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Municipal Securities Investors to Gain Access to Dealer Compensation Information.

Washington, DC - Ushering in an historic change for transparency of the municipal market, the Municipal Securities Rulemaking Board (MSRB) has [received approval from the Securities and Exchange Commission](#) (SEC) to require municipal securities dealers to disclose their compensation when transacting with retail investors. The MSRB has worked in coordination with the Financial Industry Regulatory Authority (FINRA), and the SEC also approved a [similar rule proposed by FINRA for the corporate and agency debt markets](#), which harmonizes the new requirements across these fixed-income markets.

“The municipal bond market will gain an unprecedented level of transparency when this new rule is put in place,” said Colleen Woodell, Chair of the MSRB Board of Directors. “We have been working tirelessly to improve transparency for municipal bond investors and the changes set in motion today will allow them to assess their municipal bond transaction costs in a way similar to other markets.”

Retail investors in municipal securities receive less information on their written transaction confirmations about the cost of their transactions than investors in, for example, equities. The rule approved by the SEC will provide municipal retail investors with meaningful and useful pricing information to help them better evaluate the overall cost of their municipal securities transactions. The new MSRB rule will go into effect in 18 months.

When the rule is in place, municipal securities dealers will be required to provide retail investors information about dealer compensation, in the form of a mark-up or mark-down, for certain transactions. The MSRB expects the disclosure to affect an estimated 8,000 retail investor municipal securities transactions each day. “Disclosure of dealer compensation to investors will go a long way to helping municipal securities investors better understand the cost of buying or selling a bond,” Chair Woodell said.

The specifics of the MSRB’s rule focus on when a dealer in a principal capacity (for the dealer’s own account) purchases from or sells to a retail customer and on the same day has an offsetting sale or purchase of the same security to or from a third party. The rule requires that a dealer disclose on the customer’s confirmation the dealer’s compensation, in the form of a “mark-up” or “mark-down” from the “prevailing market price” of the security. In addition to providing the dollar amount and percentage of the dealer’s compensation on a trade, the confirmation would include the investor’s time of the trade and a link to trade price data about the security on the MSRB’s [Electronic Municipal Market Access \(EMMA®\) website](#).

The rule changes include guidance for dealers on establishing the prevailing market price of a security, from which a dealer’s mark-up or mark-down is determined. The guidance builds on existing guidance under the MSRB’s fair pricing rules, which requires dealers to use reasonable diligence in establishing the prevailing market price of a municipal security, and is also generally harmonized with prevailing market price guidance previously adopted by FINRA and applicable to other fixed income securities.

The MSRB's detailed explanations in its rulemaking materials are designed to assist dealers in understanding the MSRB's regulatory intent for the application of the mark-up disclosure rule and prevailing market price guidance to different trading situations and the unique characteristics of the municipal market, which has more than one million individual bonds, most of which do not trade frequently. For example, the MSRB's materials specifically address establishing the prevailing market price by reference to contemporaneous customer transactions; the ability of dealers to calculate their compensation at the time of disclosure to a customer; the frequent absence of pricing information for sufficiently comparable municipal securities; and the implications of transactions with affiliated dealers.

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