

indicator of "market price" as a stock exchange quotation. The MSRB believes that, considering the unique nature of the municipal securities market, the market has adapted very well to price transparency. The MSRB is not aware of any problems occurring similar to the concerns expressed in 1995. The reception of the Comprehensive Report and the previous lowering of trading thresholds on the T+1 Daily Report has been positive and the use of the data in those reports by market professionals and pricing services has increased the efficiency and accuracy with which issues are priced in the secondary market.

The proposed rule change would increase substantially the number of trades and issues appearing each day on the T+1 Daily Report. On a typical trading day, dealers report approximately 26,000 transactions in 10,000 issues, with a total par value traded of about \$9.5 billion.<sup>7</sup> The present T+1 Daily Report, with a trading threshold of two or more trades per day, includes an average of 19,760 trades in 5,600 issues, with a total par value of about \$7.7 billion. Currently, only about 76% of transactions reported on trade date are shown on the report. Under the proposed rule change, all trades reported by dealers on trade date would be made visible on T+1.

Although the MSRB believes it is appropriate to increase T+1 transparency at this time, and to move forward with its plans for real-time trade reporting in mid-2004, the MSRB also is mindful of concerns expressed by dealers that further increases in transparency on a more contemporaneous basis could have an effect on liquidity. One concern sometimes noted is that because of the nature of the municipal securities market, including the prevalence of thinly traded issues, it sometimes is possible to identify institutional investors and dealers by the exact par value given on trade reports. For example, it might be common market knowledge that a \$4.25 million position in an issue initially was purchased in the primary market by a specific institution. Trade reports in the secondary market showing this exact par value later being sold then could reveal the identity of that party as well as the price received. Where the market for a specific security is thin and only one or two dealers are active, revealing the exact par amount also may convey information about a dealer's inventory (*i.e.*, size of position and acquisition

cost). Other dealers may use this information to trade against the dealer's position, reducing the incentive for a dealer to take large positions in these circumstances.

In response to these concerns, the MSRB proposes to take a step similar to that used by the NASD's "TRACE" system in the corporate bond market and to display par value of large trades with a large trade indicator rather than the exact par value.<sup>8</sup> While this will result in less information being made visible on T+1 about par value traded, the MSRB believes that it will help to preserve the anonymity of trading parties and will not detract in a substantial way from the benefits of the price transparency it provides.

The enhanced Daily Report with the frequently traded threshold removed would replace the current T+1 Daily Report and would be made available each day to subscribers via the Internet. Subscribers to the current Service receive the report free of charge, and their subscriptions would continue. New subscriptions would continue to be available free to parties who sign a subscription agreement. In addition, recent reports would continue to be available for examination, also free of charge, at the MSRB's Public Access Facility in Alexandria, VA.

The MSRB will continue to produce its Comprehensive Report on a one-week delay basis with details about all transactions traded one-week prior. The Comprehensive Report will continue to provide information on the size of each transaction including the exact par amount reported to the MSRB on transactions in amounts greater than one million dollars. The Comprehensive Report also will continue to be useful since it will include details of transactions reported to the MSRB late, inter-dealer trades compared after trade date, and any transaction data corrected by dealers after trade date.

#### Implementation Schedule

The enhanced report would be available to subscribers as soon as practical after Commission approval of the proposed rule change. It is estimated that the period between approval and implementation would not exceed four weeks.

#### 2. Basis

The MSRB has adopted the proposed rule change pursuant to Section 15B(b)(2)(I) of the Exchange Act, which authorizes the MSRB to adopt rules that

provide for the operation and administration of the Board.

#### *B. Self-regulatory Organization's Statement on Burden on Competition*

The MSRB does not believe that the proposed rule change will impose any burden on competition in that it applies equally to all dealers in municipal securities.

#### *C. Self-Regulatory Organization's Statement of Comments on the Proposed Rule Change Received From Member, Participants, or Others*

Written comments on the proposed rule change were not solicited, but the MSRB had earlier received a copy of a comment letter from TBMA to the Commission in reference to proposed rule change SR-MSRB-2002-07 regarding shortening the delay in publication of the Comprehensive Report from two weeks after trade date to a one-week delay.<sup>9</sup> In its letter, the TBMA expressed its continued support for the MSRB's steps to expand transparency in the municipal securities market. TBMA also stated a concern that price dissemination on a next-day basis for all issues that trade only once per day would not necessarily provide useful information to investors and other market participants or could adversely affect liquidity or might be misleading.

As noted above, the final reduction of the T+1 trading threshold is part of a long-term plan for measured increases in transparency. The Board believes that prior experience with the program indicates both that the additional information provided by the proposed rule change will be useful and will not be misconstrued by users of the data, who now have experience with the price information and know how to interpret it.

As noted above, the MSRB also has considered the concerns expressed by the TBMA that further increases in transparency on a more contemporaneous basis could have an effect on liquidity. The MSRB believes that the proposal to display par value of transactions over one million dollars with a large trade indicator rather than exact par value will ameliorate these concerns.

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

Within 35 days of the date of publication of this notice in the **Federal**

<sup>7</sup> This baseline data is based upon market activity from April 1, 2001 through July 31, 2001.

<sup>8</sup> See NASD Notice to Members 01-18, "Fixed Income Transaction Reporting and Dissemination," March 2001.

<sup>9</sup> See letter from Frank Chin, Chair, Municipal Executive Committee, TBMA, to Jonathan G. Katz, Secretary, Commission, dated August 8, 2002.