

*William Blair & Company*  
*Limited Liability Company*

September 14, 2003

Mr. Harold L. Johnson  
Deputy General Counsel  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, Virginia 22314

Re: Comments Related to Implementation Plan for Real-Time Trade  
Reporting as outlined in MSRB Notice 2003-23

Dear Mr. Johnson:

William Blair & Company, LLC ("William Blair") is pleased to respond to the request by the Municipal Securities Rulemaking Board (the "MSRB" or "Board") for comments concerning real time trade reporting and the related changes to rule G-12 and G-14, as described in MSRB Notice 2002-23 (the "Notice"). This letter will only address issues concerning public dissemination of municipal bond transactions and price transparency issues. Comments regarding the operational issues anticipated in implementing MSRB's plan for trade reporting will be addressed under separate cover.

In the Notice, the Board cited its motivation to provide "real time" price transparency as a response to the SEC and Congress and its obligation as a Self Regulatory Organization to "provide for the protection of investors and the public markets". Further in the Notice the MSRB stated that it "sought to implement a transaction reporting system that takes into consideration the special characteristics of the municipal securities market". Special characteristics included the staggering number of outstanding municipal securities, the predominance of "buy and hold" investors, the lack of frequent trading, the over-the-counter nature of the market, lack of quoted markets, and the lack of formal market-maker or exchange structure.

William Blair shares the MSRB's concern for the protection of investors and the public interest. However we firmly believe that all the tangible benefits that can come from transparency have already been accomplished. Unfortunately, nothing has been done to aid the investor.

It is ironic that the Board would enumerate the vast differences between the Municipal Bond Market and the stock market and then adopt a program that ignores these differences in favor of an approach suitable only to the stock market. It has become

apparent in the last decade that the SEC and Congress do not understand or appreciate the differences between the markets. The MSRB, however, should. It is the obligation of the MSRB to educate and persuade these groups in the furtherance of the ultimate goal of the "protection of investors and the public interest".

A scant few members of the public actually go to the web and check for recent price transaction reporting. As a matter of fact, very few traders do either. What information is found on the website? Simply, the investor finds out the last price the bonds traded at. As we know, most bonds are not actively traded, so the price shown is not the average price or the culmination of hundreds of thousands of trades as in the stock market. Indeed, the website merely tells the investor what one person was willing to pay at some point in time. If those same bonds were out for competitive bid, it tells the investor what the highest price anyone in the land was willing to pay for the bond. Under current SEC rules a reasonable mark-up from that contemporaneous price would be a fair price. This should be discomfoting if that lone trader was off the mark on that particular session.

If this investor goes to the website and sees that the bond he is contemplating purchasing traded most recently a week ago at 100 and he is offered the bond at 99-3/4, he might believe that he is making an astute purchase, but he would not necessarily be aware that the bond market had traded down 3 points. Conversely, if the same investor sees the same bond at 102 and balks at the purchase price, he may be missing a bargain because the market may have moved up 3 points. Bonds trade on yield; the dollar price is a by-product. The investor needs a ready guide to aid him in determining what the appropriate yield should be so that he can truly make an educated purchase.

Professional Municipal bond traders seldom check the website for price information. They are too busy, the information is of little value and can be misleading. The price of \$25,000 of bonds is not indicative of what the price of \$3,000,000 of bonds should be and vice versa. What nearly every trader, institutional salesman, and professional buyer does have at their fingertips is a carefully constructed matrix that relates to each maturity and quality type and has been compiled on a large and contemporary database extracted from thousands of trades completed the previous day.

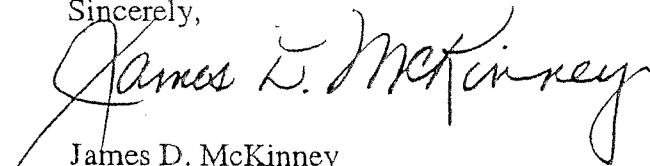
As you know, there is no central exchange for municipal bonds. Institutions and individuals alike receive bids direct from dealers either in a competitive or negotiated process. Often times broker's brokers are used. Bonds are often put out for the bid at staggered intervals and the price is often held firm for hours. Unlike the stock market, a purchaser who is attempting to fill a program must bid similar bonds from various bid situations throughout the day. With immediate reporting, those whose intent it is to front run those programs are well armed. The result is that purchasers become reluctant to put their bid up revealing their strategy and instead choose to "wait to see where they trade". Every time a bidder drops out, the market gets more illiquid. The municipal market desperately needs more ready buyers, not less. The recent downturn in the market is a good example. A year's worth of rally evaporated in a month. It is no wonder that dealers maintain smaller inventories. There are just too many days where there is no

viable bid. The public interest is served best when there are liquid markets for their bonds. While it may seem counterintuitive, immediate transparency actually only discourages bidders.

The correct solution seems both obvious and straightforward. A National matrix should be established. All the information necessary is already gathered each day. Several professional organizations currently sell this information. It would fit easily on the MSRB website and on less than a 1/8 page of the Wall Street Journal or any other financial publication. It should be quite apparent that the preponderance of investors prefer to use the financial pages of the newspaper over the Internet. Buyers would be armed with up to date information on yields specific to the maturity and quality bond offering they are contemplating. With a quick look at the current day treasury market for direction and an allowance for their specific state tax situation they would now be in possession of a quite accurate pricing tool for which to evaluate a purchase or sale price.

In summary, we appreciate the opportunity to provide our views to the MSRB on this important and critical issue. We further hope that you will carefully weigh the comments from all of the municipal market constituents. It is in all of our best interests to have a fair, competitive and liquid marketplace in which to work. We strongly believe that, although the proposal put forth by the MSRB may temporarily calm an uninformed SEC or Congress; it will not serve to benefit the market or its investors and, in fact, would greatly harm the municipal market, adding unnecessary burden of time and expense to an already stressed dealer community. Most importantly, it will do nothing to advance the protection of investors and the public interest which is, after all, the real mandate of both the MSRB and the organizations that it regulates.

Sincerely,



James D. McKinney  
Principal and Manager, Debt Capital Markets  
William Blair & Company, LLC

cc: *Securities and Exchange Commission*  
The Honorable William H. Donaldson, Chairman  
Martha Mahan Haines, Director, Office of Municipal Securities

*NASD Regulation, Inc.*  
Malcolm P. Northam, Director, Fixed Income Securities Regulation

*Municipal Securities Rulemaking Board*  
Christopher A. Taylor, Executive Director