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Washington DC

TESTIMONY OF JASON LEHMAN TO THE SEC FIXED INCOME ROUNDTABLE

I would like to commend the Commission for holding these important and timely hearings on the fixed income markets. I would also like to thank the Commission for allowing me the opportunity to appear today.

My name is Jason Lehman, and I am the founder and co-CEO of Headlands Technologies LLC. Headlands is a quantitative proprietary trading firm based in San Francisco and Chicago. Prior to founding Headlands, I spent 12 years in various positions at Citadel Investment Group in Chicago. I first worked in several fixed-income businesses at Citadel, and then started Citadel's options market making business, which we grew to be one of the largest in the world.

Additionally, for over a decade I have been an active investor in the municipal securities markets. As a result, I have devoted substantial time to understanding the intricacies of municipal security prospectuses, financial data, brokerage platforms, and trading environments.

My experiences both as an active investor and financial professional have shown me that there is significant room for improvement in the structure of the municipal securities markets. Today I would like to focus my remarks on three potential areas for improvement. First, transparency in the marketplace should be enhanced. Second, a reasonable best execution standard should be introduced. Third, customer limit order display and protection should be mandated.

Transparency:

The default goal for any marketplace should be full transparency. Limitations on full and equal access to pre- and post-trade information should be reserved for cases where there are overwhelming compelling mitigating factors. However, in the case of the municipal securities markets, no such mitigating factors exist. I see no reason not to make all pre-trade information available to all participants. Specifically, this includes all firm bids and offers, indications of interest, and RFQs, from every market participant. This information could be provided through an ATS, or alternately, it could be distributed centrally. Regardless of how it is provided, what is most important is that the information be made available to all participants.

Additionally, ATSs should be required to provide fair and equal access to their marketplaces. Brokers should be required to offer customers the option of displaying their orders on these platforms in order to promote fairness in the marketplace.

The benefits of transparency include increased investor confidence, tighter spreads, and reduced transactions costs for the public.

Best Execution:

Municipal bond brokers should be required to abide by reasonable "best execution" standards. Best execution standards require brokers to seek to obtain the most favorable terms for their customer. These standards need not mandate a specific venue or even price for execution; the goal simply is to ensure that adequate due diligence is exercised when executing a customer order.

This standard is most needed when a customer is looking to sell a bond, but no visible bid is posted in the marketplace. In this case, a broker should be required to source several competitive bids for the customer's order. Simply using a single bid from the broker's trading desk should not be sufficient to satisfy best execution standards.

Limit Order Display Mechanism:

In 1996, the SEC passed the most important regulation in the history of retail stock investing: The Order Handling Rules. Effective in January 1997, these rules fundamentally realigned the balance of power in US stock markets towards the retail investing public. For the first time, a retail investor could place a limit order to buy or sell a security, and have that order set the best price in the marketplace. By doing so, the investor can advertise his or her interest to the entire world, attracting other investors to their price. This has allowed investors to transact directly with each other without a dealer in the middle of the trade. Spreads between buyers and sellers have sharply tightened, and therefore the costs of investing for the US public have plummeted.

Unfortunately, no such mechanism exists for the municipal securities market. There is a critical need for such a mechanism whereby a retail investor can place a limit order that is displayed to the entire marketplace. Currently, the only outlet available to a retail investor looking to sell a bond is a principal bid from a dealer. A patient investor would likely be better served by having a broker represent a limit order in the marketplace. This customer limit order could be displayed to the market through an existing ATS. Brokers and dealers must then be required to avoid trading through a customer limit order.

I would like to thank the Commission once again for the opportunity to appear today and share my thoughts, and I look forward to a productive discussion of these important topics.