

Bond Case Briefs

Municipal Finance Law Since 1971

Dealers Want More Best-Ex Guidance.

WASHINGTON — Dealer groups are happy that the Municipal Securities Rulemaking Board has exempted sophisticated municipal market professionals from its proposed best execution rule, but would like more guidance and economic analysis going forward.

The Securities Industry and Financial Markets Association made these points in comments on the MSRB's proposed Rule G-18, which would require broker-dealers to "use reasonable diligence in seeking to obtain for their customer transactions in municipal securities the most favorable terms available under prevailing market conditions."

SIFMA said the group is largely on board with the MSRB proposal, and is hoping for guidance on how the rule interacts with the board's proposed pricing rule, G-30.

"Before the MSRB adopts a final rule, SIFMA requests additional information and guidance from the MSRB relating to the harmonization of Rule G-18 and G-30, as well as compliance issues," wrote SIFMA managing director and associate general counsel David Cohen.

Based on the Financial Industry Regulatory Authority's Rule 5310 for equities and corporate debt, the proposed rule goes a step beyond the current Rule G-18 on execution of transactions, which requires dealers to "make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions." If a best-execution standard was adopted, dealers would need to establish or revise compliance policies and written supervisory procedures, as well as implement additional monitoring and surveillance.

Throughout the rulemaking process, dealers have pointed to the unique nature of the muni market and stressed the need for a rule recognizing the market's lack of a single central pricing resource.

Cohen said in a brief interview that SIFMA members would like more instruction from the MSRB on how dealers might demonstrate compliance with the rule. The draft rule lays out possible factors examiners could review to see if dealers were meeting their obligations, including what information dealers looked at to determine the market for a municipal security.

Both SIFMA and the Bond Dealers of America said they were glad to see SMMPs exempted from the best execution requirements. SMMPs are generally considered to require less protection than other investors, particularly retail investors. But SIFMA urged a more detailed analysis of the costs the regulation would impose on dealers, and BDA urged additional opportunity for comment and a deliberate pace by the MSRB.

"It is critical that the MSRB strike the appropriate balance between investor protection interests and the efficient operation of the municipal markets," Cohen wrote. "SIFMA would be pleased to work with the MSRB to obtain reliable empirical data to assist it in quantifying such costs and benefits."

Costs to consider could include those of developing and maintaining a comprehensive compliance and supervisory system, procedures and training programs, and more, the SIFMA letter states.

“We appreciate that the proposed rule exempts sophisticated municipal market professionals, and that the MSRB has included acknowledgements that municipal securities can be very thinly quoted,” said Bond Dealers of America senior vice president for government relations Susan Collet.

“Translating an intent to honor the nature of the municipal market into a workable regime is easier said than done, however. We believe that the regulators need to work in a very measured, cautious pace when attempting to finalize these rules. A 30-day comment period seems rather brief for a rule that will require a very delicate balance, so I am hopeful there will be more than one comment opportunity and an iterative process for working with the MSRB on this rule.”

The MSRB has requested that all comments on the proposal be submitted by March 21.

BY KYLE GLAZIER

MAR 13, 2014 3:20pm ET