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Lebenthal, MuniAxis to Unveil New Trading System for Odd-Lots.

Lebenthal & Co., LLC, wants to improve liquidity for trading odd-lot municipal bonds in the secondary market.

To that end, the broker-dealer next month will introduce MuniAxis, a trading platform that employs an open-auction bidding process to buy and sell municipal securities in denominations of less than $1 million.

The goal is to let asset managers sell to a variety of dealers and other investors in a more transparent, yet anonymous, way without taking on additional counterparty risk. The set-up, its creators predict, will improve the percentage of executions per listing of odd-lot bid-wanted, according to Alexandra Lebenthal, founder of Lebenthal & Co.

“Liquidity is very much an issue,” she said. “There are a lot of dealers that are reluctant to make bids on a lot of lists. [MuniAxis] is going to expand the liquidity market.”

Introducing liquidity into the marketplace represents the best measure of whether MuniAxis is serving the market well, said Charles P. Moore, chief executive officer at MuniAxis. And the percentage of listings that trade will be the most important metric to determining that.

There are roughly 40,000 trades each day, which is a fairly static number, Moore said. “If we can put a dent in that number, we’ll be doing really nicely.” The market operates much more efficiently for round-lot trades, or those above $1 million, he added.

The concept of trading efficiently sits at the heart of MuniAxis. Amid today’s volatility, the need for liquidity, or the ability to buy and sell bonds when investors want, is more important in the municipal bond market than ever, said Jim Lebenthal, director of public affairs for Lebenthal & Co.

“It just seems to me that what’s represented by this effort of ours with MuniAxis is to give those [separately managed accounts] more professional treatment of their bonds, which means improving liquidity,” he said, “and for those managers, improving transparency and giving them direct access to bidders, or at least to exposing their bonds to prospective buyers.”

Bids to MuniAxis from both dealers and buy side asset managers are anonymous. For buyers, pre-trade price transparency lets them see the high bid, know where they stand among bids, and even to bid again.

MuniAxis Lebenthal, LLC, a wholly owned subsidiary broker-dealer of Lebenthal & Co., LLC, will step in and act as counter-party for both buyer and seller, once the system generates a commitment from both sides, Moore said. The firm, functioning in a similar capacity to a dealer, takes on minimal risk, he said.

“We wouldn’t have bought it if it wasn’t already sold,” Lebenthal added. “We’re not bidding on it; the

bidder is on the other side. We're essentially the conduit by which the trade happens."

MuniAxis Lebenthal must approve everybody with access to the platform, Moore said. Once approved, he added, users can see every item that's out for the bid, what the current high bid is on that item, and use that information to make an informed bid while choosing.

Sellers submit their bonds, which become available and biddable by all the other approved subscribers. The system facilitates a live auction for sellers and buyers to let the market determine fair value.

"Oftentimes, SMA managers have clients who need to raise cash," Moore said. "They're listing those bonds for sale because they want to raise cash for that client, and they've got compliance rules that say: you can't put a price on it; you've got to put it out for the bid and let the market determine what fair value is for those bonds today, which could be different from yesterday. It's all based on current market conditions."

There is no fee to join MuniAxis. Commissions are only paid upon completed trades. All approved subscribers of MuniAxis become trading partners of MuniAxis Lebenthal, LLC.

Introducing an auction platform will add transparency to the bidding process, said Anthony Greco, a trader at Breckinridge Capital Advisors, a MuniAxis subscriber. "Hopefully, that transparency will encourage more participation," he said. "If [participants] knew that the bid was cheap and the bonds were going to trade, then maybe they'd be encouraged to participate."

MuniAxis worked with Investortools to set up functionality through its portfolio management software, Perform. Through the partnership, Investortools built links into Perform, making it easier to list bonds on MuniAxis.

MuniAxis also uses the Thomson Reuters Municipal Market Data curve to show all bids with a yield delta to MMD. And MuniAxis hosts and displays locally analytics supplied by Interactive Data and bond ratings from Moody's Investors Service and Standard & Poor's.

Lebenthal & Co., and MuniAxis are currently approving and enrolling subscribers so the trading platform has enough buyers and sellers for the launch day. Several firms that helped design the system, as well as define some of its features and functionality, stand as likely users, Moore said.

Currently, asset managers selling odd-lots can use the Bloomberg MBWD bid-wanted system. In addition, BondDesk Group LLC and S&P Capital IQ announced recently that they will launch a pricing service for odd-lot fixed income markets, called Odd-Lot Valuations, sometime in the fourth quarter.

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