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MSRB to Discuss Bank Loans, Markup Disclosure at Meeting.

WASHINGTON – The Municipal Securities Rulemaking Board plans to discuss bank loans and dealer disclosure of markups to retail customers during its board meeting here next week.

At the meeting on Jan. 27 and 28, the board also will consider academic use of MSRB data, shortening the trade settlement cycle, savings accounts for individuals with disabilities and financial abuse of the elderly, according to an MSRB release.

The MSRB is expected to consider whether it should take action on bank loans. It has focused on bank loans so far by encouraging issuers to voluntarily disclose them. The self-regulator also made adjustments to its EMMA system last August to make it easier for issuers to disclose the loans on their homepages.

“Bank loans have certainly been a rallying cry for this organization,” said MSRB executive director Lynnette Kelly. “We’ll continue to talk about bank loan issues, what board members are seeing in the market, and any observations that people want to make.”

While the board only plans to have a discussion on the topic, Kelly said there is nothing stopping the 21 board members from choosing to go out and solicit comments from the industry or ask the Securities and Exchange Commission for more information.

The board’s discussion on markup disclosure in confirmations sent to retail customers will center on the criticisms and other comments market groups made in letters sent to the MRSB about the proposed changes to Rule G-15 on uniform practices.

Dealer groups criticized the proposal for not aligning with similar confirmation rule amendments proposed by the Financial Industry Regulatory Authority. FINRA’s changes would require dealers to disclose the differential between the price to the customer and the dealer’s reference price. The proposed rule changes also diverge in the timing of trades they would require dealers to consider, with the MSRB rule mandating dealers include trades occurring within two hours of the transaction and the FINRA rule spanning a full day of trading.

The groups also said the MSRB’s rule will impose substantial costs on dealers if it is adopted.

No action item is scheduled on confirmation disclosure during the board hearing but Kelly said the next step for the board is to meet with FINRA to see if there can be a “meeting of the minds” on the type of proposal to pursue.

The MSRB board will also discuss a set of comment letters the self-regulator received in September about a proposal to give academics muni trade and pricing data that use anonymous dealer identifiers.

The July 16 proposal would prohibit academics from reverse engineering and redistributing the data.

It also would require them to disclose their specific intentions for requesting the information. The data would only be available to academics with institutions of higher education and would have to be more than two years old to be eligible for release.

Researchers who commented on the proposal said the addition of anonymous dealer identifiers would improve liquidity and enhance transparency in the market.

But dealer groups said they were afraid the identifiers would open their members up to having their identities, trading strategies, and inventories discovered through reverse engineering. The groups instead advised the MSRB to release data that combines dealers with similar characteristics and excludes all primary trades.

The board is also planning to talk about several other initiatives the MSRB has focused on in the past, including improving EMMA such as by adding yield curves, and helping facilitate a market transition to a T+2 settlement cycle.

The MSRB's proposal to change muni trade settlements to two days from three after execution has general support from market groups and is tied to the SEC making similar changes as part of an industry migration that would be completed by the end of the third quarter of 2017.

The MSRB will additionally revisit its Rule G-15 on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers. A portion of that rule prohibits dealers from trading bonds in amounts below the minimum denominations set by issuers. The minimum denomination is usually set at $5,000 but can be as high as $100,000 if the issuer determines the bonds are unsuitable for retail investors.

The board's discussion will center on a possible request for comment on amendments that would allow more exceptions from the minimum denomination requirement in certain circumstances, such as beneficiaries of a will receiving set portions of an individual's bond holdings or parties in a divorce splitting investments.

The goal of any change would be to keep the rule as strong as possible while providing for exceptions that may not meet the rule exactly, but follow the spirit of it, Kelly said. She added a parallel goal would be to never create a situation where a trade creates more people holding a position below a minimum denomination than before.

For example, if an individual were to come into possession of $75,000 of bonds that have a $100,000 minimum denomination, the updated rule may allow the individual's dealer to sell bonds in an amount below the minimum denomination to individuals who already hold at least $100,000 of the bonds.

The re-evaluation of the rule is part of the MSRB's larger effort to update its rulebook to reflect current market conditions, Kelly said. Additionally, the MSRB is discussing its possible jurisdiction over tax-advantaged savings programs that help support individuals with disabilities maintain health, independence, and quality of life. The programs are a result of the Achieving a Better Life Experience Act of 2015 and may resemble 529 College Savings Plans in potentially falling under the MSRB's jurisdiction.

The agenda also includes plans to discuss efforts by state agencies, other self-regulatory organizations, and policy makers to protect elderly investors from the risk of, or actual, fraud. The MSRB does not have a specific rule that applies to the effort, but the board is fully engaged in monitoring the other agencies' activities, Kelly said.

THE BOND BUYER

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JAN 20, 2016 1:32pm ET

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