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## **Quick-Turn Bond Brokers Would Disclose Profits Under Finra Plan.**

Bond dealers who match retail buyers and sellers without assuming much risk themselves would be required to disclose their sales markups under a rule proposed today by the brokerage industry's self-regulator.

The Financial Industry Regulatory Authority measure would cover matched pairs, where firms fill client orders with bonds they hold for no more than one day, according to a statement released today. While stock brokers must tell investors how much they earn, many corporate bond dealers have profited from an opaque market where most trades are completed by telephone.

Securities regulators have sought a way to force dealers to disclose markups on certain bond sales, proposing rules on three occasions that were never adopted. Under Finra's new plan, which applies to trades involving 100 bonds or fewer, investors would see the price they paid or received as well as the dealer's price on their confirmation statement.

"The fact that we see these trades occurring in the vast majority of cases in a very short time period, and we see significant variation with respect to the type of markups that occur, suggest to me there could be significant value to relaying that information to customers," Finra Chief Executive Officer Richard G. Ketchum said in an interview this week.

Lobbyists for Wall Street brokerages say regulators should be careful to avoid judging markups based simply on how much time passes between when a dealer buys and sells a bond.

### **Balancing Needs**

"We support reasonable efforts to improve bond-market transparency and we intend to study and comment on Finra's proposal," Sean Davy, managing director of the Securities Industry and Financial Markets Association, said in a statement. "A key issue for Sifma will be balancing the need to improve transparency with the need to preserve market liquidity."

The Finra proposal was prompted by Securities and Exchange Commission Chair Mary Jo White, who called in June for regulators to develop rules for disclosure of markups by the end of the year. SEC Commissioners Daniel M. Gallagher and Michael S. Piwowar also have called for the disclosure. The SEC must approve the proposal for it to become effective.

Finra's Board of Governors today also approved rule proposals aimed at improving transparency in off-exchange venues that trade stocks and bonds. One would require electronic bond-trading platforms to report to the regulator the price quotes they disseminate for corporate debt and mortgage bonds backed by the U.S. government. Finra said it would separately seek public comment on whether to make those quotations available to the public.

### **Oversee Testing**

The board approved another proposal sought by White — extending Finra’s registration requirements to employees of trading firms who develop computerized trading algorithms. Finra also issued new guidance for how firms are expected to oversee the testing and use of automated trading tools to ensure they aren’t manipulative and don’t harm markets.

“What we’re basically describing is best practice in the industry,” Ketchum said. “There is a wide variation of controls existing there and we think there ought to be a greater focus across the board.”

By Dave Michaels Sep 19, 2014 11:56 AM PT

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