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MSRB to Discuss Draft Rules on Best Execution, MA Compliance, Fees.

WASHINGTON — The Municipal Securities Rulemaking Board will discuss draft rules creating a best execution standard for broker-dealers and establishing supervisory and compliance requirements as well as fees for municipal advisors during its next meeting Jan. 29-31 in Atlanta.

Best execution has been a concern for dealer groups, who have warned that a corporate bond-style rule requiring dealers to seek the best prices for their customers would not work in the more opaque and illiquid muni market.

The Securities Industry and Financial Markets Association had suggested an “execution with diligence” standard that would have been less stringent and would not result in a rule violation as long as a dealer made a reasonable effort to get a fair deal for a customer under prevailing market conditions.

MSRB executive director Lynnette Kelly has said that although the rule is based on an existing Financial Industry Regulatory Authority rule, it will be specific to the municipal market.

The board will also discuss a draft supervisory and compliance rule for municipal advisors, the MSRB announced. This rule is among several that dealer-affiliated financial advisors have been bound by for years but which will be new for non-dealer FAs and which will apply to anyone who provides targeted muni-related advice to a state or local government. MA regulation was mandated by the Dodd-Frank Act, and the MSRB is building from both that legislation and from the Securities and Exchange Commission’s MA registration rule adopted last year. The supervisory rule is likely to be similar to the board’s Rule G-27 on supervision for dealers, which requires written policies and procedures designed to ensure compliance with MSRB rules, among other mandates.

Besides the two draft rules, the MSRB announced the board will also discuss two other concepts related to MA rulemaking. One topic will be the development of professional qualifications standards for MAs, another rule that has an existing dealer counterpart. The board will also discuss the topic of municipal advisor fees. Board chairman Dan Heimowitz has said the MSRB will prioritize the development of MA rules this year, and that he is hopeful of having a strong framework of rules in place when a new chairman replaces him in October.

The meeting will shortly follow an educational outreach event the MSRB will host in Atlanta on Jan. 28. Separate sessions will cover municipal advisor regulation, improving transparency of municipal bond prices and the availability of educational resources for state and local governments that issue bonds, the MSRB has said.

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