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Dealers: Don't Confuse Investors With Too Much Data.

Dealer groups are telling the Municipal Securities Rulemaking Board that they worry too much pricing data will confuse investors and hurt the secondary market.

The Securities Industry and Financial Markets Association and the Bond Dealers of America aired their concerns in the comments sent to the MSRB over its concept release on pre-trade and post-trade pricing data dissemination through a central transparency platform.

The release requested industry feedback on what pre-trade and post-trade pricing information the MSRB should consider publicly disseminating over the CTP it plans to develop. There is currently no central location where muni market participants can access pre-trade pricing data. Such information is often available to institutional investors through broker's brokers, alternative trading systems, or other systems. But it is not really available to retail investors.

The MSRB collects and publicly disseminates secondary market trade data and prices over EMMA, but wants to know what improvements can be made.

The board has indicated that it is especially interested in whether it should require reporting of so-called "conditional trade commitments," which occur when dealers often solicit, accept, and conditionally allocate orders prior to the signing of a bond purchase agreement. The prices agreed upon at that time often do not reflect market conditions at the time of the formal award of the bonds.

Because trades cannot officially be executed until the bonds are formally awarded to the underwriter, conditional commitments appear on EMMA the same day as the day the bonds are issued and initially sold. There is no easy way to distinguish between conditional commitments and bonds sold the first day. The board wants to know if it should develop a new indicator for conditional trading commitments, as well as indicators showing what venues trades occurred in.

While dealers said they have been and remain supportive of making the muni market more transparent, they harbor deep concerns about bewildering retail investors, compromising the strategies of brokers, and having to pay for the costs the new reporting requirements could impose on them.

"The BDA believes some additional data elements might be helpful to dealers in the way of securing high quality and timely bids and offers," BDA president and chief executive officer Mike Nicholas wrote in the group's comment letter. "However, we would suggest that the MSRB further consider the consequences of requiring dealers to produce this additional information and making this information available to investors without appropriate context and detailed educational materials for the investor to understand the value in the information."

"While the BDA believes increased transparency is ultimately better for the investor," his letter continues, "we would caution that some of the new data elements being considered by the MSRB for pre-trade reporting may undermine trading strategies resulting in the constriction of some market participants for fear that their trading strategies may be compromised, leading to depletion in

liquidity.”

Leslie Norwood, managing director, associate general counsel, and co-head of municipal securities at SIFMA, questioned whether the benefits of this transparency could ever outweigh the “astronomical” costs firms would incur setting up their systems in order to be compliant. She also said SIFMA fears investors would have trouble processing too much information.

“We have serious concerns about investors getting information overload,” Norwood said.

The MSRB could choose to propose a rule or series of rules addressing pre-trade and post-trade disclosure, but is currently prioritizing rules stemming from the Securities and Exchange Commission’s municipal advisor registration rule, as well as working on a muni market best execution rule.

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