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SIFMA to SEC: Don't Approve MSRB Fair-Pricing Rule.

WASHINGTON — The Securities Industry and Financial Markets Association is urging the Securities and Exchange Commission not to approve the Municipal Securities Rulemaking Board's proposed fair-pricing rule, arguing it is too intertwined with another pending rule.

The proposed fair-pricing rule would consolidate MSRB Rules G-18 on execution of transactions and G-30 on prices and commissions, as well as incorporate existing guidance regarding fair pricing in interpretive guidance to MSRB Rules G-17 on fair dealing and G-30. The proposed changes would create a single general rule, G-30, on prices and remuneration.

The MSRB filed the proposal with the SEC earlier this year, but SIFMA managing director and associate general counsel David Cohen said in a letter to the commission and a brief interview Wednesday that it should go no further until the MSRB explains how the rule would overlap with a proposed best execution rule the board rolled out in February.

Draft Rule G-18 would require broker-dealers to "use reasonable diligence in seeking to obtain for their customer transactions in municipal securities the most favorable terms available under prevailing market conditions." Based on the Financial Industry Regulatory Authority's Rule 5310 for equities and corporate debt, the proposal was recommended in the SEC's 2012 Report on the Municipal Securities Market and is part of an effort to protect retail muni investors from paying more than they should.

Cohen said Wednesday that the two rules must be viewed side by side and that the SEC should not allow a new G-30 to go through until market participants understand the interplay between the two.

"Best execution is about two things," Cohen said. "It's about an order handling process, and the resulting price for the customer. So they're related."

"We would like the MSRB to tell us how they believe the two rules interact," Cohen added.

SIFMA's comment letter also takes the MSRB to task for not being willing to consider its earlier comments in the context of this rulemaking. The letter expresses support for the MSRB's goal of more efficient regulation, but is critical of the board for declining to consider some rule changes during the consolidation of existing guidance, calling that "a lost opportunity."

SIFMA had sought incorporation of additional guidance on matters such as sophisticated municipal market professionals and clarification of certain terms which the MSRB did not agree were necessary, according to the SEC's request for comment.

"SIFMA believes that improvements should be considered whenever rules are being reviewed, amended, or created," the letter states. "This is especially true in view of the extensive process required in rulemaking. However, in response to a number of comments made by SIFMA, the MSRB dismissed them. The MSRB refused to consider the comments on the merits, and stated 'this request goes beyond the scope of this rule making, and the MSRB can consider this request as part of any

substantive changes at a later date.'"

The MSRB was unable to immediately provide a comment in response to the SIFMA letter. The board has said the new fair-pricing rule will help dealers to understand and comply with their fair pricing obligations by organizing them together in a single location.

Cohen said that there is not likely to be any impact to the market in delaying approval of a new G-30 for the time being because dealers already have those obligations under existing guidance.

The MSRB asked that public comments on the best execution proposal be submitted by March 21. The SEC could choose to grant SIFMA's request, it could ask the MSRB to amend the fair pricing proposal, or it could decide to approve the proposal as it is.

BY KYLE GLAZIER

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