
Municipal-Debt Rules Proposed to Ensure Best Price Sought.

U.S. securities regulators are moving to require brokers to seek the best prices available when trading state and local bonds for customers, a step aimed at keeping investors from being shortchanged.

The Municipal Securities Rulemaking Board today asked the Securities and Exchange Commission to approve a new rule that would require traders to use "reasonable diligence" to obtain the most favorable terms available for customers.

The rule would place stricter standards on brokers who trade in the $3.7 trillion municipal bond market, which, unlike the stock market, lacks a centralized exchange. Current regulations require that brokers buy and sell bonds at "fair and reasonable" prices.

"A requirement that dealers seek the best execution of retail customer transactions in municipal securities will have benefits for investors, promote fair competition among dealers and improve market efficiency," the Alexandria, Virginia-based regulator said in its proposal to the SEC.

The move is part of a push by regulators to protect investors who buy and sell municipal bonds. The market is dominated by individual investors who seek tax-free income by buying bonds sold by states, cities and counties, which have little risk of default.

Embedded Fees

This month, the board said it may also force brokers to reveal to their clients what they paid for municipal bonds, which would allow customers to see dealers' profit on the trades. Such fees are typically embedded in the price and aren't currently disclosed.

The SEC in 2012 suggested that the board require brokers to seek the best prices available for customers. The MSRB then proposed the rules this year, and the submission today seeks the SEC's approval to put them in place.

The new regulations would require that brokers gauge prices on electronic platforms from various sources before deciding where customers would get the most favorable prices.

The rule wouldn't apply to institutional investors, such as money-management firms, which are better equipped than individuals to monitor prevailing prices, or individuals with at least $50 million to invest, the board said.

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