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MSRB Proposes Transparency Changes.

WASHINGTON — The Municipal Securities Rulemaking Board is asking for comment on proposed changes to its G-14 trade reporting rule, including whether to require dealers to identify conditional trade commitments, which differ from newly issued bonds but are reported at the same time.

The inability to distinguish between CTCs and newly issued bonds has created some confusion among investors.

The [MSRB notice](#), issued Wednesday, touches on a variety of market transparency initiatives that would affect how muni market information is reported and disseminated. Among the proposed new data elements are indicators of both which trades result from CTCs and which transactions are executed through alternative trading systems, as well as other proposals related to the board's goal of building a comprehensive central transparency platform for munis. Comments are due by Sept. 26.

"All of these post-trade data elements would enhance transparency in the municipal securities market," said MSRB executive director Lynnette Kelly. "These proposed changes are among the many steps we are taking to ensure that EMMA continues to evolve in response to changing municipal market practices and technological capabilities."

Conditional trade commitments occur when dealers solicit, accept, and conditionally allocate orders prior to the signing of the bond purchase agreement. The prices agreed upon do not necessarily reflect market conditions at the time of the formal award of the bonds. Because trades cannot officially be executed until the bond purchase agreement is signed and the bonds are formally awarded to the underwriter, conditional commitments appear on EMMA the same day as the day the bonds are issued and initially sold. There is no current means of distinguishing between conditional commitments and bonds sold the first day.

The MSRB proposal would require dealers to identify trade reports resulting from CTCs with a new indicator and report the date and time the CTC was made in a new field on the publicly-available trade reports. All dealers, including those outside the underwriting group, would include the new information on trade reports.

"The CTC indicator, together with the date and time at which the pricing of the commitment was made, would provide important transparency as to whether such price is indicative of current market conditions," the MSRB proposal states. "Further, capturing the date and time that the commitment was formed would enable market participants to discern the sequence of new issue trading as well as to link specific transactions to market conditions as of the time an order was formed."

The MSRB indicated its interest in these transparency steps in a July 2013 concept release, which prompted dealers to warn that providing such information could be burdensome without providing much help to investors.

Leslie Norwood, associate general counsel and co-head of municipal securities at the Securities Industry and Financial Markets Association, said SIFMA supports the MSRB's goals of increased transparency but continues to believe that the cost of a CTC indicator would outweigh any benefit to investors.

"It's going to take a re-write of many back office systems," Norwood said, explaining that existing dealer and bank computer systems would need to be reprogrammed to allow for such an indicator.

Ernesto Lanza, a partner at Greenberg Traurig in Washington and former MSRB deputy director said that the CTC indicator could prove very helpful to investors, but would probably not cause a major shift in market practices.

"The question is how to do it in a way that is not cost-prohibitive or process-prohibitive," he said.

Another new indicator would identify which trades occurred via alternative trading systems. The MSRB already identifies transactions done through a broker's broker, because the broker's broker informs the MSRB. The board does not currently identify trades executed through an ATS, but is proposing to require that trade reports identify if an ATS was used as well as the identity of the ATS.

"Identifying in disseminated transaction information that an ATS was employed should provide for higher quality research and analysis of market structure by providing information about the extent to which ATS' are used and should complement the existing indicator disseminated for transactions involving a broker's broker," the MSRB proposal states.

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BY KYLE GLAZIER

AUG 13, 2014 3:51pm ET