after the Time of Trade.

New Requirement to Report Trades "as Soon as Practicable"

The proposed amendment to Rule G-14 RTRS Procedures Section (a)(ii) adds a new requirement that, absent an exception, trades must be reported as soon as practicable (but no later than one minute after the Time of Trade). In addition, this same "as soon as practicable" requirement would apply to trades subject to longer trade reporting deadlines under the two new exceptions for dealers with limited trading activity pursuant to Rule G-14 RTRS Procedures Section (a)(ii)(C)(1) and Supplementary Material .01,[16] or trades with a manual component pursuant to Rule G-14 RTRS Procedures Section (a)(ii)(C)(2) and Supplementary Material .02,[17] as described below.

The new "as soon as practicable" language, which does not currently appear in Rule G-14 RTRS Procedures, would harmonize this element of RTRS trade reporting requirements for municipal securities with FINRA's trade reporting requirement for its Trade Reporting and Compliance Engine ("TRACE") for TRACE-eligible securities.[18] Thus, while Rule G-14 RTRS Procedures do not currently explicitly prohibit a dealer from waiting until the existing 15-minute deadline to report a trade notwithstanding the fact that the dealer could reasonably have reported

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16 See infra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Dealers with Limited Trading Activity."

17 See infra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component."

18 See e.g., FINRA Rule 6730(a).

such trade more rapidly, under the proposed rule change a dealer could not simply await the deadline to report a trade if it were practicable to report such trade more rapidly.

In connection with the new "as soon as practicable" requirement, the proposed rule change includes new Supplementary Material .03 relating to policies and procedures for complying with the "as soon as practicable" reporting requirement. Under proposed Supplementary Material .03(a), consistent with Supplementary Material .03(a) of FINRA Rule 6730, dealers would be required to adopt policies and procedures reasonably designed to comply with the "as soon as practicable" standard and would be required to implement systems that commence the trade reporting process without delay upon execution. Where a dealer has reasonably designed policies, procedures and systems in place, the dealer generally would not be viewed as violating the "as soon as practicable" requirement because of delays in trade reporting due to extrinsic factors that are not reasonably predictable and where the dealer does not intend to delay the reporting of the trade (for example, due to a systems outage). Dealers must not purposely withhold trade reports, for example, by programming their systems to delay reporting until the last permissible minute or by otherwise delaying reports to a time just before the deadline if it would have been practicable to report such trades more rapidly.

For trades with a manual component, and consistent with Supplementary Material .03(b) of FINRA Rule 6730, the MSRB recognizes that the trade reporting process may not be completed as quickly as, for example, where an automated trade reporting system is used. In these cases, the MSRB expects that the regulatory authorities that examine dealers and enforce compliance with this requirement would take into consideration the manual nature of the dealer's trade reporting process in determining whether the dealer's policies and procedures are reasonably designed to report the trade "as soon as practicable" after execution.[19]

Time of Trade Discussion

The "Time of Trade" is the time at which a contract is formed for a sale or purchase of municipal securities at a set quantity and set price.[20] While the definition of Time of Trade would not be changed, the precision with which the establishment of the Time of Trade for a particular transaction would become more critical in the context of the proposed shorter, one-minute reporting requirement compared to the current 15-minute reporting requirement because, absent an exception, dealers would have less time to report the trade. The time taken to report the trade is measured by comparing the Time of Trade reported by the dealer with the timestamp assigned when the initial trade report is received by an RTRS Portal.[21] For transaction reporting purposes, Time of Trade is considered to be the same as the time that a trade is "executed" and, generally, is consistent with the "time of execution" for recordkeeping purposes.[22] Importantly, the time

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19 See Supplementary Material .03(b) of FINRA Rule 6730. See also infra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component" for a discussion of the new exception for trades with a manual component.

20 See current Rule G-14 RTRS Procedures Section (d)(iii).

21 See Exchange Act Release No. 49902 (June 22, 2004), 69 FR 38925 (June 29, 2004), File No. SR-MSRB-2004-02; see also MSRB Notice 2004-13 (Real-Time Transaction Reporting: Notice of Filing of Proposed Rule Change to Rules G-14 and G-12(f)) (June 1, 2004); IF-1.

22 See Rule G-8(a)(vi) and (vii); see also RTRS G-14 Transaction Reporting Procedures (FAQs regarding Time of Trade Reporting) at question 8 (Aug. 1, 1996); MSRB Notice 2016-19 (MSRB Provides Guidance on MSRB Rule G-14, on Reports of Sales or Purchases of Municipal Securities) at question 1 (Aug. 9, 2016) (the "2016 RTRS FAQs"). Pursuant to Rule G-15(a)(vi)(A), the time of execution reflected on customer confirmations is required to be the same as the time of execution reflected in the dealer's

that the trade is executed is not necessarily the time that the trade information is entered into the dealer's processing system. For example, if a trade is executed on a trading desk but not entered for processing until later, the time of execution (not the time of entering the record into the processing system) is required to be reported as the "Time of Trade."[23]

While the principles of contract law are mostly governed by state statutory and common law, generally, in order to form a valid contract, there must be at least an offer and acceptance of that offer. As a result, dealers should consider the point in time at which an offer to buy or sell municipal securities was met with an acceptance of that offer. This offer and acceptance, or a "meeting of the minds,"[24] cannot occur before the final material terms, such as the exact security, price and quantity, have been agreed to and such terms are known by the parties to the transaction.[25] Further, dealers should be clear in their communications regarding the final

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records and thus should generally be consistent with the time of trade reported by the dealer.

23 See RTRS Users Manual (Questions and Answers on Reporting Trades), at question 1 (Aug. 09, 2016), available at https://www.msrb.org/Questions-and-Answers-Notice-Concerning-Real-Time-Reporting-Municipal-Securities-Transactions. Similarly, transactions effected outside of the hours of an RTRS Business Day are required to be reported within 15 minutes after the start of the next RTRS Business Day. The time the trade was executed (rather than the time that the trade report is made) is the "Time of Trade" required to be reported.

24 See FINRA Regulatory Notice 16-30 (Trade Reporting and Compliance Engine (TRACE): FINRA Reminds Firms of their Obligation to Report Accurately the Time of Execution for Transactions in TRACE-eligible Securities) (Aug. 2016) (describing this meeting of the minds that substantively parallels the guidance provided by the MSRB in the 2016 RTRS FAQs at questions 1 and 2).

25 See MSRB Notice 2004-18 (Notice Requesting Comment on Draft Amendments to Rule G-34 to Facilitate Real-Time Transaction Reporting and Explaining Time of Trade for Reporting New Issue Trades) (June 18, 2004) ("Transaction reporting procedures define the 'time of trade' as the time when a contract is formed for a sale or purchase of municipal securities at a set price and set quantity. For purposes of transaction reporting,

material terms of the trade and how such terms would be conveyed between the parties to ensure that such a valid trade contract has been formed.[26]

In the context of new issue securities, the MSRB has previously stated that a transaction effected on a "when, as and if issued" basis cannot be executed, confirmed and reported until the municipal security has been formally awarded by the issuer.[27] Thus, while dealers may take orders for securities and make conditional trading commitments prior to the award, dealers cannot execute transactions, send confirmations or make a trade report prior to the time of formal award. The MSRB has previously characterized pre-sale orders as expressions of the purchasers' firm intent to buy the new issue securities in accordance with the stated terms, which order may only be executed upon the award of the issue or the execution of a bond purchase agreement.[28] Importantly, such expressions of an intent to purchase municipal securities are subject to material conditions that negate execution of an agreed upon offer and acceptance until the issuer has committed to the issuance of the securities.

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this is considered to be the same as the time that a trade is 'executed.'") (internal citations omitted); see also 2016 RTRS FAQs at question 1.

26 See FINRA Regulatory Notice 16-30 (Trade Reporting and Compliance Engine (TRACE): FINRA Reminds Firms of their Obligation to Report Accurately the Time of Execution for Transactions in TRACE-eligible Securities) (Aug. 2016).

27 2016 RTRS FAQs at question 2.

28 See MSRB Interpretive Guidance, Rule G-12 (Confirmation: Mailing of WAII Confirmation) (Apr. 30, 1982). In the same vein, retail orders submitted during a retail order period under MSRB Rule G-11 are viewed as conditional commitments. See MSRB Rule G-11(a)(vii) (defining the term "retail order period"). See also, e.g., MSRB Notice 2014-14 (Request for Comment on Enhancements to Post-Trade Transaction Data Disseminated Through a New Central Transparency Platform) (Aug. 13, 2014) (describing the conditional nature of conditional trading commitments).

The MSRB believes that this same rationale applies to secondary market transactions where the commitment of the parties is subject to material conditions. When a sales representative of a dealer takes a customer order, but is unable to execute that order until their trader performs supervisory or other firm-mandated reviews or approvals of such order—for example, to determine that the customer order does not exceed internally-set risk and compliance parameters or to complete best-execution, suitability/best interest or fair pricing protocols that may result in a changed price or quantity to the customer or in not completing execution of the trade—the dealer reasonably may determine that the "meeting of the minds" has not yet occurred until such processes, procedures or protocols have been completed and the dealer has affirmatively "accepted" the order. In such circumstances, the dealer should be clear in its communications with its counterparty regarding the final terms of the trade and how such terms would be conveyed between the parties to ensure that such a valid trade contract has been formed, such as clearly communicating to the customer that the order should not be viewed as accepted until such processes, procedures or protocols are completed and the trade is finally executed. Such processes, procedures or protocols should be appropriately reflected in a dealer's written policies and procedures. Because the Time of Trade is tied to the contractual agreement (that is, offer and acceptance, whether oral or written) between the parties to a transaction, a dealer and its counterparty may come to an express agreement as to the Time of Trade for a given transaction, as appropriate, that is consistent with the time at which the agreement becomes binding upon the parties under contract law.

<u>Exceptions to the Baseline Reporting Requirement</u>

Proposed amendments to Rule G-14 RTRS Procedures Section (a)(ii) add two new exceptions to the proposed one-minute reporting requirement. New Section (C)(1) provides an exception for a dealer with "limited trading activity" and new Section (C)(2) provides an exception for a dealer reporting a "trade with a manual component." These two new exceptions would have the narrowly-tailored purpose of addressing the timing of trade reporting for the dealers and transactions qualifying for one of the exceptions (either retaining the current 15-minute timeframe or taking a more stepwise approach to shortening the reporting timeframe). As with the existing exceptions, these two new exceptions would not alter or diminish any of the investor protections afforded by other MSRB rules or federal securities laws or regulations applicable to pricing, best execution, disclosure, suitability/best interest, and other aspects of the trades being reported.

Exception for Dealers with Limited Trading Activity

A dealer with "limited trading activity" would be excepted from the one-minute reporting requirement pursuant to new Section (a)(ii)(C)(1) and would instead be required to report its trades as soon as practicable, but no later than 15 minutes after the Time of Trade for so long as the dealer remains qualified for the limited trading activity exception, as further specified in new Supplementary Material .01.[29]

Proposed Section (d)(xi) of Rule G-14 RTRS Procedures defines a dealer with limited trading activity as a dealer that, during at least one of the prior two consecutive calendar years, reported to an RTRS Portal fewer than 1,800 transactions, excluding transactions exempted under Rule G-14(b)(v) and transactions specified in Rule G-14 RTRS Procedures Sections

[29] Transactions effected by such a dealer with a Time of Trade outside the hours of an RTRS Business Day would be permitted to be reported no later than 15 minutes after the beginning of the next RTRS Business Day pursuant to Rule G-14 RTRS Procedures Section (a)(iii). As is the case today, transactions for which an end-of-trade-day or post-trade-day reporting exception is available under redesignated Sections (A) and (B) would continue to have that exception available.

(a)(ii)(A) and (B) (i.e., transactions having an end-of-trade-day reporting exception).[30] A dealer relying on this exception to report trades within the 15-minute timeframe, rather than the new standard one-minute timeframe, must confirm that it meets the criteria for a dealer with limited trading activity for each year during which it continues to rely on the exception (e.g., the dealer could confirm its eligibility based on its internal trade records and by checking MSRB compliance tools, as described below, which would indicate a dealer's transaction volume for a given year).[31] If a dealer does not meet the criteria for a given calendar year (that is, has 1,800 or more transactions not having an end-of-trade-day or post-trade-day reporting exception in both preceding calendar years), such dealer would not be eligible for the exception, after a three-month grace period at the beginning of such calendar year, for transactions reported on and after April 1 of such calendar year. Therefore, the dealer would be required to report transactions to RTRS no later than one minute after the Time of Trade for the remainder of that calendar year, unless another exception under the rule applies. A dealer that meets the criteria for a given calendar year may utilize the exception on or after January 1 of such calendar year.[32]

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30 This number of transactions is expected to capture approximately 1.5 percent of the trades in the municipal securities markets in a given calendar year, based on transaction data from calendar year 2022, and generally aligns with FINRA's proposal to similarly shorten trade reporting requirements for TRACE-eligible securities, in which FINRA would except dealers with similarly limited trading activity for the respective markets of TRACE-eligible securities. See File No. SR-FINRA-2024-004 (Jan. 11, 2024) (the "2024 FINRA Proposed Rule Change").

31 See infra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Dealers with Limited Trading Activity."

32 A previously active dealer that newly becomes eligible for the exception for dealers with limited trading activity following the first year of the implementation of the proposed rule change may continue to see their trades marked as late on RTRS report cards and related RTRS feedback based on the one-minute deadline for a short period of time at the beginning of a new calendar year until the MSRB is able to systematically update the dealer's status in the RTRS system. Any such late indicator would not, for examination or

For example, assume the following hypothetical trade counts for Dealer X for a given calendar year:[33]

Calendar Year	Trade Count[34]	Eligible for Exception During Calendar Year?
2024	1,900	N/A
2025	1,700	N/A
2026	2,000	Yes, based on 2025 trade count below the 1,800 threshold
2027	1,900	Yes, based on 2025 trade count below the 1,800 threshold
2028	1,700	No, based on 2026 and 2027 trade counts above the 1,800 threshold in both years (must transition reporting to one minute on and after April 1, 2028)
2029	2,000	Yes, based on 2028 trade count below the 1,800 threshold (may resume reporting in 15 minutes on January 1, 2029)

Based on the hypothetical data presented in the table above, Dealer X would be eligible for the exception as a dealer with limited trading activity for the calendar years 2026 and 2027 effective January 1 of each such year,[35] based on trade count for the year 2025. However, Dealer

enforcement purposes, be viewed as a violation by a dealer that otherwise was qualified as a dealer with limited trading activity at the time of the report.

33 While the first two years of data shown in the chart represent trades occurring in years prior to the likely effective date of the proposed rule change, such data would be used to determine whether a dealer would be eligible for the limited trading activity exception in the first years after the effective date. The chart assumes that the first calendar year in which the new reporting timeframes under the proposed rule change, including the exception for a dealer with limited trading activity, would be effective is calendar year 2026.

34 The trade count is intended to reflect the number of transactions not subject to a reporting exception under proposed Section (a)(ii) of Rule G-14 RTRS Procedures. For purposes of illustration, the hypotheticals include manual trades subject to an intra-day exception as proposed.

35 See supra n.32.

X would no longer qualify for such an exception for the calendar year 2028. As a result, for 2028, beginning on and after April 1, 2028, after the three-month grace period, Dealer X must begin reporting all of its trades (other than those subject to another exception) no later than one minute after the Time of Trade. However, Dealer X would again qualify for calendar year 2029 as a dealer with limited trading activity based upon its 2028 trade count and may resume reporting its trades no later than 15 minutes after the Time of Trade on January 1, 2029.

As shown above, this approach may cause some dealers' eligibility for the exception to change from year to year. However, based on substantial historical trade reporting data, the majority of dealers that are eligible for the exception are expected to stay within the exception. Similarly, the majority of dealers that are not eligible for the exception are expected to remain ineligible for the exception in subsequent years.[36]

Notwithstanding the foregoing, dealers with limited trading activity are reminded of the new overarching obligation to report trades as soon as practicable, as described above.[37]

Exception for Trades with a Manual Component

A "trade with a manual component" as defined in new Section (d)(xii) of Rule G-14 RTRS Procedures would be excepted from the one-minute reporting requirement pursuant to Rule G-14 RTRS Procedures Section (a)(ii)(C)(2). Instead, dealers with such trades would be required to report such trades as soon as practicable and within the time periods specified in new Supplementary Material .02, unless another exception from the one-minute reporting requirement applies under proposed Rule G-14 RTRS Procedures Sections (a)(ii)(A) and (B)

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36 Approximately 30 out of 647 dealers reporting trades, or less than five percent of such dealers, were within a 20 percent deviation of 1,800 trades in 2022.

37 See infra "Purpose – Proposed Rule Change – New Requirement to Report Trades 'as Soon as Practicable.'"

(i.e., transactions having an end-of-trade-day or post-trade-day reporting exception) or (a)(ii)(C)(1) (i.e., transactions by dealers with limited trading activity).[38]

Trades Having a Manual Component

As proposed, Section (d)(xii) of Rule G-14 RTRS Procedures would define a "trade with a manual component" as a transaction that is manually executed or where the dealer must manually enter any of the trade details or information necessary for reporting the trade directly into an RTRS Portal (for example, by manually entering trade data into the RTRS Web Portal) or into a system that facilitates trade reporting (for example, by transmitting the information manually entered into a dealer's in-house or third-party system) to an RTRS Portal. As described below, a dealer reporting to the MSRB a trade meeting the definition for a "trade with a manual component" would be required to append a new trade indicator so that the MSRB can identify manual trades.[39]

This "manual" exception would apply narrowly, and would normally encompass any human participation, approval or other intervention necessary to complete the initial execution and reporting of trade information after execution, regardless of whether undertaken by electronic means (e.g., keyboard entry), physical signature or other physical action. To qualify as a trade with a manual component, the manual aspect(s) of the trade generally would occur after

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38 Transactions effected with a Time of Trade outside the hours of an RTRS Business Day would be permitted to be reported no later than 15 minutes after the beginning of the next RTRS Business Day pursuant to Rule G-14 RTRS Procedures Section (a)(iii).

39 <u>See</u> <u>infra</u> "Purpose – Proposed Rule Change – Manual Trade Indicator." As described therein, such new indicator would be required for any trade with a manual component, whether the dealer reports such trade within the new one-minute timeframe or the dealer seeks to take advantage of the longer timeframes permitted for trades with a manual component.

the relevant Time of Trade (i.e., the time at which a contract is formed for the transaction). Any manual aspects that precede the time of trade (e.g., phone calls to locate bonds to be sold to a customer before the dealer agrees to sell such bonds to a purchasing customer) would normally not be relevant for purposes of the exception unless they have a direct impact on the activities that must be undertaken post-execution to enter information necessary to report the trade.[40]

In that regard, while an exhaustive list cannot be provided here, the MSRB contemplates that the exception would often be appropriately applicable to the following situations, depending on the specific facts and circumstances, due to the manual nature of components of the trade execution or reporting process that would make reporting a transaction within one minute of the Time of Trade unfeasible, even where the dealer makes reasonable efforts to report the trade as soon as practicable after execution (as required):

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40 This manual exception applies to the reporting of a trade upon the trade being executed. If a report has been made and the dealer detects a mistake that requires cancellation or correction, any modification of an already submitted trade report must be performed as soon as possible pursuant to Rule G-14 RTRS Procedures Section (a)(iv). See MSRB Interpretive Guidance (Reminder Regarding Modification and Cancellation of Transaction Reports: Rule G-14) (Mar. 2, 2005), available at https://www.msrb.org/Reminder-Regarding-Modification-and-Cancellation-Transaction-Reports-Rule-G-14. While a trade modification to a previously reported automated trade may be manual in nature (for example, the trade is corrected through the RTRS Web Portal or is corrected through a dealer's system and not using a cancel and replace process), that manual modification process would not, by itself, result in the initial trade qualifying as a trade with a manual component. Where the trade correction is made through a cancel and replace process, the time of trade must reflect the time of execution of the initial trade report and not the time when the modification was reported to RTRS. While RTRS will continue to provide dealers with the option to either modify the trade or cancel and replace the trade, the MSRB has stated that modification is preferred when changes are necessary because a modification is counted as a single change to a trade report, whereas cancellation and resubmission are counted as a change and (unless the resubmission is done within the original deadline for reporting the trade) also as a late report of a trade. Id.; see also infra n.50.

- where a dealer executes a trade by manual or hybrid means, such as voice or negotiated trading by telephone, email, or through a chat/messaging function, and subsequently must manually enter into a system that facilitates trade reporting all or some of the information required to book the trade and report it to RTRS;
- where a dealer executes a trade (typically a larger-sized trade) that requires additional steps to negotiate and confirm details of the trade with a client and manually enters the trade into risk and reporting systems;
- where a dually-registered broker-dealer/investment adviser executes a block transaction that requires allocations of portions of the block trade to the individual accounts of the firm's advisory clients that must be manually inputted in connection with a trade;
- where an electronically or manually executed trade is subject to manual review by a second reviewer for risk management (e.g., transactions above a certain dollar or par amount or other transactions meriting heightened risk review) and, as part of or following the review, the trade must be manually approved, amended or released before the trade is reported to RTRS;
- where a dealer's trade execution processes may entail further diligence following the Time of Trade involving a manual step (e.g., manually checking another market to confirm that a better price is not available to the customer);[41]

[41] Dealers experiencing significant levels of post-Time of Trade price adjustments due to such post-trade best execution processes should consider whether these processes are well suited to the dealer's obligations under MSRB Rule G-18 and whether the dealer is appropriately evaluating when a contract has in fact been formed with its customer.

- where a dealer trades a municipal security, whether for the first time or under other circumstances where the security master information may not already be populated (e.g., information has been removed or archived due to a long lapse in trading the security), and additional manual steps are necessary to set up the security and populate the associated indicative data in the dealer's systems prior to executing and reporting the trade;
- where a dealer receives a large order or a trade list resulting in a portfolio of trades with potentially numerous unique securities involving rapid execution and frequent communications on multiple transactions with multiple counterparties, and the dealer must then book and report those transactions manually, one by one;[42]
- where a broker's broker engages in mediated transactions that involve multiple transactions with multiple counterparties; and
- where a dealer reports a trade manually through the RTRS Web Portal.

Dealers should review their trade flow and processes and consider which of their trades would be deemed a "trade with a manual component" under the proposed rule change.[43]

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42 In instances where a dealer trades a basket of securities at a single price for the full basket, rather than individual prices for each security based on its then-current market price, such price likely would be away from the market, requiring inclusion of the "away from market" special condition indicator and qualifying for an end-of-trade-day reporting exception under proposed Rule G-14 RTRS Procedures Section (a)(ii)(A)(3).

43 Dealers should undertake this review regardless of whether they intend to take advantage of the longer timeframes permitted for trades with a manual component since all reports of trades meeting the definition of a trade with a manual component would be required to append the new manual trade indicator, as described infra "Purpose – Proposed Rule Change – Manual Trade Indicator."

The appropriateness of treating any step in the trade execution and reporting process as being manual must be assessed in light of the anti-circumvention provision included in the proposed rule change with regard to the delay in execution or insertion of manual tasks for the purpose of meeting this new exception.[44] New Supplementary Material .02(a) would require all trades with a manual component to be reported as soon as practicable and would specify that in no event may a dealer purposely delay the execution of an order, introduce any manual steps following the Time of Trade, or otherwise modify any steps prior to executing or reporting a trade for the purpose of utilizing the exception for manual trades.[45] New Supplementary Material .03 would require that dealers adopt policies and procedures for complying with the as soon as practicable reporting requirement, including by implementing systems that commence the trade reporting process without delay upon execution and provides for additional guidance for regulatory authorities that enforce and examine dealers for compliance with this requirement to take into consideration the manual nature of the dealer's trade reporting process.[46]

In light of the overarching obligation to report trades as soon as practicable, dealers should consider the types of transactions in which they regularly engage and whether they can reasonably reduce the time between a transaction's Time of Trade and its reporting, and more generally should make a good faith effort to report their trades as soon as practicable.[47] Each

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44 See infra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component – Prohibition on Purposeful Insertion of Manual Steps in Trade Reporting Process."

45 Id.

46 See infra "Purpose – Proposed Rule Change – New Requirement to Report Trades 'as Soon as Practicable.'"

47 See infra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component." For trades with a

dealer seeking to comply with the proposed rule change—including the one-minute reporting requirement and new or existing exceptions from such requirement—should consider the extent to which it can automate its trade reporting and related execution processes, consistent with its client's needs and the dealer's best execution and other regulatory obligations. Where automation is not feasible at a reasonable cost in light of the specific facts and circumstances with respect to the dealer's trading activity and overall business (e.g., the level, nature and economic viability of its activity in municipal securities), dealers should be implementing more efficient trade entry processes to meet the applicable reporting requirement, including the new requirement to report trades as soon as practicable, particularly with a view to the phased-in reduction in the reporting timeframe for trades with a manual component under the proposed rule change where a process that may provide sufficient time to report timely during the first year may not be sufficiently efficient to meet the further shortened timeframe in a subsequent year. The MSRB expects that dealers would periodically assess their systems and processes to ensure that they have implemented sufficiently efficient policies and procedures for timely trade reporting.

The MSRB currently collects and analyzes data regarding dealers' historic reporting of transactions to RTRS under various scenarios and such data will continue to be available to the regulators for analysis under the proposed one-minute standard. Subject to the Commission approval of the proposed rule change, the MSRB would be reviewing the use of the manual

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manual component, the MSRB recognizes that the trade reporting process may not be completed as quickly as, for example, where an automated trade reporting system is used. In these cases, the MSRB expects that the regulatory authorities that examine dealers and enforce compliance with this requirement would take into consideration the manual nature of the dealer's trade reporting process in determining whether the dealer's policies and procedures are reasonably designed to report the trade "as soon as practicable" after execution.

exception and would share with the examining authorities any analyses resulting from such reviews.

Phase-In Period for Trades with a Manual Component

New Supplementary Material .02(b) would subject trades with a manual component to a phase-in period for timely reporting over three years (“phase-in period”). Specifically, during the first year of effectiveness of the exception, trades meeting this definition would be required to be reported as soon as practicable, but no later than 15 minutes after the Time of Trade.[48] During the second year, such trades would be required to be reported as soon as practicable, but no later than 10 minutes after the Time of Trade. After the second year and thereafter, such trades would be required to be reported as soon as practicable, but no later than five minutes after the Time of Trade.

In establishing the phase-in period, the MSRB intends to provide sufficient time for dealers to implement programming and/or other policy and process changes necessary to meet an eventual five-minute reporting requirement, as well as to provide regulators an opportunity to assess any potential market impact from the gradual reduction in reporting timeframe. However, dealers are also reminded that the “as soon as practicable” reporting obligation as described above may, depending on the facts and circumstances, require quicker reporting than the applicable outer reporting obligation during and after the phase-in period. For example, while dealers must report their trades with a manual component no later than 15 minutes from the Time of Trade during the first year that the rule is operational, dealers should be reviewing their

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48 While the deadline for reporting during this first year would remain the same as the current 15-minute timeframe, such trade reports would also be subject to the new requirement that they be reported as soon as practicable. See supra “Purpose – Proposed Rule Change – New Requirement to Report Trades ‘as Soon as Practicable.’”

policies, procedures and practices and considering whether they can report such trades more quickly. In general, the MSRB would expect a dealer's trade reporting statistics to show overall improvements in trade reporting speed without compromising data quality, due to the new "as soon as practicable" obligation and the two new intra-day exceptions.

If the proposed rule change is approved, the MSRB would be reviewing the available trade reporting information and data arising from implementation of the changes to trade reporting introduced by the proposed rule change, including but not limited to the two exceptions to the one-minute reporting requirement, as well as marketplace developments, feedback from market participants, and examination or enforcement findings from the Commission, FINRA and the other appropriate regulatory agencies. Such monitoring would inform any further potential changes by the MSRB to the trade reporting requirements.

Prohibition on Purposeful Insertion of Manual Steps in Trade Reporting Process

As noted above, new Supplementary Material .02(a) would specifically prohibit dealers from purposely delaying the execution of an order, introducing any manual steps following the Time of Trade, or otherwise purposefully modifying any steps to execute or report a trade to utilize the exception for manual trades. This would not prohibit reasonable manual steps that are taken for legitimate purposes (such as a manual review of trades that exceed certain risk thresholds or that meet certain criteria for regulatory purposes). Further, this prohibition would not apply to any steps that are taken prior to the time of trade that do not have the effect of delaying the subsequent reporting of such trade.

It is important to note that a manual step added to the trade execution or reporting process that may have only a nominal or pretextual purpose other than qualifying a trade for the exception for manual trades, particularly where such purpose can be effectively fulfilled in an alternative manner that does not introduce such manual step into the trade execution or reporting process, may be viewed as being made for the purpose of qualifying for this exception within the meaning of proposed Supplementary Material .02(a), depending on the facts and circumstances. This express prohibition is intended to facilitate movement in the direction of more timely reporting and increased transparency in circumstances where there is no reasonable justification for the delay in trade execution and related subsequent trade reporting or for insertion of manual steps after the Time of Trade.

Manual Trade Indicator

Proposed amendments to Rule G-14 RTRS Procedures Section (b)(iv) would require the report of a trade meeting the MSRB's definition for a "trade with a manual component," as defined in proposed Section (d)(xii) of Rule G-14 RTRS Procedures,[49] to append a new trade indicator to such a trade report. This indicator would be mandatory for every trade that meets the standard to append the indicator,[50] regardless of whether the trade is actually reported within one minute after the Time of Trade, is reported within the applicable timeframe under the manual trade exception or is otherwise subject to another reporting exception.

In addition to serving as a critical component of the manual trade exception, this trade indicator would allow the MSRB to collect additional data to help it better understand the extent

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[49] See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component – Trades Having a Manual Component."

[50] Rule G-14 RTRS Procedures Section (a)(iv) currently requires that transaction data that is not submitted in a timely and accurate manner must be submitted or corrected as soon as possible. See also supra n.40. The manual trade indicator is not intended to be used to reflect the manual nature of any correction to a prior trade report; rather the use of the indicator is driven solely by whether or not the initial trade had a manual component.

to which the municipal securities market continues to operate manually.[51] Such understanding would assist the MSRB in engaging with market participants regarding impediments to greater use of automation, and help determine the effectiveness and potential impediments to full compliance with the proposed phase-in period to determine whether adjustments should be made or other next steps should be taken.

Pattern or Practice of Late Trade Reporting

Rule G-14 RTRS Procedures Section (a)(iv) currently requires that transaction data that is not submitted in a timely and accurate manner must be submitted or corrected as soon as possible—even when a dealer is late in reporting a trade, the dealer remains obligated to report such trade as soon as possible. Proposed amendments to this section would further provide that any transaction that is not reported within the applicable time period shall be designated as "late."[52] A pattern or practice of late reporting without exceptional circumstances or reasonable justification may be considered a violation of Rule G-14.

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51 The manual trade indicator would be used for regulatory purposes only and would not, under the proposed rule change, be included in the trade data disseminated to the public through the EMMA website and subscription feeds. This information would help inform the MSRB regarding broader trends in the marketplace beyond the specific provisions of the proposed rule change. For example, the use of the manual trade indicator would help identify changes in the prevalence of manual trades as market conditions change or in light of other events or trends having an impact on the municipal securities market.

52 Late trade designations are currently, and would continue to be, available to regulators and, through the MSRB compliance tool described below in "Purpose – Proposed Rule Change – Compliance Tools," to the dealer submitting the late trade. See Section 2.9 of the Specifications for Real-Time Reporting of Municipal Securities Transactions in connection with error codes currently generated by RTRS with respect to late trade reports. The trade data disseminated to the public through the EMMA website and subscription feeds does not currently and would not have appended to it a late report indicator nor an indicator of which deadline was applicable (other than the indicators currently published).

The determination of whether exceptional circumstances or reasonable justifications exist for late trade reporting is dependent on the particular facts and circumstances and whether such circumstances are addressed in the dealer's systems and procedures. For example, failures or latencies of MSRB, third-party or internal systems used to submit trade information generally would constitute exceptional circumstances or reasonable justifications, particularly where such incident is outside of the reasonable control of the dealer and could not be resolved by the dealer within the applicable reporting timeframe. However, dealers must have sufficiently robust systems with adequate capability and capacity to enable them to report in accordance with Rule G-14; thus, recurring systems issues in a dealer's or a vendor's systems would not be considered reasonable justification or exceptional circumstances to excuse a pattern or practice of late trade reporting. As another example, unusual market conditions, such as extreme volatility in a security or in the market as a whole, can constitute exceptional circumstances. In addition, a dealer may have reasonable justification for late trade reporting where it is executing a bid list that includes a large number of distinct securities that cannot reasonably be reported within the applicable timeframe. These three examples do not represent the only potential situations that could constitute exceptional circumstances or reasonable justification. Dealers would bear the burden of proof related to such exceptional circumstances or reasonable justification.

The pattern or practice approach to determining rule violations would take into consideration factors such as the complexity of the trade, differences in market segments, differences in the execution of trades of varying types of municipal securities products, impediments to use of straight through processing and electronic trading venues, the nature and purpose of any manual steps involved in the execution and reporting of transactions with a manual component, the existence of systems and procedures that provide for reporting timeliness and any other relevant factors to determine if a rule violation has occurred. While this approach recognizes that there may be legitimate situations involving exceptional circumstances or reasonable justification in which trades may not be reported within the required time limit, dealers are reminded of the overarching obligation to report trades as soon as practicable in light of the effects of such circumstances or justification. As a result, all dealers should consider the types of transactions in which they regularly engage and whether they can reasonably reduce the time between a transaction's Time of Trade and its reporting, and more generally should make a good faith effort to report their trades as soon as practicable.

The MSRB expects that the regulatory authorities that examine dealers and enforce compliance with the reporting timeframes established under Rule G-14 RTRS Procedures would focus their examination for and enforcement of the rule's timing requirements on the consistency of timely reporting and the existence of effective controls to limit late reporting to exceptional circumstances or where reasonable justifications exist for a late trade report, rather than on individual late trade report outliers. Notwithstanding such expectation, where facts and circumstances indicate that an individual late report was intentional or otherwise egregious, or could reasonably be viewed as potentially giving rise to an associated fair practice, fair pricing, best execution or other material regulatory concern under MSRB or Commission rules with respect to that or a related transaction, the regulatory authorities could reasonably determine to take action with respect to such late trade in the examination or enforcement context.

<u>Compliance Tools</u>

The MSRB would continue to provide various compliance tools to assist dealers with compliance and for examining authorities to monitor for compliance. For example, currently, if a trade is reported late, an error message indicating this fact is sent in real-time to the submitter through the Message Portal, through the RTRS Web Portal, and by means of electronic mail. Such error messages are designed to promote dealer awareness of the late report and provide an opportunity to evaluate the reason for lateness and make appropriate adjustments as needed. In addition, on a monthly basis, RTRS produces statistics on dealer performance related to the timely submission of transactions and correction of errors and provides these statistics to dealers as well as to regulators. The MSRB expects to create additional compliance tools in the form of new or modified reports for dealers and examining/enforcement authorities, allowing them to more easily monitor compliance.[53] Such tools would be expected to provide data that would permit a dealer to monitor compliance patterns as well as provide support for the dealer to determine and confirm its relevant trade count for the current and preceding calendar years, including for the purpose, among other things, of assisting dealers to determine whether the exception for dealers with limited trading activity is available.[54] Similarly, through a late trade indicator, data would be available for regulators to determine the applicable trade reporting

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53 For example, the MSRB currently produces a series of reports for dealers submitting trades to RTRS, including a Dealer Data Quality Report (commonly referred to as a "report card"). See MSRB Real-Time Transaction Reporting System (RTRS) Manual (Nov. 2022), available at https://www.msrb.org/sites/default/files/RTRSWeb-Users-Manual.pdf. This report describes a dealer's transaction reporting data with regard to status, match rate, timeliness of reporting, and the number of changes or corrections to reported trade data. For most statistics, the industry rate is also provided for comparison. The Lateness Breakout portion of the report has a category for each type of reporting deadline, showing how many trades were reported timely and late relative to the applicable deadline. Such reports are available in both single-month and twelve-month formats.

54 See proposed Supplementary Material .01(a), which would require a dealer relying on the exception for dealers with limited trading activity to confirm on an annual basis that it meets the criteria for a dealer with limited trading activity. Where a dealer resubmits an RTTM cancel under proposed redesignated Rule G-14 RTRS Procedures Sections (a)(ii)(B)(2), for purposes of avoiding double counting, only the original trade, if not otherwise excepted, would count for purposes of this exception and not the resubmitted trade.

obligation for each trade and analyze the data to assist in identifying a pattern or practice of late trade reporting, based on the specific facts and circumstances relevant to the particular trade reports.

Technical Amendments

Non-substantive Amendments

Non-substantive amendments to Rule G-14 RTRS Procedures Section (a)(ii) regroup and renumber its current Sections (A) through (C) to new Sections (A)(1) through (A)(3), renumber current Sections (D) and (E) to new Sections (B)(1) and B(2), and correct a cross-reference in Section (b)(iv) to certain of these Sections to be consistent with such renumbering. In addition, a technical amendment to Rule G-14 RTRS Procedures Section (a)(ii) changes the word "of" to "after" and omits the word "within" in the phrase "within 15 minutes of Time of Trade" for clarity and consistency of usage throughout the Rule G-14 RTRS Procedures as amended.

Clarifying Amendments – Special Condition Indicators and Trades on an Invalid RTTM Trade Date

The proposed rule change would make certain clarifying amendments to Rule G-14 RTRS Procedures Section (b)(iv) relating to transactions with special conditions. That Section currently specifically sets forth information regarding certain existing special condition indicators while also referencing the existence of other special condition indicators in Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions. The proposed clarifying amendments to Section (b)(iv) of Rule G-14 RTRS Procedures would incorporate into the language thereof reference to all applicable special condition indicators, including the new trade with a manual component indicator and existing special condition indicators previously adopted by the MSRB but that are currently only documented explicitly in the Specifications for Real-Time Reporting of Municipal Securities Transactions.[55] Other than the addition of the new trade with a manual component indicator, the proposed clarifying amendments to this provision would not make any changes to the types or usage of existing special condition indicators.

In addition, Rule G-14 RTRS Procedures Section (a)(iii) would be amended to reflect that, in addition to trades effected outside the hours of the RTRS Business Day, inter-dealer trades may be executed on certain holidays (other than those recognized as non-RTRS Business Days) that are not valid RTTM trade dates ("invalid RTTM trade date"), and in either case such trades are to be reported no later than within 15 minutes after the beginning of the next RTRS Business Day. Such invalid RTTM trade date transactions are already subject to this same next RTRS Business Day reporting requirement.[56] The proposed clarifying amendment to this provision would not make any changes to the circumstances or timing of reporting of such trades.

Proposed Conforming Amendments to Rule G-12 and RTRS Information Facility

Proposed amendments to Rule G-12, on uniform practice, would make conforming changes to Section (f)(i) thereof to require that each transaction effected during the RTRS

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55 Each of these special condition indicators were formally adopted through MSRB rulemaking and also appear in various interpretive or other regulatory materials. See generally Section 4.3.2 and Appendix B.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions. See also Exchange Act Release No. 49902 (June 22, 2004), 69 FR 38925 (June 29, 2004), File No. SR-MSRB-2004-02; Exchange Act Release No. 55957 (June 26, 2007), 72 FR 36532 (July 3, 2007), File No. SR-MSRB-2007-01; Exchange Act Release No. 74564 (Mar. 23, 2015), 80 FR 16466 (Mar. 27, 2015), File No. SR-MSRB-2015-02.

56 See Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions; Exchange Act Release No. 55957 (June 26, 2007), 72 FR 36532 (July 3, 2007), File No. SR-MSRB-2007-01.

Business Day shall be submitted for comparison as soon as practicable, but no later than one minute after the Time of Trade unless an exception applies. The proposed rule change would also modify the IF-1 to clarify lateness checking against the applicable reporting deadline(s) provided for in proposed amendments to Rule G-14 RTRS Procedures, as opposed to the current 15-minute requirement.

Effective Date and Implementation

The MSRB intends to provide time for dealers and the MSRB to undertake the programming, process changes and/or vendor arrangements needed to implement the proposed rule change, as well as to provide an adequate testing period for dealers and subscribers that interface with RTRS or third parties involved in the submission and/or subscription process (including but not limited to DTCC, its RTTM system, other dealers, or other key utilities or vendors). Thus, if the proposed rule change is approved by the Commission, the MSRB would announce an effective date (for example, approximately within 18 months from such Commission approval) in a notice published on the MSRB website. Such effective date would be intended to maintain implementation of the proposed rule change on substantially the same implementation timeframe as the 2024 FINRA Proposed Rule Change.

2. Statutory Basis

Section 15B(b)(2) of the Exchange Act[57] provides that the MSRB shall propose and adopt rules to effect the purposes of the Exchange Act with respect to, among other matters, transactions in municipal securities effected by dealers. Section 15B(b)(2)(C) of the Exchange Act[58] further provides that the MSRB's rules shall be designed to prevent fraudulent and

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57 15 U.S.C. 78o-4(b)(2).

58 15 U.S.C. 78o-4(b)(2)(C).

manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products and, in general, to protect investors, municipal entities, obligated persons and the public interest.

The MSRB believes the proposed rule change, consisting of proposed amendments to Rule G-14 RTRS Procedures under Rule G-14 as well as conforming proposed amendments to Rule G-12(f)(i) and IF-1, is consistent with Section 15B(b)(2)(C) of the Exchange Act[59] because it would promote just and equitable principles of trade, foster cooperation and coordination with personnel engaged in regulating and facilitating transactions in municipal securities, remove impediments to a free and open market in municipal securities and generally protect investors and the public interest. The proposed rule change would promote just and equitable principles of trade because it would reduce information asymmetry between market professionals (such as dealers and institutional investors) and retail investors by ensuring increased access to more timely information about executed municipal securities transactions for all investors. Currently, market professionals may in some circumstances have better or more rapid access to information about trade prices through market venues to which retail investors do not have access, and the reduction in the timeframe for trade reporting would shorten or eliminate the period during which any such asymmetry in access to such information may exist.

The proposed rule change would foster cooperation and coordination with persons engaged in regulating and processing information, facilitating a consistent standard for trade

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59 Id.

reporting across many fixed income products, including municipal securities. As noted above, the proposed rule change was developed in close coordination with FINRA, which is proposing a similar shortened trade reporting requirement for many TRACE-eligible securities. Fostering a consistent standard across classes of securities would facilitate greater and more efficient compliance among MSRB-registered dealers, the majority of which also transact in other fixed income securities that are subject to FINRA's regulatory authority. Consistent trade reporting requirements reduce the risk of potential confusion and may reduce compliance burdens resulting from inconsistent obligations and standards for different classes of securities. A shortened trade reporting time, as facilitated by the proposed rule change, would promote regulatory consistency, reducing potential errors caused by market participants' imperfect application of differing standards when executing and reporting transactions in municipal securities.

The proposed rule change would remove impediments to a free and open market in municipal securities by making publicly available more timely information about the market for and the price at which municipal transactions are executed, which is central to fairly priced municipal securities and a dealer's ability to make informed quotations. The MSRB believes that the proposed rule change would promote investor protection and the public interest through increased market transparency by reducing the timeframe for trade reporting, providing the market with more efficient pricing information, which would enhance investor confidence in the market. At the same time, the exceptions balance potential burdens for dealers with limited trading activity in municipal securities by permitting such dealers to report trades as soon as practicable but not later than the currently applicable 15-minute reporting requirement. The proposed rule change also addresses potential burdens faced by dealers engaged in complex transactions, including voice/electronically negotiated transactions involving a manual post-transaction component, by permitting a phase-in period for a gradual implementation. This approach would enable market participants to achieve compliance with the shortened reporting target over a period of time while not adversely affecting their ability to execute such transactions consistent with applicable MSRB or Commission rules.

B. Self-Regulatory Organization's Statement on Burden on Competition

Section 15B(b)(2)(C) of the Exchange Act[60] requires that MSRB rules not be designed to impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. The MSRB does not believe the proposed rule change to amend Rule G-14 RTRS Procedures under Rule G-14, Rule G-12(f)(i) and IF-1would result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. The proposed rule change would apply the new one-minute reporting timeframe to all transactions in municipal securities currently subject to the 15-minute reporting requirement and would provide two new exceptions designed to balance the benefits of timelier reporting with the potential costs of disrupting markets from transactions most likely to realize a negative impact by the shortening of the timeframe and disproportionally impacting less active and smaller dealers.[61]

The proposed rule change is intended to provide more immediate post-trade transparency in the municipal securities market and is consistent with the purposes of RTRS. In the past, the municipal securities market has sometimes been associated with information opacity and low trading volume for a majority of securities with relatively few securities that trade compared to

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60 Id.

61 See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement" for a discussion of the proposed two new exceptions.

the number of outstanding securities.[62] Information opacity likely affects retail investors more than institutional investors and other market participants; for example, pre-trade quotes are not widely available in the municipal securities market, especially for retail investors who may not have the access and may be more reliant on trade data. Furthermore, with far fewer trades in municipal securities when compared to equity securities, Treasury and corporate bonds, each additional data point from post trade reporting in municipal securities would potentially be more valuable to investors and other market participants than a data point from these other markets. The reduction in this opacity resulting from the proposed rule change would make more timely information available to all market participants and help level the playing field among retail investors, institutional investors, and dealers, thereby potentially promoting competition in the market for municipal securities.

Therefore, the MSRB believes the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act for the following reasons. In making this determination, the MSRB staff was guided by the MSRB's Policy on the Use of Economic Analysis in MSRB Rulemaking.[63] In accordance with this policy, the MSRB evaluated the potential impacts on competition of the proposed rule change. The proposed rule change in trade reporting time to one minute after Time of Trade is intended to better align with the actual time that it takes a dealer to report most transactions and

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62 Based on MSRB's trade data, approximately one percent of the outstanding municipal securities trade on a given day.

63 Policy on the Use of Economic Analysis in MSRB Rulemaking is available at https://www.msrb.org/Policy-Use-Economic-Analysis-MSRB-Rulemaking. In evaluating whether there was a burden on competition, the MSRB was guided by its principles that require the MSRB to consider costs and benefits of a rule change, its impact on capital formation and the main reasonable alternative regulatory approaches.

provides more immediate transparency to the market by reducing the reporting time for the remaining transactions to as soon as practicable but no later than 15 minutes after the Time of Trade standard for trades by dealers with limited trading activity and to a deadline that would ultimately be shortened to five minutes after the Time of Trade for trades with a manual component.

The MSRB previously shortened the trade reporting timeframe from the end of day to 15 minutes from the Time of Trade in January 2005 with the creation of RTRS. Since the 2005 change, the MSRB's analysis shows that most trades are indeed reported much sooner than the current 15-minute trade reporting deadline, potentially due at least in part to the advancement in technology. Specifically, as illustrated in Table 1 below, approximately 73.7 percent of trades in 2022 were reported within one minute after a trade execution, with another approximately 23.3 percent of trades reported between one minute and five minutes after the Time of Trade. [64] As presently reported, due in part to technological advancements, most trades already satisfy a shorter than 15-minute reporting requirement. A shorter reporting timeframe is intended to provide more immediate transparency to a market that historically has been associated with low trading volume for a majority of Committee on Uniform Securities Identification Procedures

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64 The analysis in this rule filing only includes trades reportable within 15 minutes and excludes trades that are exempt from the current 15-minute reporting time including, for example, trades flagged as being executed at the List Offering or Takedown Transactions, trades in short-term instruments maturing in nine months or less, Auction Rate Securities, Variable Rate Demand Obligations, trades in commercial paper, as well as trades "away from market," among other exceptions. See also Rule G-14 RTRS Procedures Sections (a)(ii)(A) and (B). For purposes of the analysis in this section, if an initially reported trade was corrected later, the later timestamp was used for calculating the trade reporting time more conservatively. All figures are approximate.

("CUSIP") numbers, relatively few securities that trade compared to the number of outstanding securities and sometimes has been associated with information opacity.

Trade Reporting Analysis

Table 1 summarizes the MSRB's analysis comparing Time of Trade to trade reporting time for all trades required to be reported within 15 minutes in 2022.[65] Out of all reportable municipal securities trades[66] that are not subject to another end of day reporting exception or a post-trade day reporting exception, approximately 73.7 percent were reported within one minute, while 97.0 percent were reported within five minutes and 98.9 percent were reported in 15 minutes or less.[67] The MSRB observed a noticeable difference in the speed of trade reporting by different trade size groups, with the reporting time increasing with trade size. While 76.2 percent of trades with trade size of $100,000 par value or less (approximately 84.2 percent of all trades) were reported within one minute, only 38.4 percent of trades with trade size between $1,000,000 and $5,000,000 par value and 23.1 percent of trades with trade size above $5,000,000 par value were reported within one minute. A possible explanation is that larger institutional-sized trades are more likely to be executed via non-electronic means and may rely upon more manual

65 In 2022, RTRS had the highest number of trades on record since its implementation in 2005. The record is likely attributable to interest rate rallying and volatility throughout the year, though the amount of par value traded was not a record high. The heightened level of trading persisted through 2023, with the number of trades reported to RTRS exceeding the previous record in 2022.

66 See proposed Rule G-14 RTRS Procedures Sections (a)(ii)(A) and (B) for lists of existing end of trade day reporting exceptions and post-trade day reporting exceptions.

67 By comparison, in 2021, a year with much lower overall trading volume than 2022, 76.7 percent of trades subject to the 15-minute standard were reported within one minute, 97.3 percent of such trades were reported within five minutes and 99.5 percent of trades were reported within 15 minutes.

processing steps.[68] However, smaller-sized trades are more likely executed and processed electronically, which could facilitate faster trade reporting.

Table 1. Trade Report Time by Trade Size – Cumulative Percentages

January 2022 to December 2022

Difference Between Execution and Reported Time	All Trades	$100,000 or Less	> $100,000 - $1,000,000	> $1,000,000 - $5,000,000	>$5,000,000
15 Seconds	24.9%	26.5%	18.1%	7.9%	3.6%
30 Seconds	49.5%	51.8%	40.8%	21.6%	11.5%
1 Minute	**73.7%**	**76.2%**	**65.5%**	**38.4%**	**23.1%**
2 Minutes	88.5%	90.2%	83.6%	62.4%	46.7%
3 Minutes	91.9%	93.0%	89.1%	73.4%	60.7%
5 Minutes	97.0%	97.7%	95.4%	85.3%	76.0%
10 Minutes	98.6%	98.9%	97.8%	93.8%	89.0%
15 Minutes	98.9%	99.2%	98.3%	95.7%	91.9%
30 Minutes	99.5%	99.6%	99.1%	97.5%	94.0%
1 Hour	99.5%	99.6%	99.2%	97.7%	94.6%
> 1 Hour	100.0%	100.0%	100.0%	100.0%	100.0%
Market Share of Eligible Trades	**100.0%**	**84.2%**	**13.1%**	**2.1%**	**0.6%**

Table 2 illustrates a variation in trade reporting time in 2022 between dealers with 1,800 trades or more annually during both prior two calendar years ("Active Dealers"), and dealers with less than 1,800 trades annually during at least one of the prior two calendar years ("Dealers with Limited Trading Activity").[69] A threshold of 1,800 trades a year was selected to demonstrate that Dealers with Limited Trading Activity as a whole had a relatively small impact on the entire market and transparency, with approximately 98.5 percent of trades in 2022 conducted by Active Dealers collectively and only 1.5 percent of trades conducted by all Dealers with Limited Trading Activity. When calculating the market share by par value traded, Active Dealers

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68 MSRB staff conducted oral interviews with dealers and data providers in the fall of 2022 and the winter and spring of 2023 and was informed that larger institutional-sized trades are more likely to be executed via negotiations and involve manual processes.

69 See infra "Self-Regulatory Organization's Statement on Burden on Competition – Trade Reporting Analysis" in Table 2.

conducted 98.2 percent of par value traded in 2022 while Dealers with Limited Trading Activity conducted only 1.8 percent of par value traded.[70] In 2022, out of 647 dealers conducting at least one transaction in municipal securities 474 were Dealers with Limited Trading Activity and 173 were Active Dealers.[71] This difference in trade reporting time was pronounced for the one-minute trade reporting percentages where Active Dealers had 77.2 percent of trades reported within one minute while only 47.5 percent of trades conducted by Dealers with Limited Trading Activity were reported within one minute.

Table 2. Trade Reporting Time by Level of Dealer Activity

January 2022 to December 2022

	Percent of Trades Reported Within One Minute	Percent of Trades Reported Within Ten Minute	Market Share of Trades	Market Share of Par Value Traded
Firms that accounted for 1,800 trades or more (Active Dealers)	77.2%	99.3%	98.5%	98.2%
Firms that accounted for less than 1,800 trades (Dealers with Limited Trading Activity)	47.5%	96.8%	1.5%	1.8%

Benefits, Costs, and Effect on Competition

The MSRB considers the likely costs and benefits of a proposed rule change when the proposal is fully implemented against the context of the economic baselines. The baseline is the current iteration of Rule G-14 RTRS Procedures (a)(ii) that requires transactions to be reported within 15 minutes after the Time of Trade with limited exceptions, while the future state would

70 The proportion of trades in municipal securities conducted by Dealers with Limited Trading Activity is aligned with the proportion of aggregate trades conducted by dealers with limited trading volume in TRACE-eligible securities subject to the 2024 FINRA Proposed Rule Change when using FINRA's annual transactions threshold. See supra n.30.

71 While low in terms of the trading volume, these Dealers with Limited Trading Activity may still serve many underserved investors, especially retail and institutional investors with a regional focus.

be following the conclusion of the second calendar year from the effective date of the proposed rule change, with the full implementation of the gradual reduction in reporting timeframe for trades with a manual component.

In performing this economic analysis and related cost-benefit estimates, the MSRB has made a number of assumptions based on 2022 RTRS data as explained in more detail below. For instance, there are few publicly available sources of information about revenue and expense data for relevant business lines of a dealer, especially in relation to potential spending on acquiring or upgrading technology and infrastructure for some dealers. The effort is further hampered by the fact that some dealers are privately-owned, who are not required to disclose business operation data in public filings. Therefore, the MSRB conducted interviews with select dealers and vendors who provide electronic trade reporting services as well as dealer subscribers of these services to gauge the likely impact from the proposed rule change.[72] The MSRB believes the analysis provides a useful projection on the scale of benefits and costs relative to the current baseline irrespective of whether an assumption changes the absolute estimated costs and benefits.

Benefits

The primary benefit of the proposed rule change on accelerated trade reporting would be improved transparency in the municipal securities market. Historically, the municipal securities market has been considered less liquid and more opaque when compared to other securities markets, with only about 1 percent of all municipal securities trading on a given trading day, and pre-trade quotes are not widely available to all market participants, especially retail investors

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72 See supra n.68.

who may not pay for vendor pricing tools and may be more reliant on trade data.[73] Therefore, post trade data is important information available to all market participants, including particularly to retail investors and the market professionals that service retail accounts. By implementing the proposed rule change, investors would receive greater advantages on trade pricing information through the reporting of more contemporaneous transactions.[74] This emphasis on contemporaneous trades as opposed to distant trades would help ensure that the pricing information remains vital, potentially decreasing trading costs and increasing liquidity. In addition, since only about 1 percent of municipal securities trade on a given trading day, information on trades in other comparable municipal securities would also be valuable in pricing a security. Lowering the reporting time would make more contemporaneous trades in comparable securities transparent for other transactions.[75] Finally, with far fewer trades in municipal

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[73] See Wu, Simon Z., John Bagley and Marcelo Vieira, "Analysis of Municipal Securities Pre-Trade Data from Alternative Trading Systems," Research Paper, Municipal Securities Rulemaking Board, October 2018; Government Accountability Office ("GAO"), "Municipal Securities: Overview of Market Structure, Pricing, and Regulation," Report to Congressional Committees, January 2012, page 6; Green, Richard C., Burton Hollifield, and Norman Schürhoff. "Financial intermediation and the costs of trading in an opaque market." The Review of Financial Studies 20.2 (2007): 275–314.

[74] As an illustration, in its 2022 Request for Comment, the MSRB's economic analysis showed that out of the universe of 251,635 "analyzed trades" with same-CUSIP-number-matched trades in 2021, where a matched trade was executed before the analyzed trade's execution but was reported after the analyzed trade's execution, approximately 27.9 percent of those analyzed trades had at least one matched trade executed more than a minute before the analyzed trade's execution. This suggests those analyzed trades would have benefited from the matched trades' execution information if matched trades were required to be reported no later than one minute after their execution times.

[75] A 2012 report issued by the GAO stated "Broker-dealers we spoke with said that the price of a recently reported interdealer trade for a security was a particularly good indication of its value for that segment of the market. However, if a security has not traded recently, they said they instead look for recent trades in comparable securities." See GAO, "Municipal Securities: Overview of Market Structure, Pricing, and Regulation," Report to Congressional Committees, January 2012, page 12.

securities when compared to equity securities, Treasury and corporate bonds, each additional data point from post trade reporting in municipal securities would potentially be more valuable to investors and other market participants than a data point from these other markets. According to established economic literature, investors, especially retail investors, benefit from transparency (more and/or better information) by enhancing their negotiation power with dealers as well as reducing dealer's own search and intermediation costs, therefore reducing customer trades' transaction costs, also known as bid-ask spread or effective spread. The MSRB believes additional data points from more contemporaneous trades in the same and/or comparable securities would increase an investor's negotiating power. Specifically, regarding trade reporting time, two research papers scrutinized the transition in 2005 from reporting trades at the end of a trading day to 15 minutes after trade execution. Both studies revealed a statistically significant decrease in the average effective spreads for customer trades. When comparing the period before and the period after January 2005, the reduction in average customer trade effective spread ranged between 11 to 28 basis points, all else being equal.[76] In addition, more timely reporting

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[76] See Sirri, Erik, "Report on Secondary Market Trading in the Municipal Securities Market," Research Paper, Municipal Securities Rulemaking Board, July 2014, and Chalmers, John, Liu, Yu (Steve) and Wang, Z. Jay, "The Difference a Day Makes: Timely Disclosure and Trading Efficiency in the Muni Market," Journal of Financial Economics, 2021. Sirri (2014) estimated that following the implementation of RTRS in January 2005, the average customer trade spread was reduced, all other relevant factors being equal, by 11 basis points within the first six-month period and up to 20 basis points within the one-year period. Chalmers, Wang and Liu (2021) found that dealer markups across all trade sizes declined by 28 basis points (14 percent reduction) in a ten-month period (March 2005 through December 2005). The authors concluded that the improved timeliness of the market resulted in large reductions in the costs of trading municipal bonds.

has also been shown to increase dealer market-making activities in the municipal markets, potentially enhancing market liquidity.[77]

Recent MSRB analyses show that effective spreads for customer trades continued to decline in the last decade.[78] However, while the difference in effective spreads between smaller retail-sized customer trades and larger institutional-sized customer trades shrank over the past decade, the shrinkage has stopped, and the gap may have started to widen again since early 2022.[79] Therefore, as of September 2023, retail-sized customer trades continue to have significantly higher effective spreads than institutional-sized customer trades as shown in Chart 1, about three times as large.[80]

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77 As indicated by an increase in the overnight and over-the-week dealer capital committed to inventory, an increase in the number of dealers involved in completing a round-trip transaction, and more round-trip transactions that involve inventory taking. See Erik Sirri, Report on Secondary Market Trading in the Municipal Securities Market, July 2014 (Research Paper, Municipal Securities Rulemaking Board); John Chalmers, Yu (Steve) Liu, & Z. Jay Wang, The Difference a Day Makes: Timely Disclosure and Trading Efficiency in the Muni Market, 139(1) Journal of Financial Economics, 313–335 (2021).

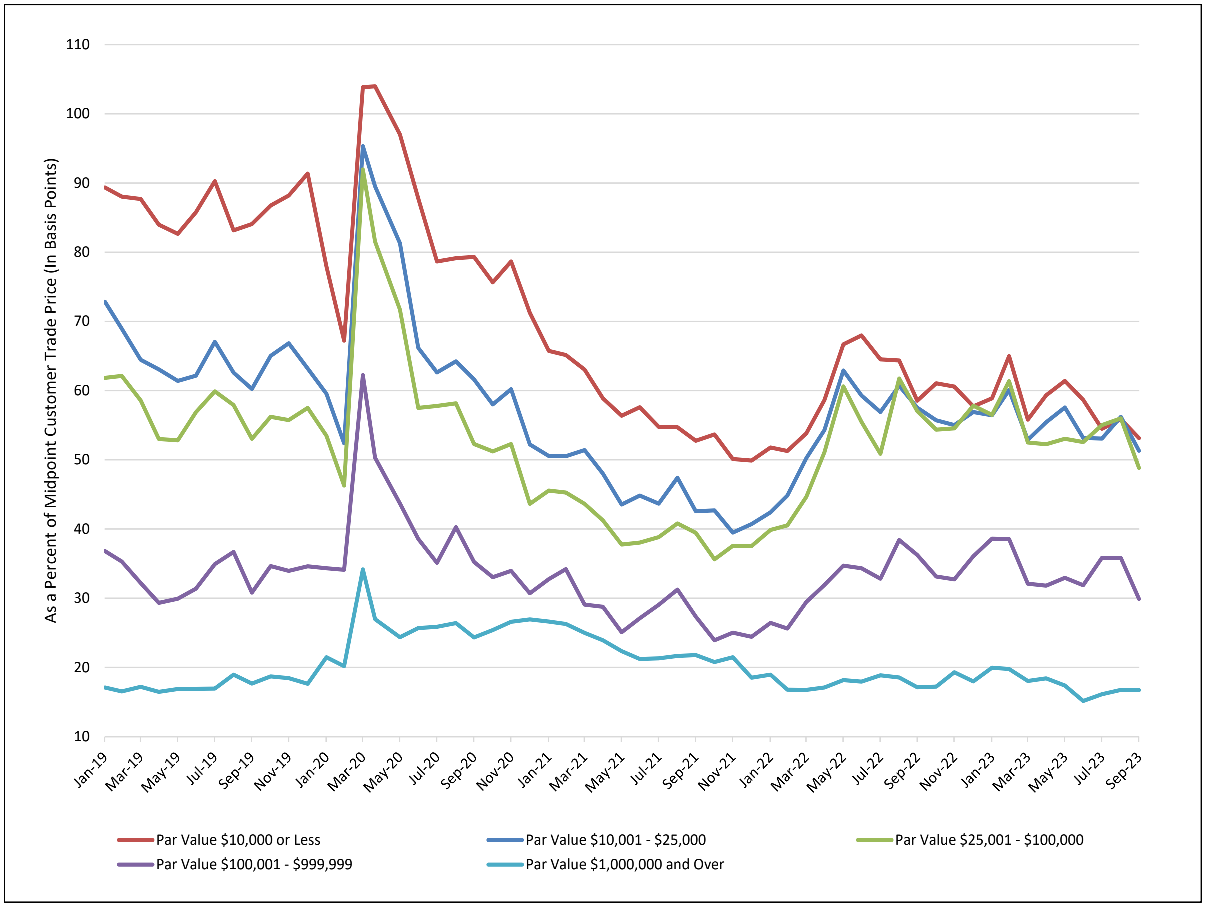
78 See Wu, Simon Z., "Transaction Costs for Customer Trades in the Municipal Bond Market: What is Driving the Decline?" Research Paper, Municipal Securities Rulemaking Board, July 2018, Page 15; and Wu, Simon Z., and Ostroy, Nicholas J., "What Has Driven the Surge in Transaction Costs for Municipal Securities Investors Since 2022?" Research Paper, Municipal Securities Rulemaking Board, August 2023.

79 Wu and Ostroy (2023). The reduction was mostly due to the steadily declining effective spreads for retail-sized customer trades, as institutional-sized customer trades (par value more than $1,000,000) had a relatively stable level of effective spreads between 2005 and 2023.

80 Id.

Chart 1. Effective Spread for Fixed-Rate Municipal Securities Customer Trades

January 2019 – September 2023



Based on available economic literature and the MSRB's own analysis of trade data, the MSRB believes that the proposed rule change would further reduce customer trade effective spreads due to the benefit of more immediate transparency, especially for retail-sized trades. The MSRB acknowledges the difference in the potential impact, due to the different scale of the changes, between the launch of RTRS in January 2005 with the introduction of a 15-minute reporting window in place of end-of-day reporting, on the one hand, and the proposed shortening of the trade reporting requirement from 15 minutes to one minute, on the other hand. Nevertheless, while the anticipated positive effect of the proposed one-minute trade reporting with two new exceptions may not match the magnitude of the 2005 RTRS transition, it is expected to yield valuable advantages for investors through the inclusion of more contemporaneous trade data points in the same and/or comparable securities. This holds particularly true for retail investors, who have historically paid higher effective spreads than institutional investors and derived greater benefits from post-trade transparency compared to institutional investors.[81] For illustration purposes, hypothetically if a shortening of trade reporting time to one minute for Active Dealers (except for manual trades) would reduce the effective spread by an average of five basis points[82] for customer trades with $1 million or less par value, this would result in the annual savings (benefits) for investors of approximately $126.2 million based on the 2022 trading volume (see Hypothetical Scenario 1 in Table 3).[83] Table 3 also shows a more conservative scenario when limiting the hypothetical effective spread reduction to a trade size of $100,000 par value or less only, commonly known as a proxy for retail-sized trades. A reduction of five basis points in effective spreads from the proposed rule change applicable to these trades would result in the annual savings of approximately $49

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81 Id.

82 To be conservative, the MSRB uses five basis points as an illustration, where a five-basis point reduction in price value of a $100 par value bond is equivalent to $0.50 per bond. This estimate is less than half of the estimated lower-bound reduction from the 2005 changeover from end-of-day trade reporting to 15 minutes from Time of Trade reporting, and is only applicable to non-institutional-sized customer trades (either sub-$1,000,000 par value or $100,000 or lower par value customer trades). No change in effective spread for other customer trades is included in the analysis, as larger-size institutional customers are assumed to be sophisticated and already have pricing information.

83 In 2022, $504.8 billion annual par value traded from all customer purchase and sell trades with trade size below $1,000,000 par value x 0.05 percent / 2 = $126.2 million. Since the five basis points are the difference between the average customer purchase and customer sell trades, when measuring each customer purchase or customer sell trade, the amount is divided by two.

million to retail investors (see Hypothetical Scenario 2 in Table 3).[84] On the other hand, while the MSRB believes dealers would earn less from investors as a result of narrowing effective spreads, the shortfall would be partially offset by gains in market efficiency, potential reduction in dealer search and intermediation costs, and potentially increased revenue from higher customer trading activity as a result of lower transaction costs. This is in line with the economic theory on the law of demand that a reduction in price would generally encourage more purchasing by consumers, all else being equal.[85] In the case of secondary market trading, the expectation is that a reduction in trading costs would encourage more trading by existing investors and/or bring in new investors to the municipal securities market over the long term. The MSRB assumes a reduction of five basis points in the effective spreads for the $1 million par value or lower customer trades would generate an additional 0.2 percent in total customer trading volume for that trade size group, while a reduction of five basis points in the effective spreads for the $100,000 par value or lower customer trades would generate an additional 0.2 percent in total customer trading volume for that trade size group.[86] The MSRB therefore estimates dealers would gain between approximately $1 million to $3 million from projected additional annual customer trading volume.

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[84] In 2022, $196.1 billion annual par value traded from all customer trades with trade size at $100,000 par value or less x 0.05 percent / 2 = $49 million.

[85] Davenant, Charles, An Essay upon the Probable Methods of Making People Gainers in the Balance of Trade (London: James Knapton, 1699).

[86] The 0.2 percent volume increase would be about half of the lower-bound estimate for the 2005 change over (see Chalmers, Wang and Liu, 2021).

Table 3. Illustration of Hypothetical Benefit Based on 2022 Trading Volume

Basis Points in Price

	Benefit - Investors		Benefit - Dealers
	Reduction in Effective Spread (in Basis Points)	Annual Effective Spread Savings for Investors	Gain from Additional Customer Trading Volume
2005: 15-Minute Trade Reporting			
Benefit for All Trades	11 to 28		
2023 Proposal: One-Minute Trade Reporting			
Hypothetical Scenario 1 - Benefit for Sub-$1,000,000 Par Value Trades Only	5.0	$ 126,472,000	$ 2,954,000
Hypothetical Scenario 2 - Benefit for $100,000 Par Value Trades or Lower Only	5.0	$ 49,044,000	$ 981,000

While five basis points are used as an illustration in Table 3, even if the reduction in effective spread was only half of the amount, or 2.5 basis points, the total annual savings would still amount to between $24.5 million and $63.1 million approximately.

In addition to investors benefiting from more immediate market transparency, other market participants would also benefit from the proposed rule change, including underwriters and issuers who determine evaluated pricing of a new issuance, dealers in the primary and secondary markets who participate in competitive bidding activities, and yield curve providers that rely upon market transactions to update curves or to supply intra-day price and yield movement for the market.

Lastly, any trade that meets the definition of a manual trade would be required to append a new trade indicator to such trade when reported to the MSRB, regardless of when the trade is reported. This trade indicator would help the MSRB identify the extent to which the market still operates manually and could help determine whether the proposed gradual reduction in timeframes proposed would be feasible to maintain or to continue reducing in the future.

Costs

The MSRB acknowledges that dealers would likely incur additional costs, relative to the current state, to meet the new one-minute transaction reporting time of one minute outlined in the proposed amendments to Rule G-14 RTRS Procedures though the compliance costs would be mitigated by the fact that nearly 73.7 percent of all trades were already reported within one minute of an execution in 2022. These additional costs would likely include: a) one time or upfront costs (e.g., setting up and/or revising policies and procedures, education and training and implementing the newly required manual trades flag); b) ongoing costs related to subscription(s) to electronic trade reporting technologies to speed up the trade reporting process for some Active Dealers; and c) other ongoing costs related to ensuring compliance with the new proposed requirements.

Upfront Costs

For the upfront costs, it is possible dealers may need to seek appropriate advice of in-house or outside legal and compliance professionals to revise policies and procedures in compliance with the proposed amendments to Rule G-14 RTRS Procedures. Dealers may also incur upfront costs related to education and/or standards of training in preparation for the implementation of these proposed amendments, as well as establishing the newly required manual trades flag. The MSRB believes the upfront costs as related to updating policies and procedures, training and education would be relatively minor, perhaps about $6,720 for Dealers with Limited Trading Activity and up to $11,200 for Active Dealers for a total of about $5.1 million (see Table 3.[87] In addition, there would be a one-time upfront cost for software or

87 The hourly rate data was gathered from the Commission's Amendments to Exchange Act Rule 3b-16. See Exchange Act Release No. 94062 (Sep. 20, 2022), 17 CFR Parts 232, 240, 242, 249 (Jan. 26, 2022) (File No. S7-02-22), p. 477 n.1102 (citing the original source of the data from SIFMA Management & Professional Earnings in the Securities Industry – 2013. The data reflects the 2023 hourly rate level after adjusting for the annual

compliance system upgrade to flag manual trades and to reprogram the system to comply with the shorter reporting timeframe, though the amount would depend on how this new requirement is implemented by the industry. While the MSRB does not have sufficient data and information presently to estimate the cost, the MSRB believes the upfront cost for implementing the manual trade flag would likely be more substantial than the other upfront cost components.

Ongoing Costs: Annual Technology Subscription

By comparison, the annual ongoing technology subscription costs for electronic trade reporting would likely be more significant for some Active Dealers, as these dealers may need to obtain assistance from outside vendors or increase in-house programming costs. It should be noted that some dealers may be able to fulfill the new trade reporting time requirement without any upgrade to their technology. While the MSRB is not aware of any evidence that dealers are intentionally delaying trade reporting, the current Rule G-14 provides a 15-minute reporting window without the "as soon as practicable" requirement. As a result, some dealers may not have reported their trades as soon as practicable in the absence of a regulatory obligation. In addition, it is possible that, instead of upgrading existing technologies, some dealers, especially those with relatively few trades in municipal securities, may augment their workforce to ensure a shorter reporting lag after a trade execution. Finally, dealers executing voice trades and secondary

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wage inflation between 2013 and 2023, using the Federal Reserve Bank of St. Louis Employment Cost Index: Wages and Salaries: Private Industry Workers (available at: https://fred.stlouisfed.org/series/ECIWAG). The MSRB uses a blended hourly rate of $560 for tasks that could be performed by in-house attorneys, outside counsel, compliance managers and chief compliance managers, and estimates a total of 12 hours for Dealers with Limited Trading Activity to update policies and procedures, and implement training and education, and 20 hours for Active Dealers. As shown in Table 4, the one-time upfront costs are estimated to be $5.1 million ($11,200 x 173 + $6,720 x 474 = $5.123 million).

market trades in newly issued securities may not be able to speed up the trade reporting process due to the manual nature of these trades, even with the electronic trade reporting technology in place.[88]

For the ongoing cost estimate, the MSRB assumes that Active Dealers would not need to acquire electronic trade reporting technology if 90+ percent of the dealer's trades are currently reported between one and two minutes after the Time of Trade,[89] as those dealers are assumed to be able to report the trades within the proposed one-minute trade reporting requirement without resorting to an additional technology subscription. However, if a dealer reports 90+ percent of trades by more than two minutes, the MSRB assumes the dealer would need to upgrade its technology to achieve the one-minute requirement. The MSRB believes the proposed rule change would provide an incentive to adjust internal policies and procedures or to improve reporting time without resorting to additional technology subscription, especially with the new one-minute trade reporting requirement for non-excepted trades as well as the new "as soon as practicable" requirement that harmonizes with the current analogous FINRA rules. As to the MSRB's usage of the 90+ percent threshold as opposed to a 100 percent threshold, the proposed rule change provides an exception for manual trades for these Active Dealers, meaning that a 100 percent compliance rate with the baseline one-minute timeframe may not be required. The MSRB

88 For example, in 2022, approximately 59 percent of the secondary market transactions executed within the first three days of a new issuance were reported within one minute, as compared to 77 percent of other secondary market trades. This may be largely due to the additional time involved in setting up a new CUSIP for the secondary market trading. The MSRB anticipates that such trades requiring manual intervention would be subject to the phased-in reporting requirement down to five minutes.

89 For each dealer, the MSRB calculated the nearest minute(s) (rounded up) to report at least 90 percent of its trades in 2022.

believes that many of the trades that took longer than one minute to report likely had a manual component; therefore, it may be that a threshold lower than the 90 percent threshold would still satisfy the new requirements in the proposed rule change, providing Active Dealers additional time to report by using the new exception for manual trades. However, because the MSRB does not know the actual share of manual trades for each dealer at this time, to be aggressive (i.e., conservative) in estimating the costs, the MSRB includes these Active Dealers in the ongoing technology subscription cost calculation.

Chart 2 below illustrates the estimated technology subscription cost of acquiring the electronic trade reporting technology for these dealers. From the industry outreach effort, the MSRB learned it would cost a dealer approximately up to an additional $60,000 annually, which includes a bundle of services in addition to the electronic trade reporting.[90] The MSRB believes, however, this cost estimate may be on the high side because: 1) dealers may not need to purchase the bundle simply to speed up the trade reporting depending on their existing subscription services;[91] and 2) some dealers may have more than 10 percent of their trades having a manual

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90 Some comment letters also cited Bloomberg's Trade Order Management Solutions ("TOMS") system, which would cost $250,000 per year. See Letter from Matthew Kamler, President, Sanderlin Securities LLC, dated September 27, 2022, at 1. Another commenter estimated the cost at $500,000 per year. See Letter from John Isaak, Senior Vice President, Isaak Bond Investments, dated August 16, 2022, at 1. The MSRB understands that TOMS can be used for many purposes, such as sales, trading, risk management, compliance and operations, and not just for electronic trade reporting. TOMS can also be used for many fixed-income products and not just for municipal securities. See https://www.bloomberg.com/professional/product/trade-order-management-solutions/. Thus, the cost associated with TOMS would generally appropriately be allocated among the various uses that a dealer is likely to make of it.

91 For example, one vendor informed the MSRB that it charges up to $1,000 per month for straight-through processing of trades, or $12,000 annually. Some other dealers mentioned $2,000 monthly, or about $24,000 annually to incorporate electronic trade reporting.

component, and since the proposed rule change would use a phase-in period for these trades, with the requirement of as soon as practicable but no later than five minutes after the Time of Trade after the second year, it may reduce the need or the scale to pay for the technology subscription costs. Furthermore, since the requirement for the one-minute trade reporting would likely be applicable to other TRACE-eligible fixed-income securities such as corporate bonds under the 2024 FINRA Proposed Rule Change, dealers that trade both municipal securities and corporate bonds may only need to pay the subscription cost once, or at least not need to pay double the amount. Still, to be aggressive in the cost estimate, the MSRB would use the $60,000 as the minimum annual cost for dealers who would need the new technology subscription. In addition, it is possible that some dealers, especially larger dealers, may need more than one vendor for automated trade reporting when executing orders on multiple electronic platforms. Therefore, the MSRB estimates, among Active Dealers who would need new technology subscription to comply with the proposed rule change, such Active Dealers would incur approximately $100,000 annually to adopt the electronic trade reporting to comply with the proposed rule change,[92] while a dealer with less than 12,000 trades annually[93] would incur $60,000 annually.[94]

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92 The MSRB assumes these dealers would need a second vendor, but instead of doubling the amount from $60,000 to $120,000, the MSRB estimates the amount to be approximately $100,000 assuming there would be some efficiency gain.

93 A market share of between 0.01 percent and 0.1 percent based on the 2022 data.

94 Of the 173 Active Dealers, 82 dealers had 12,000 trades or more in 2022 and 91 had less than 12,000 trades. For Dealers with Limited Trading Activity, the MSRB assumes there is no need for technology subscription since they would be able to utilize one or both new exceptions, and therefore the proposed new requirement is similar to the present requirement in Rule G-14 for these dealers.

Chart 2. Diagram for Determining Estimated Technology

Subscription Cost for Active Dealers

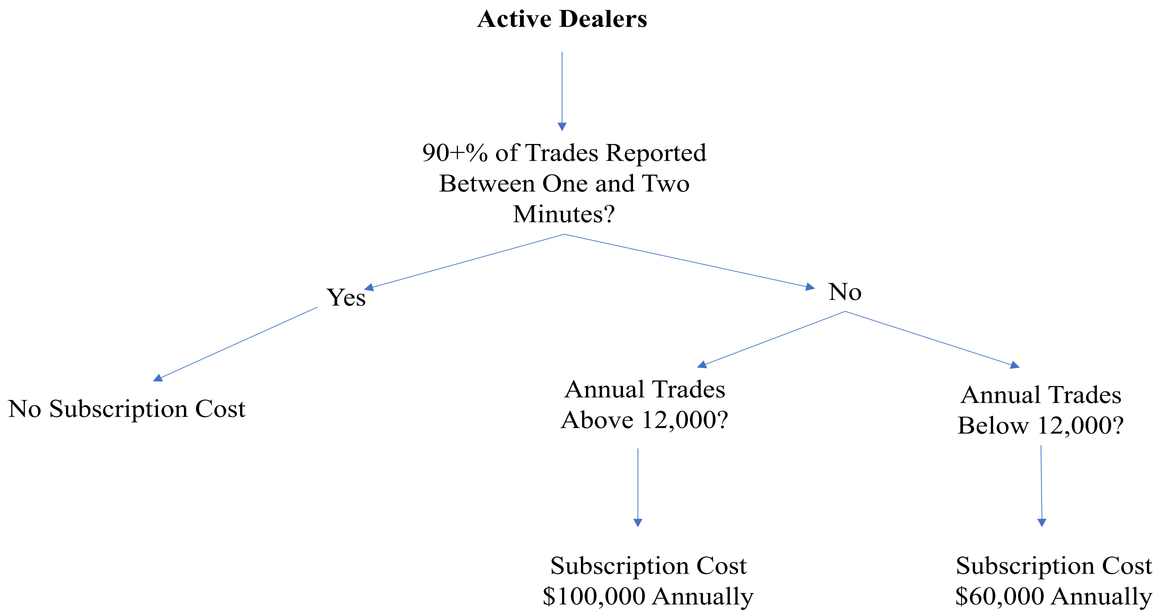

Table 4 provides an estimated total cost of approximately $5.1 million for the one-time policies and procedures revision for all 647 dealers. As to the annual ongoing costs, MSRB staff estimated a total of $6.6 million for the annual technology subscription for the 88 Active Dealers who would need the subscription.

Table 4. Estimate of Upfront and Ongoing Costs Based on 2022 Trading Volume

	Upfront Cost - Policies and Procedures	**Annual Ongoing Costs - Technology Subscription**
One-Minute Reporting for Active Dealers and 15-Minute Reporting for Dealers with Limited Trading Activity	$ 5,123,000	$ 6,560,000

Note: There would also be upfront costs for system upgrade to flag manual trades as well as ongoing costs for ensuring compliance. The MSRB cannot provide an estimate for these costs presently because of insufficient information.

Other Ongoing Compliance Costs

The MSRB anticipates ongoing costs of ensuring the compliance of relevant trades to be reported within one minute, and manual trades to be reported within the timeframes as proposed during and after the phase-in period, with a new trade indictor for such trades. Comparatively speaking, these ongoing compliance costs would be relatively minor and may not significantly exceed the costs in the current baseline, as all dealers should already have compliance programs in place in relation to the current trade reporting requirement.

Proposed Supplementary Material .02 would require all manual trades from Active Dealers to be reported within five minutes eventually, following the conclusion of the second calendar year from the effective date. While the RTRS database currently does not flag manual trades, assuming all trades currently reported more than one minute after the Time of Trade are “manual” trades, Table 5 illustrates that 90.4 percent of all trades from Active Dealers were already reported within five minutes in 2022. Hence, the MSRB believes a five-minute trade reporting requirement is achievable for manual trades from Active Dealers, with a three-year phase-in period, which provides ample time for them to prepare and for the industry to create solutions.

Table 5. Trade Report Time for Estimated Manual Trades from Active Dealers

January 2022 to December 2022

Difference Between Execution and Reported Time	**All Trades**
2 Minutes	64.6%
3 Minutes	80.9%
5 Minutes	90.4%
10 Minutes	96.9%
15 Minutes	98.2%

Effect on Competition, Efficiency and Capital Formation

The MSRB believes the proposed change to Rule G-14 RTRS Procedures would improve market efficiency by providing more immediate trade reporting transparency to the market. If indeed there would be a reduction in customer transaction costs, as illustrated by the 2005 RTRS transition, even if on a smaller scale, the benefits to customers would accrue over a longer period that would offset the investment in upgrading technologies by select dealers. In addition, it is possible that lower transaction costs may increase investor participation and stimulate market activities by encouraging more trading by existing investors and/or bringing in new investors to the municipal securities market over the long term, therefore contributing to an overall increase in capital formation. Finally, the harmonization of MSRB rule requirements for municipal securities with FINRA requirements for other TRACE-eligible fixed-income markets, as proposed in the 2024 FINRA Proposed Rule Change, would create consistency for dealers who have trading operations in all these markets, and, thus, would increase efficiency in terms of their compliance burdens. Therefore, the MSRB believes that the proposed rule change would facilitate capital formation.

Some dealers may be impacted by the proposed rule change more than other dealers to meet the new reporting time. However, the broader impact on competition in the municipal securities market is expected to be minor. The proposed change to Rule G-14 RTRS Procedures provides a two-tier system (one-minute trade reporting requirement for Active Dealers with an exception for manual trades and 15-minute trade reporting requirement for Dealers with Limited Trading Activity) to mitigate any potential unfavorable financial impact for Dealers with Limited Trading Activity because of a lower revenue base. Therefore, the MSRB does not believe the proposed change to Rule G-14 RTRS Procedures would result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act.

Identifying and Evaluating Reasonable Alternative Regulatory Approaches

The MSRB has considered and evaluated several reasonable regulatory alternatives. One alternative the MSRB reviewed was to introduce a five-minute trade reporting period for Active Dealers. According to the MSRB's estimates, as shown in Table 1 above, 23.3 percent (97–73.7 percent) of all reported trades in municipal securities would have satisfied the five-minute reporting requirement but not the one-minute reporting requirement in 2022. If the MSRB instituted a five-minute trade reporting period, most of the industry would already satisfy the obligations of a five-minute requirement and it would likely be less of a burden for dealers to comply. In effect, MSRB rulemaking would merely align with current market practices. However, considering that most trades (97 percent) already took five minutes or less to be reported to RTRS, the MSRB believes the five-minute reporting requirement, while easier for dealers to comply with, would not have advanced the immediacy of information transparency by a meaningful amount that would make a difference for investors, especially retail investors, and other market participants.

Another alternative would be for the MSRB to change the trade reporting time by trade size. The MSRB was informed by comments received in response to the 2022 Request for Comment described below that large-sized trades are in many instances still negotiated telephonically and require more dealer attention, and therefore would be considered as trades with a manual component during the trading reporting process.[95] Table 1 above shows a

95 See Letter from Michael Decker, Senior Vice President for Public Policy, Bond Dealers of America, dated October 3, 2022, at 2–3 ("Trades negotiated and executed by phone, still the predominant execution method for block-sized trades in municipals … require

noticeable difference in the speed of trade reporting by different trade size groups, with the reporting time increasing with trade size. The MSRB could propose that small and medium-sized trades, i.e., trades with par value below $1,000,000 which constitute about 97.3 percent of all trades, be reported within one minute while proposing a longer threshold, for example, a five-minute threshold for larger-sized trades which constitute about 2.7 percent of all trades. However, trades with a manual component are already excepted from the one-minute requirement under the proposed rule change, regardless of the trade size, which would be superior to this alternative method because the length of time to report a trade is heavily influenced by the trade reporting process rather than the size of the trade per se. In addition, anecdotal evidence suggests that large-sized trades do have more of an impact on the direction of the market, as many market participants weigh larger trades more heavily in determining market

human involvement and data entry, delaying the reporting process easily past one minute."); Letter from Seth A. Miller, General Counsel, President, Advocacy and Administration, Cambridge Investment Research, Inc., dated October 3, 2022, at 4; Letter from Howard Meyerson, Managing Director, Financial Information Forum, dated October 3, 2022, at 4; Letter from Edward J. Smith, General Counsel and Chief Compliance Officer, Hartfield, Titus & Donnelly, LLC, dated September 14, 2022, at 4; Letter from Robert D. Bullington, Vice President, Compliance Officer, InspereX LLC, dated October 3, 2022, at 4–5; Letter from John Isaak, Senior Vice President, Isaak Bond Investments, dated August 16, 2022, at 1; Letter from Robert Blum, President, Robert Blum Municipals, Inc., dated September 16, 2022 at 1; Letter from Christopher Ferreri, President, RW Smith & Associates, LLC, dated September 13, 2022, at 4; Letter from Lee Maverick, Chief Compliance Officer, SAMCO Capital Markets, Inc., dated September 30, 2022, at 2; Letter from Kenneth E. Bentsen, Jr., President and Chief Executive Officer, Securities Industry and Financial Markets Association and the SIFMA Asset Management Group, dated October 3, 2022, at 8–9; Letter from Nyron Latif, Head of Operations, Wells Fargo Wealth and Investment Management, and Todd Primavera, Head of Operations, Wells Fargo Corporate and Investment Bank, Wells Fargo & Company, dated October 3, 2022, at 3; Email from Glenn Burnett, Zia Corporation, dated September 6, 2022, at 1. See also MSRB Notice 2013-02 (Request for Comment on More Contemporaneous Trade Price Information Through a New Central Transparency Platform) (Jan. 17, 2013) (eliciting similar comments), available at https://www.msrb.org/Request-Comment-More-Contemporaneous-Trade-Price-Information-Through-a-New-Central-Transparency.

movements and many of the existing market produced yield curves either exclude small-sized trades from their analysis or weigh them much less than larger-sized trades.[96] While there may be both benefits and costs for large-sized trades to be reported sooner where possible,[97] adding a trade size-based reporting regime with delayed reporting by large-sized trades on top of the manual component exception may cause additional complication in trade reporting, potentially resulting in increased trade reporting errors and/or trade cancellations and corrections.

A slight variation of the above alternative on divergent trade reporting requirements would consider trades on Alternative Trading System ("ATS") platforms and other non-ATS trades differently, since the speed of reporting differs between these two groups of inter-dealer trades, with 79.7 percent of inter-dealer trades on an ATS platform being reported within one minute in 2022 while only 69 percent of non-ATS inter-dealer trades being reported within one minute. However, variation of requirements could similarly cause confusion and may further add burden on dealers who may have to maintain policies and procedures with multiple exception paths. In addition, there is a possibility that this alternative may impact the competition between ATS platforms and other non-ATS platforms. Finally, ATS platforms also report trades

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96 For example, the most widely used curve is the Refinitiv® Municipal Market Data (MMD) AAA benchmark yield curve that only includes institutional block size trades of $2 million par amount or more in the secondary or primary market. For additional information regarding the MMD AAA curve, see Cameron Marcus Arial, "Public Administrator Choice Idaho School District Finance Policy Observed" (May 2019). Boise State University Theses and Dissertations, File No. 1516, page 68, available at https://scholarworks.boisestate.edu/cgi/viewcontent.cgi?article=2639&context=td. This is in addition to the IHS Markit AAA Curve and Bloomberg BVAL municipal AAA curves displayed on the MSRB's EMMA website, which exclude small-sized trades from their methodologies.

97 While more immediate transparency is beneficial to the market in general, there has been some concerns about information leakage if large-sized trades were reported and disseminated sooner. See Letter from Sarah A. Bessin, Associate General Counsel, Investment Company Institute, dated October 3, 2022, at 11.

differently, with some ATS platforms being the reporting party while other ATS platforms let participants on the ATS platforms report trades directly to RTRS. Hence, not all ATS platforms have the same reporting procedures.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

On August 2, 2022, the MSRB published the 2022 Request for Comment to solicit comment on a potential amendment to Rule G-14 to require that, absent an exception, dealers report transactions to an RTRS Portal as soon as practicable, but no later than within one minute following the Time of Trade (the "Proposal").[98] The MSRB also published a memorandum during the comment period for the 2022 Request for Comment providing supplemental data regarding counts of trade volume and time of reporting.[99]

In response to the 2022 Request for Comment, the MSRB received 53 comment letters from 51 commenters.[100] Following consideration of the comments received and in light of

98 See MSRB Notice 2022-07 (Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14) (Aug. 2, 2022), available at https://www.msrb.org/sites/default/files/2022-09/2022-07.pdf.

99 Memorandum from John Bagley, Chief Market Structure Officer, MSRB (Supplemental Data with respect to MSRB Notice 2022-07 Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14) ("MSRB Memorandum") (providing supplemental trade report time data), (Sep. 12, 2022), available at https://www.msrb.org/sites/default/files/2022-09/2022-07-MSRB.pdf.

100 See Letter from Kelli McMorrow, Head of Government Affairs, American Securities Association ("ASA") dated September 30, 2022; Letter from Mike Petagna, President, Amuni Financial, Inc. ("AMUNI"), dated August 23, 2022; Email from Bill Bailey ("Bailey"), dated August 4, 2022; Letter from Matt Dalton, Chief Executive Officer, Belle Haven Investments, L.P. ("Belle Haven"), dated October 3, 2022; Letter from Ronald P. Bernardi, President and Chief Executive Officer, Bernardi Securities, Inc. ("BSI"), dated September 30, 2022; Letter from Will Leahey, Head of Regulatory Compliance, BetaNXT Inc. ("BetaNXT"), dated October 3, 2022; Letter from Michael Decker, Senior Vice President for Public Policy, Bond Dealers of America ("BDA"), dated October 3, 2022; Letter from David Long, Executive Vice President,

Correspondent Banking/Capital Markets, and Vincent Webb, Managing Director, Bryant Bank Capital Markets, Bryant Bank ("BB"), dated September 28, 2022; Letter from Seth A. Miller, General Counsel, President, Advocacy and Administration, Cambridge Investment Research, Inc. ("Cambridge"), dated October 3, 2022; Email from Jay Lanstein, Chief Executive Officer and Chief Technology Officer, Cantella & Co., Inc. ("C&C"), dated September 16, 2022; Email from Maryann Cantone, Cantone Research, Inc. ("CRI"), dated August 2, 2022; Letter from J.D. Colwell ("Colwell"), dated September 9, 2022; Email from Raymond DeRobbio ("DeRobbio"), dated August 3, 2022; Letter from Gerard O'Reilly, Co-Chief Executive Officer and Chief Investment Officer, and David A. Plecha, Global Head of Fixed Income, Dimensional Fund Advisors LP ("Dimensional"), dated September 26, 2022; Letter from Robert A. Estrada, Esq., Chairman (Emeritus), Estrada Hinojosa & Co., Inc. ("EH&C"), dated October 3, 2022; Letter from Melissa P. Hoots, Chief Executive Officer and Chief Compliance Officer, Falcon Square Capital, LLC ("Falcon Square"), dated October 3, 2022; Letter from Howard Meyerson, Managing Director, Financial Information Forum ("FIF I"), dated October 3, 2022; Supplemental Letter from Howard Meyerson, Managing Director, Financial Information Forum ("FIF II"), dated April 27, 2023; Letter from Jonathan W. Ford, Senior Vice President, Ford & Associates, Inc. ("F&A"), dated September 9, 2022; Letter from Edward J. Smith, General Counsel and Chief Compliance Officer, Hartfield, Titus & Donnelly, LLC ("HTD"), dated September 14, 2022; Letter from Melissa Messina, Executive Vice President, Associate General Counsel, R. Jeffrey Sands, Managing Principal, General Counsel, and William Sims, Managing Principal, Herbert J. Sims & Co., Inc. ("HJS"), dated October 3, 2022; Email from Deborah Higgins, Higgins Capital Management, Inc. ("HCM"), dated September 19, 2022; Letter from Lana Calton, Executive Managing Director, Head of Clearing, Hilltop Securities ("Hilltop"), dated October 3, 2022; Letter from Joe Lee, Chief Executive Officer, Honey Badger Investment Securities, Inc. ("Honey Badger"), dated September 30, 2022; Letter from Robert Laorno, General Counsel, ICE Bonds Securities Corporation ("ICE Bonds"), dated September 30, 2022; Letter from Robert D. Bullington, Vice President, Compliance Officer, InspereX LLC ("InspereX"), dated October 3, 2022; Letter from Scott Hayes, President and Chief Executive Officer, and Chris Neidlinger, Chief Compliance Officer, Institutional Securities Corporation ("ISC"), dated September 30, 2022; Letter from Sarah A. Bessin, Associate General Counsel, Investment Company Institute ("ICI"), dated October 3, 2022; Email from Darius Lashkari, Investment Placement Group ("IPG"), dated August 2, 2022; Letter from John Isaak, Senior Vice President, Isaak Bond Investments ("IBI I"), dated August 16, 2022; Letter from Donald J. Lemek, Vice President – Operations and Chief Financial Officer, Isaak Bond Investments, Inc. ("IBI II"), dated October 3, 2022; Email from Mike Kiley, Owner, Kiley Partners, Inc. ("KPI"), dated September 27, 2022; Letter from Gary Herschitz, Chief Executive Officer, Madison Paige Securities ("MPS"), dated September 30, 2022; Email from Christopher Mayes ("Mayes"), dated September 27, 2022; Letter from Kathy Miner ("Miner"), dated October 2, 2022; Letter from Randy Nitzsche, President and Chief Executive Officer, Northland Securities Inc. ("NSI"), dated October 3, 2022; Letter from James W. Oberweis, President, Oberweis Securities, Inc. ("OSI"), dated September 28, 2022; Letter from H. Deane Armstrong, Chief Compliance Officer, and Joseph A. Hemphill III, Chief ongoing engagement with affected market participants, FINRA, the Commission and other stakeholders, the MSRB determined to file the proposed rule change, which incorporates certain key modifications to the Proposal designed to address many of the key concerns expressed by commenters and other market participants, including the establishment of the two new intra-day exceptions[101] to the baseline reporting requirement.

While two commenters expressed support for the Proposal,[102] and several other commenters expressed some support for the overall goal and certain specific aspects of the

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Executive Officer, Regional Brokers, Inc. ("RBI"), dated October 3, 2022; Letter from Robert Blum, President, Robert Blum Municipals, Inc. ("RBMI"), dated September 16, 2022; Letter from F. Gregory Finn, Chief Executive Officer, Roosevelt & Cross, Inc. ("R&C"), dated October 3, 2022; Letter from Christopher Ferreri, President, RW Smith & Associates, LLC ("RWS"), dated September 13, 2022; Letter from Lee Maverick, Chief Compliance Officer, SAMCO Capital Markets, Inc. ("SAMCO"), dated September 30, 2022; Letter from Matthew Kamler, President, Sanderlin Securities LLC ("Sanderlin"), dated September 27, 2022; Letter from Kenneth E. Bentsen, Jr., President and Chief Executive Officer, Securities Industry and Financial Markets Association and the SIFMA Asset Management Group (collectively, "SIFMA"), dated October 3, 2022; Letter from Joseph Lawless, Chief Executive Officer, Sentinel Brokers Company, Inc. ("SBC"), dated September 30, 2022; Email from Edward Sheedy ("Sheedy"), dated August 2, 2022; Letter from Glen Essert, Stern Brothers & Co. ("Stern"), dated October 3, 2022; Letter from Jesy LeBlanc and Kat Miller, TRADEliance, LLC ("TRADEliance"), dated September 28, 2022; Email from William Tuma ("Tuma"), dated August 8, 2022; Letter from Nyron Latif, Head of Operations, Wells Fargo Wealth and Investment Management, and Todd Primavera, Head of Operations, Wells Fargo Corporate and Investment Bank, Wells Fargo & Company ("Wells Fargo"), dated October 3, 2022; Letter from Keener Billups, Managing Director, Municipal Bond Department, Wiley Bros.-Aintree Capital ("Wiley"), dated September 20, 2022; Email from Thomas Kiernan, Wintrust Investments, LLC ("Wintrust"), dated August 2, 2022; Email from Glenn Burnett, Zia Corporation ("Zia"), dated September 6, 2022. All comments are available at: https://www.msrb.org/sites/default/files/2023-03/All-Comments-to-Notice-2022-07.pdf.

101 See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement."

102 See Dimensional; Tuma.

Proposal,[103] most commentors objected to shortening the timeframe for reporting from 15 minutes to one minute after the Time of Trade. The comments received in response to the 2022 Request for Comment are summarized below by topic and the corresponding MSRB responses are provided.[104]

As Soon as Practicable Requirement

The MSRB sought comment on the Proposal's addition of a requirement that trades must be reported as soon as practicable. Section (a)(ii) of the Rule G-14 RTRS Procedures does not currently include the requirement to report trades as soon as practicable. Adding this requirement would harmonize this provision with FINRA Rule 6730(a), which currently requires that, with certain exceptions, trades in TRACE-eligible securities be reported as soon as practicable.

One commenter suggested that the MSRB more closely harmonize its trade reporting requirements with FINRA's requirements by adopting the existing "as soon as practicable" provision of FINRA Rule 6730(a),[105] and most commenters addressing this aspect of the Proposal supported this change or viewed it as consistent with current practices.[106] No

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[103] See ICE Bonds at 1; ICI at 2; SIFMA at 2; Wells Fargo at 1.

[104] Simultaneously with the MSRB's publication of the 2022 Request for Comment, FINRA published a request for comment on a proposal to similarly shorten FINRA's TRACE trade reporting timeframe for transactions in TRACE-eligible securities (the "FINRA TRACE Proposal"). See FINRA Regulatory Notice 22-17 (FINRA Requests Comment on a Proposal to Shorten the Trade Reporting Timeframe for Transactions in Certain TRACE-Eligible Securities From 15 Minutes to One Minute) (Aug. 2, 2022); see also 2024 FINRA Proposed Rule Change. Many commenters responding to the 2022 Request for Comment also commented on the FINRA TRACE Proposal. The discussion of comments herein is mostly confined to those comments addressing the Proposal or the MSRB.

[105] See SIFMA at 4, 7, 17, 21–22. BetaNXT, HJS, Hilltop and R&C expressed general support for SIFMA's comment letter.

[106] See Dimensional; EH&C at 2; SIFMA at 4, 7, 17, 21–22.

commenter that opposed the Proposal noted that the addition of the "as soon as practicable" language was the basis for such opposition.[107] Several commenters noted that the market already effectively reports trades as soon as practicable.[108] Another commenter, while not explicitly supporting the "as soon as practicable" language, supported the notion of examining and investigating dealers to ensure compliance with such standard as an alternative to shortening the timeframe for reporting.[109] One commenter also recommended that the MSRB provide supervisory guidance that parallels the provisions of Supplementary Material .03 of FINRA Rule 6730 with respect to the obligation to report trades as soon as practicable.[110]

In light of the comments received, the MSRB proposes to incorporate the requirement that trades be reported as soon as practicable into the proposed rule change for trades subject to an intra-day reporting deadline, as well as to require the establishment of policies and procedures for complying with the as soon as practicable reporting requirement in proposed new Supplementary Material .03. As discussed in "Purpose – Proposed Rule Change – New Requirement to Report Trades "as Soon as Practicable" above, where a dealer has reasonably designed policies, procedures and systems in place to comply with this standard, and does not purposely withhold trade reports if it would have been practicable to report such trades more rapidly, the dealer generally would not be viewed as violating the "as soon as practicable"

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107 Rather, commenters opposing the Proposal, as discussed herein, focused on the shortening of the deadline from 15 minutes to one minute.

108 See BDA at 1–2; HJS at 5; SBC at 2. Hilltop and R&C expressed general support for BDA's comment letter.

109 See Belle Haven at 7.

110 See SIFMA at 21–22.

requirement because of delays in trade reporting due to extrinsic factors that are not reasonably predictable and where the dealer does not purposely intend to delay the reporting of the trade (e.g., due to a systems outage).

One Minute Timeframe for Reporting

The MSRB sought comment on shortening the timeframe for reporting transactions currently required to be reported within 15 minutes after the Time of Trade to one minute after the Time of Trade under the Proposal.[111]

As noted above, most commenters objected to shortening the timeframe for reporting from 15 minutes to one minute after the Time of Trade, raising a number of issues regarding the merits of shortening the reporting timeframe, specific operational aspects of implementing a shortened timeframe, the range of transactions and dealers subject to the new timeframe, and the speed and manner of transitioning to a general one-minute reporting requirement.

Operational Issues Relating to Reporting Within One Minute

<u>Time of Trade</u>

In the 2022 Request for Comment, the MSRB noted that 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. The 2022 Request for Comment asked whether "Time of Trade," as currently defined, is the appropriate trigger and, if not, what other elements of the trade should be established before the reporting obligation is triggered.

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111 Transactions would also be required to be reported as soon as practicable, as described above.

One commenter agreed that the definition of "Time of Trade" referenced in the 2022 Request for Comment is the appropriate trade reporting trigger.[112] Several other commenters expressed a desire for greater clarity regarding the definition of "Time of Trade." [113]

A few commenters discussed certain trading scenarios in which they believed that the "Time of Trade," as defined by the MSRB, would not be the appropriate trigger for trade reporting. One commenter noted that manual trade entry does not necessarily begin at the time of execution, particularly for firms that manually report trades to the RTRS Web Portal.[114] This commenter noted that a number of issues may arise that can result in a delay of the manual trade entry process, including information gaps due to new or unfamiliar securities or having to wait to receive necessary information from the other side of the transaction.

Two commenters acknowledged that while personalized negotiation effectively occurs prior to the formal time of execution that marks the beginning of the trade reporting process, the two stages are inextricably linked.[115] These commenters were concerned that mandating one-minute trade reporting across the board would require a de-linking of these two processes, which could introduce artificiality into the broker-client relationship and hinder execution until adequate technological advances are developed. Another commenter argued that the primary consideration should be the business method used in trade execution, such as in the case of the business model of a voice broker. This commenter provided an example of a one-on-one

112 See Colwell at 3.

113 See BSI at 2; Colwell at 2; ISC at 2; ICI at 3; IBI II at 1; SIFMA at 14, 20–21; TRADEliance at 1.

114 See Belle Haven at 5.

115 See HJS at 4 (quoting SIFMA at 9).

transaction created between a buyer and seller when a dealer executes a trade with a customer, and contrasted this with an intermediated trade by a voice dealer that includes multiple components. For these types of intermediated trades, the commenter noted that perhaps an appropriate trigger would be when the intermediate transaction is complete (e.g., when all underlying trades of the intermediate transaction are executed).[116]

One commenter noted that if dealers are not permitted 15 minutes to report manually executed trades, a firm that wants to continue to execute trades manually might need to reach an agreement or understanding with its customers that the execution time for a trade agreed to by telephone, instant messaging or chat communication is the time that the firm inputs the trade into the firm's books and records in a systematized format for reporting to RTRS without manual input.[117]

Another commenter noted that current fixed income trade matching processes are not keyed off of time of execution, which would naturally have an impact on the degree of precision of the time of trade execution data when looking at finer time gradations, such as within a single minute.[118]

The MSRB is not seeking to amend the definition of "Time of Trade" in conjunction with the proposed one-minute reporting requirement. However, the MSRB has provided a discussion of certain factors that may be relevant to determining the Time of Trade that should address many of the concerns that the shorter reporting timeframe would create greater pressure and

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[116] See HTD at 4.

[117] See FIF I at 4. BetaNXT expressed general support for FIF's comment letter.

[118] See SIFMA at 7.

require greater precision in determining the Time of Trade.[119] The MSRB believes that its use of the term "Time of Trade" is appropriate and consistent with how that term is understood by FINRA in connection with the reporting of TRACE-eligible securities to TRACE under applicable FINRA rules, and that the guidance provided herein would provide more assurance for dealers in determining the Time of Trade with greater clarity and precision.

<u>Automation of Trade Execution and Reporting</u>

The 2022 Request for Comment noted that 76.9 percent of trades in 2021 subject to the existing 15-minute reporting requirement were reported within one minute and requested input on whether there are any commonalities with the trades that were reported within one minute or reported after one minute. The 2022 Request for Comment also noted that, based on the MSRB's analysis, trades conducted on ATS platforms in 2021 were reported in less time than trades not conducted on ATS platforms ("non-ATS trades"), with 84.4 percent of inter-dealer trades conducted on an ATS platform being reported within one minute while only 74.9 percent of non-ATS trades were reported within one minute. The 2022 Request for Comment sought information on the reason(s) it takes more time to report non-ATS trades.

Commenters generally noted that the commonalities in the trades reported within one minute or after one minute depend on the extent of human intervention required to execute and report a trade.[120] In general, these commenters acknowledged that faster reporting may be achieved for the remaining approximately 20–25 percent of trades depending on the level of

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119 <u>See</u> <u>supra</u> "Purpose – Proposed Rule Change – Time of Trade Discussion" for a discussion of and related guidance on the definition of Time of Trade under Rule G-14 RTRS Procedures Section (d)(iii).

120 <u>See</u> BB at 1; Colwell at 2; Falcon Square at 1–2; FIF I at 2; HTD <u>passim</u>; OSI at 1; TRADEliance at 2.

automation of trades with more straight-through processing and progressively reduced human intervention.

Commenters generally agreed that the shorter reporting times of ATS trades are the result of those trades being executed on a fully automated and connected trading venue.[121] They acknowledged that in a connected system, trades flow automatically and timing is almost instantaneous, with little to no manual intervention.[122] In contrast, these commenters acknowledged that trades executed away from an ATS take more time to report due to higher levels of human intervention.

The MSRB understands that automated processes currently play a significant role in facilitating rapid reporting of trade information to RTRS. The MSRB is aware, both through its own statistics and from input from commenters, as more fully discussed below, that trades that involve full automation through the trade execution and reporting process typically achieve near instantaneous trade reporting that is already consistent with the proposed one-minute timeframe, but that other trades face higher challenges to achieving one-minute reporting. As discussed previously, the MSRB reminds dealers seeking to comply with the proposed rule change – including the one-minute reporting requirement and new or existing exceptions from such requirement – that they should consider the extent to which they can automate their trade reporting and related execution processes, consistent with their clients' needs and the dealers' best execution and other regulatory obligations.[123]

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121 See HTD at 5; RWS at 5; Sanderlin at 6.

122 See Baily at 1.

123 See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component" for a discussion of and related guidance on trades having a manual component.

Manual Steps in the Negotiation, Execution and Reporting Process

Several commenters raised issues about the potential impact of the proposed rule change on trades that are negotiated by voice and/or where the reporting process includes one or more manual components in execution or trade reporting, such as in the case of large block trades that require subsequent allocation, portfolio trades or other types of complex trades that require some form of human intervention.[124] These commenters generally agreed that while manual trades represent a relatively small percentage of trades by trade count, for the types of trades identified above, a dealer may not be able to input and verify trade data within one minute if that process involves human intervention. These commenters further asserted that the proposed rule change would disproportionately impact firms that accept orders that are not electronically entered into an order management system (including orders received via telephone or instant message) and would effectively prohibit, by trade reporting rule, an entire category of transactions that are otherwise customary industry practice. These commenters also noted that this practice was particularly important to the municipal securities industry where large institutional trades or block trades are more likely to be negotiated and executed by voice and processed manually.

Another commenter argued that in most cases, it is not financially feasible for a firm to report a trade to RTRS or TRACE within one minute if the trade has been executed manually. This commenter noted that manual trading is common in the very large universe of fixed income securities for various reasons.[125] One commenter noted that the only way for a trade to be

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124 See e.g., ASA at 4–5; Bailey at 2; C&C at 1; and FIF I at 1-2; HTD passim; HJS at 2–4; ISC at 2; IBI I at 1; KPI at 1; Mayes at 1; RBMI at 1; RWS at 1–5; SAMCO at 1–2; SIFMA at 8–12, 24; SBC at 1–2; TRADEliance at 2; Wells Fargo at 3; Wintrust at 1. Hilltop, Honey Badger, MPS and RBI expressed general support for ASA's comment letter.

125 See FIF at 2.

entered within 60 seconds is if two opposing traders are on the phone at the same time and they agree to drop their tickets at that very moment and input the data immediately.[126]

The MSRB recognizes that for some trades in the municipal securities market, the trade details are entered manually due to the inherent nature and characteristics of such trades. The MSRB also understands that voice and electronic communications as a means of trade execution that are not utilizing straight-through processing or are not part of an automated trade execution and reporting process are common for the municipal securities market. For these trades, the trade reporting process might be difficult or impossible to complete within one minute following the time of trade, even where the dealer has established efficient reporting processes and commences reporting the trade without delay.

As outlined below, commenters discussed a number of specific scenarios involving such communications or other manual steps in the process of executing and reporting trades for which shortening the trade reporting timeframe could, in their view, potentially result in adverse consequences.

To address these concerns, including the specific aspects raised by commenters outlined in subparagraphs below, the MSRB has included in the proposed rule change an exception from the proposed one-minute trade reporting timeframe for trades with a manual component, which would retain the existing 15-minute deadline for the first year in which the proposed rule change is effective and then provide for a measured decline in the timeframe to five minutes beginning two years after such effectiveness, as discussed in greater detail herein.[127] This phased approach

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126 ISC at 2.

127 See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component" discussing the proposed exception for trades with a manual component.

would provide dealers effecting trades with a manual component with a phased approach to achieving compliance that, the MSRB believes, appropriately addresses the concerns that commenters expressed.[128]

Voice and Negotiated Trading

Many commenters expressed concern about the potential impact of the Proposal specifically on voice and negotiated trading, asserting that, unlike equity markets, business in fixed income markets is often conducted through voice negotiations, for institutional customers as well as certain retail investors.[129]

One commenter that is a dual registrant as a dealer and investment advisor noted that an accelerated trade reporting regime would negatively impact market participants that continue to prefer manually negotiated trades for some portion of their fixed income trading activity. While acknowledging that the volume of fixed income trades executed electronically has risen, this commenter stated that many investors still prefer to trade with dealers by voice or electronic message (manually negotiated trades) rather than on an electronic platform to benefit from receiving input on market color, including credit information and information about comparable bonds trading in the market. The commenter stated that some investors may also prefer to negotiate on price directly because they are executing block-size trades or portfolio trades. This

128 While the MSRB believes that the exception for trades with a manual component effectively addresses the core issues raised in the comments described in Subsections (1) through (6) below, the MSRB also addresses certain other related comments not fully resolved by such exception in "One Minute Timeframe for Reporting – Potential Negative Consequences of the One Minute Requirement."

129 See e.g., ASA at 3–4; AMUNI at 1; Bailey at 1; BDA at 2; Cambridge at 4; Colwell at 3; HTD passim; FIF at 3, 4; HJS 2, 5; InspereX at 3–5; ICI at 3, 4, 7, 9, 11; IBI I at 1; RBMI at 1; RWS at 1-5; SAMCO at 1–2, 4; SIFMA at 5, 8, 11, 15, 24; SBC at 2; Wells Fargo at 3; Wintrust at 1.

commenter stated that trades negotiated and executed manually (by voice or electronic message) take longer to input and report in comparison to trades executed electronically. This commenter further noted that a one-minute reporting requirement would present a variety of process-oriented, timing, and operational challenges, especially for a trading desk engaging with multiple clients simultaneously and, therefore, the proposed acceleration of reporting could alter the efficiency of fixed income markets.[130]

One commenter noted that the issue is not that dealers that execute larger trades are using inefficient processes but that such trades are typically executed by institutions using voice brokers. This commenter also noted that there is a difference between institutional, voice brokered fixed income markets and retail fixed income markets with respect to the manner in which trades in these markets are negotiated, executed and processed. This commenter expressed concern that one-minute reporting would effectively eliminate voice trading.[131]

Larger-Sized Trades

The 2022 Request for Comment noted that larger-sized trades take longer to report than smaller-sized trades and requested input on the reason(s) it takes a firm that reports larger-sized trades more time to report a trade (e.g., voice trades). The MSRB also asked if dealers and investors would need process changes for executing and/or reporting larger-sized trades in a shorter timeframe and if so, how.

A commenter stated that many small trades are executed on electronic platforms and require minimal, if any, manual intervention, allowing many smaller trades to be executed and

130 See Wells Fargo at 3.

131 See SAMCO at 1–2.

reported almost instantly. In contrast, the commenter stated that larger trades typically require traders to negotiate and confirm details with a client and manually enter the transaction into risk and reporting systems. This commenter noted that large trades generally require greater focus on risk management to promptly source and accurately hedge the transaction in question, and an inability for firms to manage their risk could hamper firms' willingness to incur risk, which could dampen liquidity, increase systemic risk if dealers become less capable of hedging on a timely basis and reduce execution quality for the institutional investor.[132]

A trade association commenter representing regulated investment funds with members that are participants in the municipal securities market noted that many of its members send large trades to dealers that are worked throughout the day, which may have implications for dealers' ability to report transactions within one minute or an otherwise shortened timeframe.[133] This commenter also noted that certain characteristics of trades, particularly large trades and trades in less liquid securities, are often done via "high touch" methods such as voice protocol, often involving negotiation as to prices and size of the trade.[134]

Mediated Transactions

One commenter identified itself as a broker's broker that engages in mediated transactions with other dealers to facilitate anonymity. It noted that these mediated trades are often voice negotiated and require manual intervention and processing from the point of execution through the clearance and settlement processes. The commenter stated that these trades

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132 See SIFMA at 14–16.

133 See ICI at 13 n.41.

134 Id. at 9 n.30.

are not reported within five minutes of execution, especially for trades involving multiple counterparties, but that dealers use their best efforts to report their trades as soon as practicable. The commenter noted that processing of such trades is typically manual given the complexities of mediated institutional transactions.[135]

This commenter further asserted that broker's brokers and other inter-dealer brokers often are tasked by their dealer clients to anonymously facilitate trades in numerous different credits as part of the clients' trading needs on behalf of their own customers, requiring reports of a large number of trades executed at the same time. The commenter added that in some cases a transaction involves the simultaneous purchase of a security and a hedge or other corresponding security with multiple counterparties (e.g., buyer and seller is intermediated by a broker's broker). The commenter stated that, to the extent that all of these securities have a one-minute reporting requirement, both set of trades would need to be reported within the same minute, which may be functionally impossible.[136]

Block Trades and Trade Allocations

A few commenters expressed concerns about large block trades executed by firms that are dual registrants as dealers and investment advisers, noting that these large trades must be further allocated to their advisory customers. They noted that large block trades may be executed contemporaneously with one or more counterparties, usually through voice negotiation and a

135 See RWS at 1; see also SIFMA at 15.

136 See RWS at 1.

coordinated effort, and the allocation may involve several additional smaller transactions with multiple customers to fully reflect the deal and may potentially involve multiple systems.[137]

Specifically, one commenter noted that a trade reporting exception is necessary for block trades executed by a dealer and allocated to client accounts of a registered investment adviser that is part of the same legal entity. This commenter noted that as a dual registered dealer and investment adviser, it regularly executes and reports block trades and allocates portions of those trades to individual advisers' client accounts and the sub-account allocations are executed at the same price as the initial block trade.[138] Another commenter noted that when a dually-registered dealer/investment adviser purchases a large block from the secondary market, it must report the block trade to RTRS and also report each allocation to the sub-accounts held in its investment adviser capacity, including managed retail customer accounts.[139] This commenter stated that the reporting issues presented by such allocations are similar to those for the reporting of portfolio trades, particularly the difficulty of reporting potentially thousands of portfolio trades or allocations within a one-minute reporting paradigm, as described below.[140]

<u>Portfolio Trades and Trade Lists</u>

Multiple commenters noted that dealers may receive large orders and trade lists that involve rapid execution and frequent communications on multiple transactions with multiple counterparties. They stated that these trades may be executed as a series of trades that then must

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137 <u>See</u> AMUNI at 2; BSI at 3; BetaNXT at 5; HJS at 4; ICI at 6, NSI at 1, RWS at 3; SIFMA at 10, 15, 19, Wells Fargo at 2–4.

138 <u>See</u> Wells Fargo at 2–3.

139 <u>See</u> SIFMA at 15.

140 <u>Id.</u>

be entered into the system one-by-one and could be difficult to report within one minute following the Time of Trade.[141] In addition, several commenters noted that some transactions including large blocks of transactions such as portfolio transactions may be subject to a firm's internal approval processes for risk and regulatory compliance and additional due diligence by way of, for example, a second review to ensure accuracy.[142]

One trade association commenter noted that its members execute and report their portfolio trades electronically because of the challenges presented by manually inputting a large number of trades within a limited time period.[143] In contrast, another trade association commenter stated that many customers engaging in portfolio trades seek to do so through personalized negotiation rather than through electronic venues, due in part to the complexity of counterparties assessing potentially thousands of different securities without the targeted interactions that occur in personalized negotiation, and because of concerns about potential pre-execution leakage of information regarding the nature of the investor's positions and trading strategies from electronic trading venues.[144]

One commenter noted that dealers often provide liquidity for portfolios of bonds, including portfolios with more than one hundred individual bonds. This commenter asserted that under a one-minute reporting rule, dealers may not be able to execute these types of portfolio trades at one point in time and report the trades in a timely manner. The commenter advocated

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141 See BSI at 2; BB at 1; ICI at 13 n.41; FIF I at 4; SIFMA at 14–15; Wells Fargo at 4.

142 See BSI at 2; BB at 1; FIF I at 4; HJS at 6; SIFMA at 14–15; Wells Fargo at 4.

143 See FIF I at 4.

144 See SIFMA at 14.

for an exception for portfolio trades and for instances where market participants solicit actionable bids or offers on multiple securities, such as a portfolio trade or a "bid wanted" list.[145]

Another trade association commenter representing regulated investment funds with members that are participants in the municipal securities market noted that some of its members engage in portfolio trades, which require members to give certain information to dealers, and that this may have implications for those dealers' ability to report transactions within one minute or an otherwise shortened timeframe and encouraged the MSRB to fully explore potential operational issues.[146]

Trading a Bond for the First Time/Security Master Issues

The 2022 Request for Comment sought information on 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).

Many commenters were concerned about delays introduced by trades of newly issued or infrequently traded securities where the security reference information or indicative data is not already available within the firm's or the clearing firm's security master.[147] One trade association commenter advocated that the MSRB provide an exception for a security that may not be in a firm's security master at the time the trade is executed. It also maintained that this exception should extend to instances where a firm maintains separate security masters for

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145 See Wells Fargo at 4.

146 See ICI at 13 n.41.

147 See ASA at 5; Bailey at 1; BetaNXT at 4; Colwell at 2, 4; ISC at 2, RWS at 4; SAMCO at 3; Sanderlin at 6–7.

different customers.[148] Another trade association commenter noted that one-minute reporting may raise practical challenges for certain asset classes, citing as an example, the municipal securities market as being characterized by a large number of individual security references, many of which are infrequently traded.[149]

Relatedly, some commenters noted that the absence of a centralized global security master for municipal securities introduces delays in the trade execution and reporting process and advocated for the MSRB to consider hosting a security master for municipal securities.[150] A few commenters suggested that a one-minute trade reporting deadline would be more practicable if the MSRB hosted a security master or hosted a securities master jointly with FINRA.[151] One commenter stated that most market participants, including large clearing firms, do not have the entire municipal securities market reference information in their database, with new security references created daily and old securities maturing. This commenter noted that, in general, if a security is not set up in a security master, it is because there has not been a past transaction at the dealer or clearing firm, and the time necessary to process the set-up of a security in the security master greatly exceeds one minute.[152] A trade association commenter observed that its members state that it takes almost all of the allotted 15 minutes to query an information service provider to upload the missing security master information and indicative data to refresh their securities

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148 See FIF I at 8.

149 See ICI at 4 n.9.

150 See Bailey at 1; BetaNXT at 3–4; BB at 1–2; Cambridge at 2; ISC at 2; RWS at 5; Sanderlin at 6; SIFMA at 11–12; TRADEliance at 2.

151 See FIF I at 8; SAMCO at 3; SIFMA at 22–23; Wells Fargo at 4; Zia at 1.

152 See SAMCO at 3.

master, then submit the trade report.[153] Another commenter stated that some back-office systems that provide the connection to the MSRB for reporting of corresponding trades also require the security master update to be performed manually and therefore cannot report a received trade within one minute.[154]

The exception for trades with a manual component is designed to address these concerns as described above. While the MSRB acknowledges the suggestion that it host a global security master for use by dealers in reporting trades to RTRS, and while the MSRB continues to focus on making its market transparency systems more useful for market participants, the MSRB would not at this time be instituting such a global security master in connection with the proposed rule change.

Multiple Layers in Reporting Process

A commenter opined that the current RTRS workflow is not suitable for reporting trades within a one-minute time frame due to multiple layers (i.e., third-party vendors and systems) that trade reports often pass through before they are received by RTRS. This commenter identified the various layers, including submission of the trade by the executing firm to RTTM; if an executing firm is not a clearing firm, the need to have the clearing firm report the executing firm's trade to RTTM; and, if the clearing firm outsources the trade reporting function to a service provider, such provider must make the submission in the format accepted by RTRS. To address limitations faced by some vendors, this commenter advocated for allowing trade submissions of municipal securities to be made directly to TRACE using FIX, rather than RTRS,

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153 See SIFMA at 22.

154 See Zia at 1.

or that the implementation period for the RTRS reporting changes be postponed until a reasonable period after the TRACE reporting changes proposed in the FINRA TRACE Proposal have been implemented to avoid dealers being overburdened with implementing reporting changes for two different systems at the same time.[155] Other commenters expressed similar concerns regarding the reliance on a third party for clearing and trade reporting.[156]

One commenter noted that while many firms use semi-automated systems, many others use a manual system to execute trades with their clearing firm, and that converting to a fully automated system is far too expensive and therefore an impractical solution for many firms.[157] Another commenter stated that it relies on a third party for clearing and trade reporting to RTRS, and such clearing firm performs the trade reporting within one minute of the time the trade is submitted by the dealer using the clearing firm's order entry system. However, this commenter states it does not have an automated order entry system, indicating the trade may be input into the clearing firm's order entry system after the time of trade and entails manual steps.[158] A third commenter noted that the industry generally fulfills the regulatory trade reporting obligation further downstream in the trade management process, and that industrywide processes may need further rearchitecting and significant re-engineering of systems to move trade reporting upstream. This commenter noted that this problem is of particular concern for firms that rely on

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155 See FIF I at 6–7 nn.25–28.

156 See BSI at 2; Colwell at 2; Falcon Square at 1–2; HTD at 6; Hilltop at 1; RBMI at 1; Wells Fargo at 4.

157 See BSI at 2.

158 See Sanderlin at 6.

third parties for trade reporting or for firms that employ systems that, by design, report trades through their respective back-end systems.[159]

Trades Reported Through RTRS Web Interface

The MSRB noted that submitting transactions to RTRS directly through the RTRS Web interface takes longer. The 2022 Request for Comment sought information regarding the average amount of time required to report a trade through the RTRS Web interface, how the MSRB could improve the process for reporting through the RTRS Web interface and the instance(s) in which a dealer might choose to or need to use the RTRS Web interface.

A few commenters noted that their trades are reported electronically by their clearing firms and that they do not normally report trades via the RTRS Web interface.[160] One commenter noted that, at least until alternative methods of reporting trades are developed to allow dealers to efficiently and effectively report the types of trades that they currently report manually, retaining but considerably improving the existing web interfaces is necessary.[161] The commenter requested greater transparency in system outages and performance degradations, heightened service level agreements and emphasized that dealers should not be penalized for MSRB system outages. Similarly, some commenters noted that there may be issues external to MSRB systems, including internet and other types of broad-based or localized outages or degradations outside the control of dealers that may sometimes interfere with their ability to make timely trade reports through

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[159] See SIFMA at 20–21.

[160] See Colwell at 4; SAMCO at 1; HTD at 6; RWS at 5.

[161] See Colwell at 2.

the SRO web interfaces, which would be increasingly problematic with any potential shortening of the trade reporting window.[162]

The RTRS Web interface is one of three available RTRS Portals under Rule G-14 RTRS Procedures Section (a)(i)(B) (RTRS Web Portal or RTRS Web) and would be maintained as such under the proposed rule change. The MSRB will continue to explore ways in which to assure RTRS Web's reliability and efficiency for use. With regard to systems outages, the MSRB maintains a Systems Status Page on the MSRB website,[163] which indicates the current operational status of each of the MSRB's market transparency systems and related supporting systems and provides any then-applicable status updates. In addition, users are able to access a historical catalogue of past MSRB systems outages through the Systems Status Page.

Potential Negative Consequences of the One Minute Requirement

Accuracy of Information Reported and Potential Data Entry Errors

The MSRB requested input on whether reducing the timeframe to as soon as practicable, but no later than within one minute after the Time of Trade, would affect the accuracy of information reported and/or the likelihood of potential data entry errors and if so, the reason for such impact.

A number of commenters predicted that a rapid transition to a one-minute standard would result in increased errors and corrections in trade reporting as well as late trade reporting that would lead to increased enforcement action.[164] One commenter observed that the current 15-

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162 See id.; FIF I at 6–7; FIF II at 1–2; SIFMA at 23–24.

163 See https://www.msrb.org/System-Status.

164 See ASA at 5; BB at 1; Cambridge at 3; Colwell at 2; EH&C at 1–2; HJS at 2–3; ICI at 12–13; IBI II at 1–2; Miner at 1; SIFMA at 15–17.

minute reporting timeframe allows for traders to adequately review trade tickets for errors in settlement, price, amount, and similar data fields. This commenter stated that, even with the current 15-minute reporting window, human errors in completing trade tickets often lead to trade cancellations and modifications.[165] Some commenters noted that reducing the trade reporting time to one minute would likely have a detrimental effect on reporting accuracy because market participants would be far more concerned with timely reporting than reviewing for accurate trade information.[166] Other commenters expressed the concern that, if the Proposal were to be adopted, firms may not have sufficient time to correct errors and would therefore be in violation of trade reporting requirements.[167]

One commenter expressed concern that portfolio trades with potentially thousands of unique securities might overwhelm the error and correction process, or result in a surge of late trade reports, if placed under a one-minute reporting standard. This commenter stated that, depending on the nature of an adjustment or other small change in terms in the context of a portfolio trade, that single adjustment might result in the need for trade reporting correction for all the reported trades for the basket of securities within the portfolio.[168]

Additional commenters felt that the dissemination of inaccurate data caused by rushed reporting would be detrimental to the MSRB's goal of increased market transparency.[169] One of

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165 InspereX at 5.

166 Id. at 5–6. Accord. Cambridge at 3; HTD at 6; RWS at 5; SAMCO at 2.

167 ASA at 5. See also SIFMA at 17.

168 See SIFMA at 16.

169 See Colwell at 2; HJS at 2–3; ICI at 12–13; InspereX at 6; Miner at 1.

these commenters stated that, if a sizable percentage of trades must be revised or are reported late due to practical limitations regarding dealer operational workflow, this could result in inaccurate data being reported to the MSRB and disseminated publicly, thus undercutting a key purpose of adopting the shortened reporting timeframes.[170]

A commenter noted that large trades require a higher level of review than other trades and, as a result, large trades could land in error queues or other queues for manual reviews for margin or credit issues. The commenter stated that it would be extraordinarily difficult to engage in these types of reviews in an effectively instantaneous manner as would be required under a one-minute reporting regime. This commenter further stated that ensuring that large trades are executed accurately is critically important not only because of the higher financial stakes inherent in large trades, but also because the larger trades are often viewed by the market as the most informative, as to current price levels, have the greatest influence on market indices and generally set market tone. The commenter believed that the Proposal, if adopted, could significantly curtail parties' ability to engage in manual handling of trades and would have negative impacts on risk management and liquidity, with, at best, little to no actual benefit to the overall quality of market data.[171]

The MSRB believes that the degree to which a shortened trade reporting timeframe might result in a greater prevalence of the reporting of inaccurate information is significantly ameliorated by the inclusion of the two new reporting exceptions under the proposed rule change since the most likely circumstances where the risk of errors could be heightened would be in the

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170 ICI at 12–13.

171 See SIFMA at 16.

case of trades with a manual component or trades by dealers that only engage in limited municipal securities trading activities. Under the exception for trades with a manual component, the existing 15-minute deadline would be retained for the first year in which the proposed rule change is effective and then decline in phases to five minutes beginning two years after such effectiveness to provide dealers adequate time to adjust their processes and systems. The exception for dealers with limited trading activity would retain the current 15-minute timeframe and therefore there would be no appreciable impact on the accuracy of trade reports for such dealers' transactions.

Impact on Risk Management and Hedging

Several commenters articulated concern that one-minute trade reporting would result in a decreased ability of dealers to manage risks through timely hedging activity. These commenters noted that unlike securities that are purchased and sold to customers almost immediately, securities that are held in a firm's own inventory may require additional coordination and diligence to hedge those positions or take down a hedge when the position is unwound.[172] One commenter noted that institutional clients and/or dealers trading in blocks often need to simultaneously take action to hedge their risk on such trades, particularly during periods of volatility. This commenter expressed concern that the need for dealers to attend to trade reporting to meet a one-minute requirement on their fixed income trades in lieu of immediately focusing on hedging or assisting institutional clients with their own hedging would have an adverse impact on such efforts.[173]

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172 See Hilltop at 1; ICI at 10; R&C at 1; SIFMA at 11, 15–16.

173 See SIFMA at 11, 15–16.

Based on the comments received on the 2022 Request for Comment, the MSRB believes that such risk management or other hedging activities typically occur during the course of the types of municipal securities transactions that commenters identified as requiring manual or other human intervention. Such trades would, in many cases, qualify for the exception for trades with a manual component, thereby providing dealers with a phased approach to reducing the reporting timeframe to an eventual five minutes in a manner that should allow such dealers to put in place appropriate process or systems changes that would significantly mitigate these concerns.

Impact on Best Execution Obligations

Many commenters also expressed concern that compliance with the proposed rule change would negatively impact some firms' best execution obligations.[174] For example, one commenter noted that it built out a semi-automated system to incorporate the human element, purposely relying on a person to check and verify several factors before trade execution, so that its process protocol reduces trade error frequency and helps ensure compliance with due diligence, best execution and other obligations.[175] Another commenter noted that, due to the human factor of voice brokerage activities and the impracticability, if not impossibility, of automating these modes of trading, any attempt to decrease reporting time would require additional personnel to essentially shadow traders, preparing tickets and performing accuracy checks, best execution checks and suitability checks, while the trader is verbally negotiating the terms of the transaction with the counterparty or broker. This commenter expressed concern about the ongoing costs as

174 See ASA at 5; AMUNI at 1; BSI at 2; HJS at 5; ISC at 2; IBI II at 1–2; SAMCO at 2; SIFMA at 9; SBC at 2.

175 See BSI at 2.

well as the practicality of such shadowing of traders.[176] One commenter noted that the Proposal could create an incentive for firms to "auto-route" more orders to help with compliance, resulting in fewer individuals at such firms being involved with handling orders with the potential consequences for price improvement and best execution obligations.[177]

While it is likely that many dealers fulfill their best execution obligations under MSRB Rule G-18 using processes that would not normally have an impact on the timing of trade reporting of individual transactions, the MSRB understands from commenters that some dealers may have instituted processes with respect to their best execution obligations that include manual steps or require other human intervention occurring after the Time of Trade and therefore could have an impact on the timing of trade reporting. The MSRB believes that the exception for trades with a manual component would provide dealers that use such a post-trade best execution process with a phased approach to reducing the reporting timeframe to an eventual five minutes in a manner that should allow them to make any appropriate adjustments to such process that would significantly mitigate these concerns.

<u>Burden on Dealers that Report a Small Number of Trades</u>

The MSRB noted that, on average, dealers that report a smaller number of trades per year take longer to report trades than dealers that report a larger number of trades and requested information on the reason(s) it takes a firm that reports a small number of trades more time to report a trade and if and how their processes need to change to report trades in a shorter timeframe.

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[176] <u>See</u> HJS at 5.

[177] <u>See</u> ASA at 5.

Commenters generally agreed that many small dealers manually input their trades into RTRS because their trade volume does not warrant the cost to employ automated solutions and that manually inputting trades means the reporting process takes longer because all of the required information must be keyed in by a human.[178] Commenters argued that a significant increase in costs would disproportionately impact small dealers.[179] One commenter noted that shortening the reporting deadline would eliminate manual entry and human intervention and force small firms to use expensive front-end trade order management systems.[180] Another commenter stated that the municipal securities market lacks a cost-effective software solution for all dealers to comply with the Proposal and any new system would have to be implemented over existing technology. It stated that the prohibitive cost would reduce participation and efficiency in the market.[181] Commenters noted that this would impose a disproportionate financial burden on small- and medium-sized dealers, as they would have to invest a significant amount of capital to comply with the Proposal. As a result, these commenters expressed concern that many small dealers including those with regional knowledge may exit fixed income secondary trading. The commenters noted that this exit would lead to a further concentration of municipal bond trading among the largest dealers in the industry.[182] A commenter opined that this would, in turn, reduce

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178 See ASA at 3–4; AMUNI at 1; Belle Haven at 2–7; BSI at 1; BDA at 3–4; Cambridge at 3–4; CRI at 1; DeRobbio at 1; EH&C at 1–2; Falcon Square at 1; F&A at 1; HCM at 1; HBIS at 1; ICE Bonds at 1; InspereX at 1–2; ISC at 2–3; IPG at 1; IBI I at 1; IBI II at 1–2; KPI at 1; Miner at 1–2; NSI at 1; OSI at 1–2; RBMI at 1; SAMCO at 3–4; Sanderlin passim; SIFMA at 4–8, 12–13; SBC at 1–2; TRADEliance at 1–2; Wiley at 1–2; Wintrust at 1; Zia at 1.

179 See SBC at 1; see also ASA at 1.

180 See BDA at 3.

181 See NSI at 1.

182 See ISC at 1; NSI at 1.

competition, concentrate risk among fewer dealers and give the remaining dealers more power over prices.[183]

Two commenters argued that while small dealers may presently have the technology or personnel to handle trades within 15 minutes, the move to one minute may be beyond the reach of many due to the fact that they likely lack the necessary resources to implement the requisite technological changes and acquire any other necessary resources.[184] One commenter explained that smaller dealers may not just struggle with the upfront costs related to the implementation of technologies necessary to speed up their trade reporting, which it estimated to be upwards of half a million dollars, but would also face ongoing costs associated with third-party reporting systems.[185]

One commenter noted that without the bids placed by small and mid-sized dealers the efficiency of the market and quality of best execution would deteriorate. This commenter noted that the bids made by small and mid-sized dealers contribute to a more dynamic bid-ask process and optimization of prices.[186] Another commenter emphasized the critical role played by smaller, specialized or other subsets of dealers trading particular products and representing historically underserved communities and retail investors.[187] Two commenters stated that the Proposal would have a negative impact on minority-, women- and veteran-owned dealers, which tend to be

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183 See BDA at 3–4.

184 See SIFMA at 12; see also Belle Haven at 5.

185 See Belle Haven at 5.

186 See ISC at 2.

187 See SIFMA at 12.

smaller firms.[188] One of these commenters further stated that many issuers and institutional buyers seek or require that minority-, women- or veteran-owned dealers participate in the municipal securities business they undertake, noting that such dealers' ability to participate in the secondary market is vital to their ability to be relevant to both buy side and borrower clients.[189]

To address these concerns, the MSRB has included in the proposed rule change an exception from the proposed one-minute trade reporting timeframe for dealers with limited trading activity in municipal securities, which would retain the existing 15-minute deadline, as discussed in greater detail herein.[190] Thus, such dealers would not have to comply with a shorter deadline, although they would be subject to the new "as soon as practicable" requirement included in the proposed rule change.

Alternatives to One Minute Requirement

One commenter, while expressing support for the MSRB's efforts to provide more timely and informative data to enhance the value of disseminated transaction data and stating that shortening the trade reporting timeframe is an important step in these efforts, cautioned that the industry is not prepared at this time to report all trades in municipal securities within one minute after the Time of Trade. This commenter acknowledged that based on MSRB data all but 2.7 percent of trades are reported by the five-minute mark and therefore the industry is prepared to

188 See Stern at 1; SIFMA at 12.

189 See Stern at 1.

190 See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Dealers with Limited Trading Activity" discussing the proposed exception for dealers with limited trading activity.

report most trades within five minutes of execution.[191] Other commenters also suggested that the MSRB should target five minutes as the appropriate shortened timeframe.[192]

Other commenters emphasized that not all types of trades must have the same timeframe for reporting. For example, one commenter noted that the heterogenous nature of the securities that fall within the MSRB's jurisdiction makes a "one-size-fits-all" approach (or "one-minute-fits-all" approach) inappropriate.[193] A few commenters recommended that, if the MSRB proceeds to shorten the reporting timeframe, trades with a manual component should be excluded from that shortened timeframe and continue to be subject to the current 15-minute timeframe.[194] One commenter suggested exceptions from an accelerated trade reporting timeframe for internal allocations at dually-registered dealers/investment advisers, trades in securities not in a firm's security master, certain reverse inquiries and portfolio trades.[195] Comments regarding existing and specific potential exceptions to the proposed one minute timeframe and the MSRB's responses are discussed below.

The MSRB believes that the proposed rule change would establish appropriate timeframes for the submission of trade reports to RTRS that avoid establishing a one-size-fits-all approach while requiring that all such trades be reported as soon as practicable. While most trades subject to the current 15-minute timeframe would become subject to the new baseline one-

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191 See ICE Bonds at 1.

192 See Bailey at 1; BSI at 2–3; Colwell at 3; TRADEliance at 2.

193 See HJS at 2; see also ICI at 10.

194 See, e.g., BDA at 4; FIF I at 2; HJS at 2.

195 See Wells Fargo at 2, 4.

minute timeframe, trades with a manual component would, under a phased approach that provides dealers with time to adjust their processes and systems, eventually become subject to a five-minute timeframe through measured steps, and trades by dealers with limited trading activity in municipal securities would remain subject to the existing 15-minute timeframe.

Exceptions to the One Minute Timeframe

Continuation of Current Exceptions

In the 2022 Request for Comment, the MSRB noted that Rule G-14 currently provides exceptions for certain trades to be reported at end of day and requested input on if these exceptions are still necessary and if so, whether end of day is still the appropriate timeframe for reporting these transactions.

The MSRB received two comment letters requesting existing end-of-day trade reporting exceptions to be preserved.[196] One commenter described the complexity of trade reporting for new issue transactions and voiced concern that if the current end-of-day reporting exception for List Offering Price/Takedown Transactions is eliminated, then large transactions with up to 100 syndicate members and thousands of trades would need to be pushed through a firm's systems much faster than in today's environment. This commenter advocated that the MSRB should maintain the other current end-of-day and non-immediate reporting standards and potentially broaden such exemptions if a one-minute trade reporting requirement is instituted.[197] This commenter acknowledged that these trades are required to be reported to ensure completeness

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196 See SIFMA at 17–18; FIF I at 7–8.

197 See SIFMA at 17. In addition to primary market transactions, these exceptions relate to trades in short-term instruments and "away from market trades" (including customer repurchase agreement transactions, unit investment trust related transactions, and tender option bond related transactions).

for regulatory audit trail purposes but they do not add relevant price information to the marketplace since the prices for these transactions are either known to the market or are off market.[198]

The proposed rule change would preserve all existing end-of-day trade reporting and other non-immediate exceptions without change.

Additional Trade Reporting Exceptions

The 2022 Request for Comment inquired if reducing the reporting timeframe to one minute would 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., three minutes). If so, the MSRB requested commenters to identify the types of trades that would require an exception and why such are believed to be necessary.

The MSRB has included two proposed new exceptions to the proposed one-minute reporting timeframe in the proposed rule change to address comments received from commenters regarding other potential trade reporting exceptions that could be included in the Proposal. Commenters also suggested other potential new exceptions from the reporting timeframe, which the MSRB did not include in the proposed rule change. These comments and the MSRB's responses are discussed below.

<u>Proposed New Exception for Dealers with Limited Trading Activity</u>

Several commentors stated that requiring all dealers, regardless of size, to report within one minute of the Time of Trade might harm the market by pricing smaller firms out of the industry. [199] One commenter predicted that the proposed rule change would necessarily require a

198 <u>Id.</u>

199 <u>See</u> OSI at 1; RWS at 2; Wiley at 1.

fully integrated and automated trading system, requiring almost no manual input. This commenter stated that this constituted an unfair burden and would likely lead to fewer small-firm market makers.[200] Commenters identified trade volume or trading activity as a metric that might indicate which firms were likely to be significantly negatively impacted by the proposed rule change.[201]

The MSRB recognizes that, absent any exceptions, dealers that report a smaller number of trades may be more affected if they are required to report trades by no later than one minute after the Time of Trade. As discussed above, the proposed rule change includes an exception for a "dealer with limited trading activity."[202] A dealer with "limited trading activity" would be excepted from the one-minute reporting requirement pursuant to new exception described in "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Dealers with Limited Trading Activity" and would instead be required to report its trades as soon as practicable, but no later than 15 minutes after the Time of Trade for so long as the dealer remains qualified for the limited trading activity exception.

The MSRB believes that this new exception in the proposed rule change would address commenters concerns regarding the potential negative impact on smaller dealers under the Proposal. In effect, dealers with limited trading activity would continue to be subject to the same 15-minute reporting deadline as under the current rule provisions, although they would also be subject to the new overarching obligation to report trades as soon as practicable.

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200 See OSI at 1.

201 See RWS at 2; Wiley at 1.

202 See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Dealers with Limited Trading Activity."

Proposed New Exception for Trades with a Manual Component

As described above, except for two commenters[203] that expressed support, all other commenters expressed the general view that reporting all trades within one minute after the Time of Trade, particularly those having a manual component, is not always possible. One commenter argued that the Proposal, absent an exception from the 15-minute reporting timeframe for manual trades, would severely impair the ability of firms to continue to trade manually and, as a result, could result in less liquidity and wider spreads that could negatively impact investors. The commenter further stated that the lack of such an exception could adversely impact smaller dealers and their customers. This commenter recommended that electronic trade executions would be reportable as soon as practicable and no later than within one minute of the trade time while manual trade executions would continue to be reportable within 15 minutes after the trade time.[204] The commenter noted that this would require adding a field to the RTRS systems for an executing dealer to report whether a trade was executed manually or electronically.[205]

At least two commentors pointed to the need for an exception to address unpredictable technological/operational issues, and one proposed a permanent enforcement exception for trades reported late due to a lag in reporting, outage, or other disruption directly caused by the third-party.[206] One commenter suggested that enforcement actions should consider only the dealer's

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[203] See generally Dimensional; Tuma.

[204] See FIF I at 2; see also BDA at 4; HJS at 2.

[205] FIF I at 2. The proposed rule change would require that trades with a manual component be reported with a new manual trade indicator, consistent with this comment.

[206] InspereX at 6; ICI at 13–14.

conduct during the reporting timeframe, and perhaps independently review the conduct of any third-party reporting entities.[207]

The MSRB recognizes that not all trades in municipal securities currently are executed and reported through straight-through processes or other electronic means, and while the proportion of trades executed and reported in that manner appears to be growing over time, it is not likely that certain segments of the marketplace or trades conducted under certain circumstances would migrate to fully electronic processes in the immediate future. The commenters raised many scenarios, described above, where dealers currently would face significant challenges to completing the trade reporting process within one minute following the Time of Trade, and in some cases it might not be possible at all at this time unless significant technology and/or process changes are first undertaken by dealers and the overall industry that could entail considerable costs or cause material impacts to counterparties in transactions with such dealers. The MSRB believes that, depending on the specific facts and circumstances, and based on many of the situations highlighted by commenters where human intervention occurs in the course of reporting a trade to RTRS, such trades could be viewed as a trade with a manual component.[208]

For example, the MSRB acknowledges commenters' views that voice brokerage and negotiated trading continue to be legitimate means of executing fixed income securities transactions that may require the manual entry of data or other human intervention after the Time

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[207] InspereX at 6.

[208] See supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component" regarding scenarios where, depending on facts and circumstances, a dealer may consider a trade as a trade having a manual component.

of Trade to report trade details to RTRS. The MSRB also acknowledges commenters' views that dealers and their customers may have legitimate reasons for preferring to execute larger-sized trades or trades in portfolios of securities manually rather than through electronic execution, and in many cases such manual processes may include steps to address regulatory compliance or risk management issues. In addition, the MSRB acknowledges commenters' descriptions of individual trades that may be part of a more complex set of inter-dependent transactions, such as certain mediated transactions undertaken by broker's brokers, transactions among multiple parties (including simultaneous allocations to multiple advisory clients of dually-registered dealers/investment advisers). Furthermore, the MSRB understands that individual trades may require information necessary for reporting that may not be immediately available to the executing dealer, such as in the case of a security that has not been recently traded and therefore may not be included in the dealer's or its clearing firm's security master.[209]

For many trades facing the foregoing and other circumstances, the MSRB realizes that a dealer's trade reporting process might not always be completed within one minute following the Time of Trade, even where the dealer has established efficient reporting processes and commences to report the trade without delay. Accordingly, in response to the commenters' concerns, the MSRB is proposing to adopt a new exception for trades with a manual component. The new exception in Rule G-14 RTRS Procedures and Supplementary Material .02 to Rule G-14 provides an additional year from the effective date of the proposed rule change for firms reporting transactions with a manual component to continue to report their trades by no later than

209 Once the appropriate indicative data is initially set up in the security master, this issue would abate with respect to such security and the dealer would thereafter be able to report the trade within the required timeframes for subsequent trades absent other manual factors.

15 minutes after the Time of Trade. This time would gradually phase down to ten minutes for the subsequent year and five minutes beginning the following year, providing additional transitional time for dealers to plan for and adjust their systems and processes to the new reporting requirements. The MSRB notes that some commenters had suggested that the MSRB establish a baseline five-minute timeframe for trade reporting, rather than the 15-minute timeframe included in the Proposal. Transactions with a manual component would have a trade reporting deadline that matches the proposed eventual five-minute reporting timeframe.[210]

In addition, proposed amendments to Rule G-14 RTRS Procedures Section (a)(iv) would provide that a pattern or practice of late reporting without exceptional circumstances or reasonable justification may be considered a violation of Rule G-14. The determination of whether exceptional circumstances or reasonable justifications exist for late trade reporting is dependent on the particular facts and circumstances. The MSRB has provided guidance regarding scenarios that generally would constitute exceptional circumstances such as incidents that are outside the reasonable control of the dealer or where reasonable justification exists depending on the specific facts and circumstances, and based on many of the situations highlighted by commenters where human intervention occurs in the course of reporting a trade to RTRS.[211]

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210 Furthermore, since a trade that is reported through the RTRS Web Portal may be considered a trade with a manual component and subject to an exception to the one-minute trade reporting requirement, the MSRB believes that concerns regarding the ability to enter trade reports through this portal are addressed by the proposed exception. Therefore, the MSRB does not believe that additional technological changes to the RTRS Web interface to address this concern are necessary for this proposed rule change.

211 See supra "Purpose – Proposed Rule Change – Pattern or Practice of Late Trade Reporting" for a discussion regarding pattern or practice of late reporting.

Potential Incorporation of Certain FINRA Exceptions

A commenter suggested that the MSRB adopt FINRA's approach to not require the reporting of customer repurchase agreement transactions, stating that such transactions do not provide price information with value to market participants.[212] The MSRB notes that such transactions are required to be reported to RTRS with the "away from market" indicator, which results in transaction information not being disseminated to the public but is made available to the regulatory authorities charged with enforcing MSRB rules for oversight purposes. The MSRB does not believe that it should reduce the information currently made available for such oversight purposes as part of the proposed rule change and therefore has not made the suggested change.

This commenter also observed that FINRA does not require reporting of list offering price transactions and takedown transactions for TRACE-eligible securities until the next business day and suggested that the MSRB harmonize its current end-of-trade-day reporting requirement for List Offering Price/Takedown Transactions in municipal securities to this FINRA reporting deadline.[213] Relatedly, another commenter suggested that all secondary market trades occurring on the first day of trading of a municipal securities offering be provided with the same end-of-trade day reporting deadline as for List Offering Price/Takedown Transactions.[214]

The MSRB is not aware of any existing issues regarding the reporting of List Offering Price/Takedown Transactions by the end of the trade day and does not believe the market would

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[212] See SIFMA at 18.

[213] Id.

[214] See FIF I at 9.

benefit by delaying the public dissemination of such information until the next day. The MSRB also notes that if secondary market transactions that occur on the first day of trading is at a price that is different from the list offer price and is permitted to be reported on the next business day, all market participants may not have access to the prevailing market price of those secondary market transactions on the date the trade is executed. Such secondary market trades would, in many cases, have prices reflecting then-current market conditions rather than list offering prices that may have been set one or more days prior. Delaying dissemination of such price information would significantly reduce real-time transparency in the municipal securities market precisely on the day on which many securities experience their highest level of trading. Thus, the MSRB has determined not to include these suggested changes in the proposed rule change as they would reduce market transparency.

Other Operational Considerations

Trades Executed when System is Not Open

Two commenters advocated for the continuation of a next-business day 15-minute reporting standard for trades executed when the respective trade reporting system is not open. These commenters supported the continuation of the current MSRB standard for transactions effected with a Time of Trade outside the hours of the RTRS Business Day to be reported no later than 15 minutes after the beginning of the next RTRS Business Day.[215] One trade association commenter noted that the FINRA rules for equity trade reporting and TRACE reporting currently provide a 15-minute reporting period after the facility opens the next business day for trades executed when the reporting facilities are not open.[216] This commenter stated that

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215 See FIF I at 7; SIFMA at 18.

216 See FIF I at 7–8.

its members have found the 15-minute period for reporting overnight trades to be important in ensuring that an appropriate review of overnight trades is being performed by U.S.-based staff prior to submission. The commenter also noted that its members are concerned about technical challenges with reporting within one minute after the opening of a reporting system due to potential connectivity lags, which could in turn mean that connectivity and reporting must occur within one minute at the same time as many other industry members are seeking connectivity to the reporting system. Thus, this commenter expressed support for maintaining a 15-minute reporting requirement for transactions effected with a Time of Trade outside the hours of the RTRS Business Day.

The other commenter argued that given the lapse of time between execution and reopening inherent in a situation where trades are executed when the system is not open, there is no value in changing this deadline. It further stated that even for National Market System stocks and Over the Counter equity securities, which have been subject to a 10-second trade reporting timeframe for many years, trades occurring after normal trading hours are required to be reported within the first 15 minutes after the applicable FINRA equity trade reporting facility re-opens the next trading day.[217]

The MSRB is not proposing a change to the current reporting standard for trades executed when the RTRS system is not open, which will continue to be reportable within 15 minutes after the start of the RTRS Business Day.[218]

217 See SIFMA at 18.

218 However, a proposed technical amendment to Rule G-14 RTRS Procedures Section (a)(iii) would clarify and make explicit in the text thereof that inter-dealer trades on an "invalid RTTM trade date" are also not required to be reported until 15 minutes after the next RTRS Business Day. This provision currently is set out in Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions.

More Rapid Dissemination and Masking of Trades

Two commenters expressed concerns about the potentially more rapid dissemination of trade prices that they believed could result in a negative outcome under a one-minute reporting requirement and advocated for the continuation of the practices related to dissemination caps by FINRA or masking of certain trades by the MSRB.[219] One commenter noted that in connection with the Proposal, the MSRB should provide firms the option to report non-disseminated data elements on an end-of-day basis or in some cases, on a next day basis.[220] The other commenter expressed concern that more rapid dissemination of trade data for block trades would raise the risk of significant negative liquidity impacts. The commenter suggested that MSRB action would be needed to address the heightened ability that one-minute dissemination would provide opportunistic market participants to use such data on larger trades to further advantage themselves and reduce the ability of such blocks to achieve favorable levels of liquidity.[221]

The MSRB notes that currently transaction information disseminated from RTRS includes exact par value on all transactions with a par value of $5 million or less but includes an indicator of "MM+" in place of the exact par value on transactions where the par value is greater than $5 million. The exact par value of transactions having a par value greater than $5 million is disseminated from RTRS five business days later. The MSRB implemented this approach in response to concerns that, given the prevalence of thinly traded securities in the municipal securities market, it is sometimes possible to identify institutional investors and dealers by the

219 See FIF I at 4; SIFMA at 6, 17–19.

220 See FIF I at 4.

221 See SIFMA at 19.

exact par value included on trade reports.[222] While the MSRB would continue to evaluate whether this threshold is appropriate, the MSRB is not proposing a change to its masking practices at this time. The MSRB notes that, based on the comments, many larger trades likely would qualify for the exception for trades with a manual component and therefore would be subject to the measured phased approach to shortening the reporting timeframe to five minutes, thereby giving the market time to adjust to any incremental changes in behavior resulting in the masked trades being made publicly available on a shorter timeframe.

Examination and Enforcement

One commenter noted that FINRA and SEC examination staff should take the opportunity, when they are at their closest interaction with dealer personnel during the examination process, to provide appropriate feedback to firms they believe are not reporting trades as soon as practicable to assist in achieving more fully compliant trade reporting.[223] Another commenter noted that violations for late trade reporting are black and white and that there are no other evidentiary measures necessary in order for a regulator to bring examination or an enforcement action against the late-reporting firm.[224]

As noted in "Purpose – Proposed Rule Change – Pattern or Practice of Late Trade Reporting,", the proposed rule change would incorporate pattern or practice language, similar to

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222 See Exchange Act Release No. 68081 (Oct. 22, 2012); 77 FR 65433 (Oct. 26, 2012), File No. SR-MSRB-2012-07, available at https://www.govinfo.gov/content/pkg/FR-2012-10-26/pdf/2012-26340.pdf.

223 See SIFMA at 22.

224 See InspereX at 4.

the existing pattern or practice language included in FINRA's equity trade reporting rules,[225] and has noted that this should be the focus of examining authorities as opposed to individual outlier late trade reports, absent extenuating circumstances.[226] The MSRB already produces a series of report cards accessible to dealers that describe the dealer's transaction reporting data with regard to status, match rate, timeliness of reporting, and the number of changes or corrections to reported trade data. For most statistics, the industry rate is also provided for comparison. The Lateness Breakout portion of the report has a category for each type of reporting deadline, showing how many trades were reported timely and late relative to the applicable deadline. Such reports are available in both single-month and twelve-month formats. The MSRB expects to make certain enhancements to the report cards in connection with the implementation of the proposed rule change if approved.

Phased Implementation

Several commentors advocated for a phased implementation of new requirements, the appropriate assessment of market impacts, and the leveraging of lessons learned and technology or process innovations for use at the next step.[227] One trade association commenter noted that its members also could face challenges with reporting electronic executions within one minute after execution because some trades are transmitted across multiple layers of systems, meaning

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225 See FINRA Regulatory Notice 13-19 (May 23, 2013), available at https://www.finra.org/rules-guidance/notices/13-19.

226 See supra "Purpose – Proposed Rule Change – Pattern or Practice of Late Trade Reporting" for a discussion on pattern or practice of late trade reporting and related expectations for regulatory authorities that enforce and examine dealers for compliance with Rule G-14.

227 See Bailey at 1; ICE Bonds at 2; ICI at 4–7; InspereX at 4; SIFMA at 2–6.

multiple firm and vendor systems before they are reported, and that some of these firms and reporting vendors would need to implement system and workflow changes to ensure that they can report all electronic executions within one minute.[228]

The MSRB recognizes that sudden and substantial changes to reporting deadlines would require some dealers to make potentially significant changes to processes and technology. Therefore, if the proposed rule change is approved by the Commission, the MSRB would announce an effective date (for example, approximately within 18 months from such Commission approval) in a notice published on the MSRB website, and the proposed rule change also includes a phased standard for manual trades to provide dealers time to adjust to the proposed rule change.[229] The MSRB acknowledges the need for maintaining regulatory harmonization between the MSRB with respect to the proposed rule change and FINRA with respect to its similar planned changes to TRACE reporting pursuant to the 2024 FINRA Proposed Rule Change, and the MSRB's effective date for the proposed rule change would be intended to maintain implementation thereof on substantially the same implementation timeframe as the 2024 FINRA Proposed Rule Change.

Potential Benefits, Costs and Burdens

Benefits

The 2022 Request for Comment sought to understand the benefits to investors, dealers, municipal advisors, issuers and other market participants (i.e., yield curve providers, evaluated

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228 See FIF I at 2 and 6. See also ASA at 1–2; ICE Bonds at 2.

229 See discussion supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement – Exception for Trades with a Manual Component" and "Purpose – Effective Date and Implementation."

pricing services etc.) and if those benefits would be different for institutional investors than individual investors, whether the benefits would differ among dealers and if the benefits to dealers differ from benefits to investors.

Two commenters strongly supported the Proposal to amend Rule G-14 to require that transactions be reported as soon as practicable, but no later than within one minute of the time of trade.[230] One commenter agreed with the MSRB that the municipal securities market historically has been considered less liquid and more opaque than other securities markets, consequently making post-trade data the most important source of information for market participants. This commenter believed that the proposed shortening of the reporting timeframe would enhance transparency and reduce information asymmetries in the municipal securities market. It asserted that the enhanced transparency also enhances investors' power to negotiate with dealers, leading to reduced transaction costs.[231] The other commenter noted the importance of being able to see all sides of the trades in a particular bond—purchase from customer, inter-dealer, and sale to customer—as soon as possible to accurately evaluate bonds.[232]

One commenter noted that the Proposal's stated benefits are improved transparency, price relevance, and immediate impact on market direction, which are relevant to large block trades, large issue sizes and ubiquitously viewed credits. This commenter further noted that these "relevant" trades can be market leading, telling, and important for comparison.[233]

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230 See Dimensional at 1; Tuma at 1.

231 See Dimensional at 1.

232 See Tuma at 1.

233 See NSI at 1.

Some commenters expressed concern that the Proposal would disproportionately benefit certain segments of the market such as algorithmic trading entities and other market participants positioned to take advantage of information arbitrage,[234] large wire house firms and the vendors[235] who provide automated reporting services and applications at the expense of others including retail and traditional institutional investors, while others believe the market is operating as intended and further changes are not necessary.[236]

Costs and Burdens

The 2022 Request for Comment sought to understand if a one-minute trade reporting requirement would have any undue compliance burdens on dealers with certain characteristics or business models and if so, requested suggestions on how to alleviate the undue burdens. The 2022 Request for Comment also requested input on the likely direct and indirect costs associated with the one-minute requirement and who might be affected by these costs and in what way. The MSRB asked for data on these costs and 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.

Regarding these questions, the majority of commenters in turn questioned whether the potential benefits of a one-minute reporting requirement for all fixed income trades, absent appropriate exceptions, outweighed the costs to market participants and the impact to the fixed-income market structure.[237]

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234 See SIFMA at 3, 13; see also Colwell at 1.

235 See ISC at 1.

236 See NSI at 1.

237 See ASA at 3–4; AMUNI at 1; Belle Haven at 2–7; BSI at 1; BDA at 3–4; Cambridge at 3–4; CRI at 1; DeRobbio at 1; EH&C at 1–2; Falcon Square at 1; F&A at 1; HC at 1; HBIS at 1; ICE Bonds at 1; InspereX at 1–2; ISC at 2–3; IPG at 1; IBI I at 1; IBI II at 1–

These concerns appear to primarily stem from concerns regarding the potential impact on certain types of trades requiring additional time to report. Examples include trades executed by dealers that utilize a third-party clearing firm, situations where trade reporting occurs further downstream or involves multiple layers and trades that involve manual steps in the negotiation, execution and reporting process; on large-sized trades including voice and negotiated trades and the corresponding impact on best execution obligations; and on dealers that report a small number of trades.[238] Commenters generally agreed that certain types of transactions may be reported successfully with a one-minute reporting requirement, depending on the level of automation.[239]

One trade association commenter stated some of its members were concerned that shortening the reporting timeframe might most benefit algorithmic trading firms or other market participants positioned to take advantage of information arbitrage to the potential detriment of retail investors and more traditional institutional investors.[240] This commenter further noted that the retail market therefore is unlikely to observe a positive liquidity effect from automated trading methodologies that could leverage the immediacy of trade data under the Proposal.

2; KPI at 1; Miner at 1–2; NSI at 1; OSI at 1–2; RBMI at 1; SAMCO at 3–4; Sanderlin passim; Sheedy at 1; SIFMA at 4–8, 12–13; SBC at 1–2; TRADEliance at 1–2; Wiley at 1–2; Wintrust at 1; Zia at 1.

238 See supra "One Minute Timeframe for Reporting – Operational Issues Relating to Reporting Within One Minute – Manual Steps in the Negotiation, Execution and Reporting Process" generally.

239 See Bailey at 4; Oberweis at 1; SIFMA at 21.

240 See SIFMA at 13.

One commenter asserted that the size of a dealer's market share should not dictate whether the burdens such dealer bears are acceptable or not and stated that a failure to engage in a fulsome cost-benefit analysis that incorporates the needs and barriers such dealers face would be inconsistent with recent initiatives undertaken by regulators in support of small enterprises.[241]

Many commenters described how the potential issues they identified might lead to a broader negative impact by way of, for example, increased compliance costs that may force many firms out of the industry, thereby reducing competition, liquidity, and market accessibility for certain types of issuers and investors.[242] One commenter stated that the Proposal would have an unreasonable impact on smaller dealers, which likely lack the technological systems available to large firms, and to the extent the small firms exit the market or limit trading in response to new or amended regulation, issuers and investors suffer.[243] This commenter further stated that, to the extent that the Proposal makes participating in the market more difficult and costly for regulated entities, it would negatively impact local governments.[244]

Some commenters asserted that the Proposal appears to make fixed income markets operate more like the equity markets although they are different.[245] One commenter observed that there are innate differences between the municipal marketplace and the equity

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241 See Stern at 1.

242 See BSI at 4; BDA at 4–5; BB at 2; C&C at 1; Falcon Square at 2–3; HJS 3–5; Honey Badger at 1; ISC at 3; ICI at 4; IBI II at 1–2; Miner at 1; NSI at 1; OSI at 1–2; RBMI at 1; SAMCO at 3–4; Wiley at 1–2.

243 See F&A.

244 Id.

245 See ISC at 3; NSI at 1. See also SIFMA at 5.

marketplace,[246] and another commenter noted that equity securities can trade thousands of shares in seconds, making the need for price transparency in an extremely short period of time a necessity but that, in contrast, municipal securities rarely trade twice in the same day or multiple times in one, five or 15 minutes.[247] Both commenters questioned whether municipal securities would benefit from the shortening of the reporting timeframe to one minute, in contrast to the equity markets, noting the lack of cost-effective technology solutions for municipal securities and the likely prohibitive costs of the Proposal, particularly to small and medium-sized dealers.[248] Another commenter noted that there are some 70,000 different issuers of municipal securities unlike the less than 5,000 equity issuers and that the market is not there yet technologically to do one-minute trading.[249]

The MSRB believes that it has engaged in a fulsome cost-benefit analysis that incorporates the needs and barriers dealers would face upon implementation of the proposed rule change, as described in "Self-Regulatory Organization's Statement on Burden on Competition" above. Specifically, the MSRB recognizes that meeting the new one-minute transaction reporting requirement under Rule G-14 RTRS Procedures may result in additional costs for certain dealers. Additionally, the MSRB understands that the trade reporting process for certain types of trades, including trades with a manual component, may take longer to report than a trade for which an automated execution and reporting system was used.

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246 See NSI at 1.

247 See ISC at 3.

248 See id.; NSI at 1.

249 See Bailey at 1.

The MSRB has taken into consideration the various operational considerations raised by commenters and identified through subsequent outreach. As a result of this industry input, the proposed rule change introduces two new exceptions to address the concerns related to the balance of costs and benefits and to alleviate potential compliance burdens: (1) an exception for firms with limited trading activity, and (2) an exception for transactions with a manual component, which includes a phased approach to an eventual five-minute reporting requirement.[250] The two exceptions created by the proposed rule change are designed to reduce potential costs and compliance burdens to less active dealers and on certain transactions that are most likely to realize a negative impact by shortening of the timeframe,[251] and these proposed exceptions were taken into consideration in the MSRB's economic analysis included in "Self-Regulatory Organization's Statement on Burden on Competition" above.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period of up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be

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250 For a detailed discussion of the two exceptions created by the proposed rule change, see supra "Purpose – Proposed Rule Change – Exceptions to the Baseline Reporting Requirement."

251 These two exceptions should provide considerable relief from potentially higher compliance costs for smaller dealers that may in many cases constitute dealers with limited trading activity and may primarily engage in transactions with a manual component, thereby potentially qualifying for both exceptions.

disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-MSRB-2024-01 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-MSRB-2024-01. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of the

MSRB. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-MSRB-2024-01 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, pursuant to delegated authority.[252]

Sherry R. Haywood,

Assistant Secretary.

[252] 17 CFR 200.30-3(a)(12).