

# **Bond Case Briefs**

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## **MSRB Holds Quarterly Meeting.**

**Alexandria, VA** – The Board of Directors of the Municipal Securities Rulemaking Board (MSRB) held its quarterly meeting April 30 – May 2, 2014, where it advanced several initiatives to improve the structure, efficiency and transparency of the municipal securities market. The Board also continued to develop a regulatory framework for municipal advisors, agreeing to propose extending its landmark pay-to-play rule to municipal advisors, among other actions.

### **Best Execution**

The Board agreed to seek approval from the Securities and Exchange Commission (SEC) to implement a “best-execution” standard for transactions in the municipal market. The rule would establish for the first time an explicit obligation for dealers to use “reasonable diligence” when handling and executing municipal security trades for retail investors to achieve a price that is as favorable as possible under prevailing market conditions.

“Building on the MSRB’s existing fair-pricing rules, the best-ex rule would add an additional layer of protection for retail investors while remaining flexible for dealers operating in a unique marketplace,” said MSRB Board Chair Daniel Heimowitz.

### **Municipal Advisor Regulation**

The Board continued its development of a regulatory framework for municipal advisors by agreeing to develop draft amendments to its pay-to-play rule for dealers to also include municipal advisors.

“For two decades, MSRB Rule G-37 has played a central role in curbing the use of, and the appearance of the use of, political contributions to secure municipal securities business,” Heimowitz said. “Extending these provisions to municipal advisors will help prevent *quid pro quo* political corruption, or the appearance of such corruption, in public contracting for both dealers and municipal advisors.”

To date, the MSRB has sought comment on draft rules for municipal advisors to establish core duties and standards of conduct, supervisory and compliance obligations, and baseline professional qualification requirements. The Board reviewed comments received on the first of these proposals, draft MSRB Rule G-42, on the duties of non-solicitor municipal advisors. The Board began revising the draft rule to clarify and respond to concerns raised by commenters, including concerns about the treatment of principal transactions. It will continue to consider the comments received and will announce next steps soon.

### **Price Transparency**

The Board also advanced three initiatives to enhance price transparency for municipal securities investors. The first is the introduction of a “price discovery tool” on the MSRB’s [Electronic Municipal Market Access \(EMMA®\) website](#) that will soon allow investors to easily find and compare prices of municipal securities with similar characteristics. A new graphical view of historical pricing will make data on EMMA even more useful and enable investors to clearly see prices at which any municipal security and other securities with similar characteristics were bought and sold over a specified

period of time. The EMMA website, at [emma.msrb.org](http://emma.msrb.org), is the official source of municipal market disclosures and data, including trade prices for virtually all municipal securities.

“EMMA’s innovative price discovery tool will break new ground in terms of transparency for investors in the municipal market,” Heimowitz said. “This improved display of transaction prices has the potential of becoming a significant new tool for empowering investors to make more informed investment decisions.”

Second, the Board authorized MSRB staff to develop a concept release on the presentation of market information to aid investors in assessing markups or markdowns on their transactions. The MSRB supports a holistic review of the data available on the EMMA website and the ways that such data may enhance post-trade price transparency for investors and other market participants. The concept release will not contain a specific rule proposal, but will seek broad industry and public input in this area, including ways to address the topic of markup disclosure. Given many of the existing enhancements in post-trade price transparency on EMMA, fresh commenter input on markups and markdowns, including those on so-called “riskless principal” transactions or “matched trades,” may guide future rulemaking.

Third, the Board agreed to take the next steps toward expanding the pricing-related data available on EMMA as part of its central transparency platform initiative. The MSRB will develop a proposed framework for enhancing its Real-time Transaction Reporting System (RTRS) to collect additional post-trade information for public display on EMMA as well as a potential framework for a phased approach for the collection and dissemination of relevant pre-trade data. The MSRB will engage in outreach with market participants in advance of seeking formal comment, beginning this summer, on these two frameworks on separate tracks, consisting of a request for comment on proposed RTRS changes, followed by a concept release on a potential first phase of an incremental approach for collecting and disseminating relevant selected pre-trade data.

### **Dealer Continuing Education**

At its meeting, the Board also agreed to file with the SEC a modified proposal to require that dealers provide annual training on municipal securities to registered persons regularly engaged in municipal securities activities as part of the MSRB’s firm element continuing education requirements. Although not specifying a minimum amount of training time, as originally proposed, the Board believes that the unique nature of the municipal securities market and its regulatory environment necessitate annual municipal securities training to persons regularly engaged in this business. This requirement will help ensure that firms consider the particular training needs of personnel responsible for understanding municipal securities products and complying with MSRB rules. The MSRB makes available a number of free educational resources about its rules on its website, including webinars about proposed and final rules.

### **Other Business**

Finally, the Board met with SEC Commissioner Michael S. Piwowar, whose extensive background in economic analysis and municipal market structure lends an important perspective to the oversight of the municipal securities market. The Board and Commissioner Piwowar discussed the shared priorities of the MSRB and the SEC related to market structure issues and economic analysis of rulemaking.

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