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MSRB to Discuss Trade, Best Execution, MA Rules at Meeting.

WASHINGTON — The Municipal Securities Rulemaking Board next week will discuss plans to rebuild its real-time reporting system and the possibility of developing a rule to limit the political contributions of municipal advisors, as well as the comments it has received on its proposed rules on best execution and MA conduct.

The MSRB released topics for its meeting in Alexandria, Va. next Wednesday through Friday, including efforts to turn the RTRS into a true central transparency platform.

The board announced in October that price transparency would be a major objective for the new fiscal year, and that it hoped to strengthen its EMMA website by adding more post-trade pricing data. In January the board asked market participants to comment on the possibility of tweaking the current RTRS, including the possibility of no longer giving dealers extra time to report certain trades.

The board will discuss comments on its proposed Rules G-42 on the duties of municipal advisors who do not solicit muni business and G-18 on best execution. Rule G-42 touched off some intense debate among market participants when the MSRB proposed it in January. It would codify the language of the Dodd-Frank Act and the Securities and Exchange Commission's registration rule for MAs, which impose a fiduciary duty on them to put their client's interest first before their own. The draft rule says MAs owe both a duty of loyalty and a duty of care to their issuer clients.

It would prohibit an MA and its affiliates from engaging in any other transaction in a principal capacity with a client, which dealers warned could be "unworkable" for banks with associated muni advisory businesses. The bank would have to choose between providing banking services or MA services to a client under the proposal, banking and dealer group leaders told the MSRB.

The idea of a best execution rule, which would require broker-dealers to "use reasonable diligence" to obtain "the most favorable terms available under prevailing market conditions" for their customers, initially faced very heavy skepticism from dealer groups who warned that an attempt to impose a "trade-by-trade" corporate-style mandate wouldn't work in the more opaque and less liquid muni market.

More recently, dealers have softened their views on the proposal but requested more guidance on how a best-ex rule would interact with fair-pricing requirements. Non-dealer financial advisors said the board's fair-dealing rule would need to be amended, because of the proposed G-18 best execution rule, to reflect a dealer's new obligation to sell securities at prices most favorable to investors — something issuers would need to know if the proposed best-ex rule applies to new offerings as well as secondary market transactions.

Other topics of discussion will include a possible rule governing restrictions on political contributions by registered MAs, and dealer continuing education requirements.

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