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Muni-Bond Buyers May Overpay, SEC's Gallagher Says.

Retail investors buying municipal bonds may overpay for their trades because brokers aren't always required to disclose their commissions, according to a member of the U.S. Securities and Exchange Commission.

Brokers who acquire bonds to fill an immediate customer order should be required to disclose how much they mark up the securities at sale, SEC Commissioner Daniel M. Gallagher said in a speech in Washington yesterday. Rules only require the broker to trade with customers at a "fair and reasonable" price, Gallagher said.

His comments underscore how regulators are focusing on the \$3.7 trillion municipal-bond market, where retail investors constitute a majority of participants. The Municipal Securities Rulemaking Board is weighing a proposal to require that brokers seek the most favorable prices for clients in the municipal-bond market, which lacks a centralized exchange.

"It is still common for investors to place corporate- and municipal-bond trades by calling their broker for a quote, without much insight as to whether they are receiving best execution and a fair price," Gallagher told the rulemaking board's annual regulatory summit.

Gallagher also criticized state and local governments for understating the risk of their bonds by undervaluing pension liabilities. Lax accounting practices used to estimate those future payments "can amount to a fraud on municipal bond investors," Gallagher said.

"In the private sector, the SEC would quickly bring fraud charges against any corporate issuer and its officers for playing such numbers games," he said.

By Dave Michaels May 29, 2014

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