MMA The Power of Independence

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Date: June 14, 2011

To Alicia Golden, SEC
From: Thomas Doe, CEO, Municipal Market Advisors (**MMA**)

Re: RTRS MSRB Trade Data

To follow-up our conversation in May regarding the MSRB transaction data, this memo is intended to reflect a summary of **MMA**'s perspective regarding a more robust examination of the data.

MMA believes price discovery is important to the integrity of the municipal market, so that there is critical value to greater evaluation and scrutiny of the municipal trade data. It is reassuring that the SEC has strong interest in reviewing the data and that the MSRB has also retained an outside consultant to explore the data.

There are **three** additional thoughts not expressed in our earlier conference call. **First**, the disclosure of the "customer" is a necessity. Both parties' (dealer and customer) disclosure to regulators is important to know what type of investor is involved in the price discovery process. The evaluations derived from the transaction data are too important to holders of institutions owning municipal bonds. Large portfolios' quarterly evaluations contribute to public companies share prices and compensation of investment managers. **Second**, larger transactions in the market should no longer be obfuscated by the designation of $1 million or greater. Granularity of par size is important to the dialogue regarding evaluations. **Third**, the antiquated and purposeless use of NRO (not re-offered) that shields the primary pricing of loans inhibits price discovery. Regulators should end this practice.

MMA's perspective when reviewing transactions in the municipal market is to focus on intent of the transaction – who benefits and in what manner. The basic premise that **MMA** has demonstrated empirically is that there is a 0.99%-1.00% correlation between the Thomson Reuter Municipal Market Data (**MMD**) AAA 5% Coupon benchmark yield curve and the Barclay's Investment-Grade Swap Index (LMIS), evaluated by Interactive Data Corporation (IDC), **Page 3**. The importance of this relationship cannot be emphasized enough. The **MMD** data is not the output of a transparent process and there is strong suggestive evidence that its "whisper market" before its daily publication to its customers at 3pm ET, exerts a strong degree of influence on the daily basis point movement of the investment-grade matrices. When the municipal market was dominated by AAA bond insurance the commoditization of the municipal market to AAA made the price discovery process easy – or one might even say lazy. The municipal industry – all facets – became overly dependent on the daily change of this important piece of market data. Now ironically, even though the market is no longer defined by the presence of AAA bond insurers, the relationship between high-grade (i.e. AAA) transactions or representative transactions has continued to exist, becoming even more important as primary and secondary transactions have diminished and price discovery has been further inhibited by the absence of liquidity. In addition, given that during the past 12-18 months the municipal market's demand component has been defined by

individual investors, there has been little challenge to the evaluation process as individuals have historically displayed less price sensitivity and exploration of market context. Unfortunately, this condition persists despite the presence of the MSRB transaction data which the SEC is examining.

When we had our conference call I reiterated my comments from my December 2010 testimony that the examination of the transaction data be done utilizing a Bill James approach (Bill James redefined the use of baseball statistics). This characterization suggests creativity and a different lens to reviewing the transaction data. **MMA**'s perspective toward the data is driven by two driving forces: 1) how do transactions in the municipal market influence compensation through influence on evaluations and 2) what is communicated daily to investors (especially individuals) through the evaluation on statements and NAV volatility of a packaged product.

The analysis can be broken into the very familiar silos of Who, What and When.

The key element drawn from the data is who is making the transactions. **MMA** suggests that each dealer's activity be indexed to identify a "normal" level of transaction activity of each dealer firm in different market conditions.

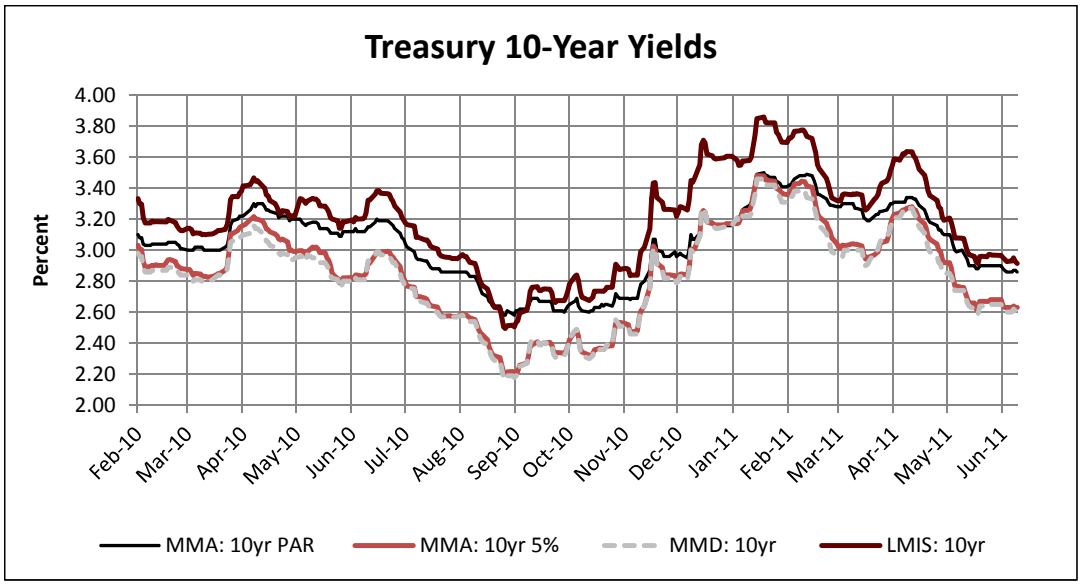
A start would be to review the data since 2003 of the leading (top 10) underwriting broker-dealers, and identify each firms by 1) number of transactions 2) par value of transactions 3) percent of trades to customers versus dealers 4) percent of trades from customers. The additional investigation would be 1) when transactions occur 2) the type of transactions (size and credits) 3) in what market context (bearish, bullish, risk or opportunistic market conditions) 4) the time of day (ahead of primary underwritings, economic releases and ahead of the publication of the **MMD** yield curve).

There would be additional value in reviewing the relationship of activity by firm as it relates to key accounting periods – end of month, quarter and fiscal year. Also important is a review of the activity involving specific credits that are repeatedly transacted from which price discovery is derived (an example for pricing the longer maturities of the market would be the activity in Salt River Authority, AZ, a familiar utility). The transactions of dealer banks specifically with large proprietary or TOB activity trough the mid-2000's would be of value to identify the most influential market participants. Similarly, in the current market, the review of those banks with the largest municipal bond portfolios may yield information regarding behavior associated with important price discovery.

The profiles yielded from the review, would further assist in regulators understanding of who provides market liquidity, how deep is market liquidity in various market conditions and how does liquidity change. This can be especially important in quantifying the context and thus expectations associated with a differential between an evaluation and an execution price. The most important elements from this work would be what information an investor should receive upon purchase regarding future transaction liquidity and appropriate characterizations of influential forces on evaluation volatility.

The transaction data coupled with daily 1) secondary bids-wanted activity 2) offering par 3) mutual fund flows 4) Property and Casualty profitability and 5) legislation expanding bank municipal ownership would yield a more defined description of market context so to better assess liquidity and price discovery/evaluation confidence. In other words, couple transactions with the prevailing demand component.

The intent of this memo is only a starting place to begin the formulation of research regarding the transactions data. **MMA** welcomes any involvement it can provide that would serve the SEC's efforts.



2010	MMA: 10yr 5%	MMD: 10yr	LMIS (Barclays): 10yr	Wake Co., NC
MMA: 10yr PAR	0.97	0.96	0.93	0.98
MMA: 10yr 5%		1.00	0.97	0.99
MMD: 10yr			0.99	0.99
LMIS: 10yr				0.97

2011	MMA: 10yr 5%	MMD: 10yr	LMIS (Barclays): 10yr	Wake Co., NC
MMA: 10yr PAR	0.97	0.96	0.97	0.95
MMA: 10yr 5%		1.00	1.00	0.98
MMD: 10yr			1.00	0.99
LMIS: 10yr				0.99

2010	MMA: 30yr 5%	MMD: 30yr	LMIS (Barclays): Long Term	Salt River, AZ
MMA: 30yr PAR	0.97	0.95	0.95	0.94
MMA: 30yr 5%		0.99	0.97	0.96
MMD: 30yr			0.99	0.98
LMIS: Long-Term				0.99

2011	MMA: 30yr 5%	MMD: 30yr	LMIS (Barclays): Long Term	Salt River, AZ
MMA: 30yr PAR	0.97	0.97	0.96	0.90
MMA: 30yr 5%		1.00	0.99	0.92
MMD: 30yr			0.99	0.92
LMIS: Long-Term				0.93

Note: LMIS is a high-grade credit municipal index evaluated by a 3rd party evaluation service for Barclays.