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Dealers See Need For More Benchmark Transparency.

WASHINGTON — The transparency of some market benchmarks used to price new municipal bonds needs improvement, dealer groups told the Municipal Securities Rulemaking Board this week.

The Securities Industry and Financial Markets Association and the Bond Dealers of America made that point to the board in responses to a previous MSRB request for information on how market participants use curves and benchmarks.

“Some of the benchmarks used in our market are sufficiently transparent, but not all,” wrote Michael Decker, a managing director and co-head of munis at SIFMA.

“For the most widely used benchmark, the MMD scale, the market is missing some key information,” he said, referring to a curve produced by Municipal Market Data. “For example, while we know that MMD uses some third-party information in calculating their scale, we do not know how much data come from third parties, what is the nature of that information, who the third-party providers are, whether those providers may have conflicts of interest with respect to the scale, how those data are used in the calculation, and other key information. Greater transparency would help market participants better understand how MMD is calculated and how MMD behaves under different market conditions.”

BDA CEO Mike Nicholas told the MSRB that all member firms who responded reported that benchmarks were used for new issue pricing, and that a majority used them for block-size dealer bids and for institutional investor bids and offers in the secondary market. Retail use was less common, Nicholas said.

BDA members were in some disagreement about transparency, Nicholas told the board.

“Some members believe that the benchmarks currently available in the municipal market are sufficiently transparent,” he wrote. “One member noted that unique disclosures and credit ratings make it challenging for transparency benchmarks and can render them not viable for a one size fits all approach. Having better access to EMMA data could be a solution for better transparency.”

The MSRB has been studying the methodologies, mechanics and functions of market indices, yield curves and other benchmarks since 2012, and began making some available on its EMMA website for free in July 2017. Such indices provide information about muni bond interest rates, potentially allowing investors and issuers to make more informed decisions on investments and issuances. The MSRB said when it made the request for comment in August that it was primarily informational in nature.

Decker said that there may be an opportunity to provide input to providers of market benchmarks.

“Talking with some of our market’s benchmark sponsors, there may be interest in forming a diverse, market-wide advisory group of stakeholders to provide feedback and advice to municipal benchmark providers on their methodologies and processes,” Decker wrote.

The groups were mixed on the MSRB's question regarding whether the International Organization of Securities Commissions' Principles for Financial Benchmarks are appropriate for benchmarks in the municipal securities market. IOSCO describes itself as "the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector."

Decker told the board that many of the IOSCO principles make sense for the muni market, such as the recommendation that benchmark administrators establish and publish guidelines regarding the sources of data and information they use.

"There were differing opinions across membership on whether IOSCO Principles are appropriate for benchmarks in the municipal securities market," Nicholas wrote. "Some agreed that they are appropriate while others were unfamiliar and cautious of the efficacy of an international benchmark application to the US municipal securities market."

While the MSRB has indicated that its request for information was more informational than a prelude to rulemaking, Decker told The Bond Buyer that it was appropriate for the MSRB to raise these questions and that the board doing so might hopefully spur additional transparency from benchmark providers.

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