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SIFMA Proposes 'Execution With Diligence' Standard for Municipal Trading

New York, NY, July 26, 2013— SIFMA today issued its proposed execution-with-diligence standard for municipal trading, following its initial proposal to the MSRB in June 2013 that an execution-with-diligence standard be applied to trades in municipal securities. This is a higher standard for dealers to meet than what is currently in place.

The SIFMA proposal promotes effective and efficient regulation of the municipal securities market and would enhance investor protection without harming liquidity. It would also impose higher standards on municipal securities dealers that would advance public trust and confidence in the municipal securities market, and would result in a principles-based rule that does not favor one execution venue or counterparty over another.

The standard was developed by a working group of members following the July 2012 SEC Report on the Municipal Securities Market. It was approved by an overwhelming majority of members of SIFMA's Municipal Securities Division.

"SIFMA's proposal moves the industry forward in a robust way that further enhances standards so that customers receive fair and reasonable prices," said David Cohen, managing director and associate general counsel. "The proposal recognizes the unique characteristics of the municipal market and would strengthen regulation in a manner consistent with the way the market operates."

Since municipal bonds are not traded on a central exchange and there is no central aggregator of quotes, the execution standard in the municipal market cannot mirror that for equities. The municipal securities market also has fundamental differences from other debt markets, including its diverse and fragmented nature, small securities trade sizes and far less frequent trading than corporate bonds. SIFMA supports efforts to improve trade execution standards while noting that, because of the unique characteristics of the municipal market, there is not one path for dealers to take for execution with diligence. Accordingly, we have proposed a principles-based rule.

The SIFMA proposal includes concepts similar to FINRA's approach to corporate fixed income securities but with modifications applicable to the municipal market. It would define "market" as encompassing those brokers, dealers, and municipal securities dealers that are known to trade in a particular security and would require periodic review of trading counterparties, which would be a new regulatory requirement.

To enact the recommendation, SIFMA is encouraging the Municipal Securities Rulemaking Board (MSRB) to amend its Rule G-18 to reflect an "execution-with-diligence" concept of execution. In conjunction with its proposal, SIFMA is also encouraging the MSRB to consider the short term and long term costs and potential benefit of any rule making before formally proposing any changes.

SIFMA's recommendation can be found here: <http://www.sifma.org/issues/item.aspx?id=8589944578>

