

# **Bond Case Briefs**

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## **New Commission Disclosure Rule Could Alter Bond Market.**

A new rule going into effect Monday will let retail investors see how much money their brokers earn in commissions selling them bonds, the Wall Street Journal reports.

Brokers will be required to disclose their profits on the corporate and municipal bonds they buy and then sell to retail investors on the same day, according to the paper. In addition to markups, brokers will also need to disclose markdowns — the reductions in bond prices investors take when bonds are sold before their maturity, the Journal writes. Retail investors control the largest share of the \$3.85 trillion market in state and local government bonds, according to the paper.

The new rule is a result of a multiyear effort by Finra and the Municipal Securities Rulemaking Board and was in fact ready in 2016, but the industry's two self-regulators delayed implementation until this month to allow brokers time to adjust, the Journal writes. Brokers have complained that automating the process for calculating markups on thousands of trades a day would cause complications, according to the paper. Don Winton, chief operating officer at brokerage Crews & Associates Inc., tells the Journal that the rule cost the firm "well into six figures" to prepare for and will continue eating up "high five figures" annually to implement.

Brokers may have to make further changes still in light of the rule. The new disclosures may cause some investors to try to negotiate their fees, according to the Journal. In addition, the rule could accelerate the current transition from direct ownership of bonds to ownership through managed funds such as mutual funds or exchange traded funds that typically come with lower fees, the paper writes.

Finra and MSRB say the rule is a major transparency improvement in the bond market and will save investors money, according to the Journal. Current and former officials of the two agencies have said that investor testing prior to the rule revealed little understanding of markups and markdowns or how brokers are paid on bond trades, the paper writes. Now, the disclosures on bond trades will be comparable to information provided to investors on stock trades, a spokesman for Finra tells the Journal.

### **Financial Advisor**

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