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Dealers: Transparency Proposals Very Costly.

WASHINGTON – The Municipal Securities Rulemaking Board could accomplish many of its transparency goals more cheaply by providing more information itself than by requiring dealers to provide it, the Securities Industry and Financial Markets Association told the MSRB Friday.

SIFMA associate general counsel and co-head of municipal securities Leslie Norwood penned a lengthy comment letter in response to the MSRB's latest round of proposals aimed at enhancing post-trade muni market data through a new central transparency platform, or CTP. The MSRB is considering requiring dealers to disclose a variety of new information in their electronic trade reports, such as flagging trades: executed on alternative trading systems; using non-transactio--based compensation agreements or; originating as conditional trade commitments.

While SIFMA said it appreciates the MSRB's deliberate approach to the CTP, and its decision not to seek changes to reporting deadline requirements, it warned that some of the proposals would require costly overhauls of dealers' automated systems without offering enough market value to justify those costs.

"We're certainly pleased that they're being methodical," Norwood told The Bond Buyer. "Transparency is important to everybody in the market."

One of the biggest changes the MSRB is proposing is the requirement to indicate which trades result from conditional trade commitments. CTCs occur when dealers solicit, accept, and conditionally allocate orders prior to the signing of the bond purchase agreement. The prices agreed upon in a CTC may not reflect market conditions at the time of the formal award of the bonds. Because trades cannot officially be executed until the bond purchase agreement is signed and the bonds are formally awarded to the underwriter, CTCs appear on EMMA the same day as the day the bonds are issued and initially sold. There is no current means of distinguishing between CTCs and bonds sold the same day they were issued.

"SIFMA and its members recognize that the marketplace may benefit from an MSRB indicator denoting that the post-trade pricing information for a transaction reflects pricing under a conditional trading commitment," Norwood wrote. "The indicator, however, would be operationally very difficult to implement and may be misleading because it's an indication only of the client's interest at that specific point in time."

It would also be very expensive, she added, estimating that the required system overhauls could cost hundreds of thousands of dollars per dealer.

Norwood said that other CTP proposals, such as an indicator of when an alternative trading system was used on a transaction, could easily be handled by the MSRB itself to achieve the same end without pushing the associated cost onto dealers.

"The MSRB proposes that for those ATS' that take a principal position between a buyer and seller, the ATS and the dealers that transact with the ATS would be required to include the ATS indicator on trade reports," Norwood noted. "SIFMA feels that this is unnecessary and unduly burdensome, as the MSRB already knows what ATS firms take a principal position between a buyer and a seller, and can flag trades with those entities as ATS trades, just like it flags trades currently between dealers and municipal securities broker's brokers."

Bond Dealers of America chief executive officer Mike Nicholas told the MSRB that his group has some concerns with how new indicators could mislead investors with information not indicative of market conditions or irrelevant to improving transparency.

"While the use of a venue indicator, and specifically an ATS indicator, may provide for higher quality research and analysis of market structure by providing information about the extent to which ATS' are used and may complement the existing indicator disseminated for transactions involving a broker's broker as the MSRB suggests, this information is not likely to result in any significant or real transparency benefit to the investor and dealers should not be required to report such information," Nicholas wrote.

BDA said it supports requiring dealers to indicate which transactions occurred under non-transaction-based fee agreements because it could help investors account for differences compared to trades with transaction fees built in, but asked the MSRB to work with the industry in setting an appropriate implementation date on such a requirement.

Darren Wasney, program manager at the Financial Information Forum, a group that addresses the implementation issues that arise from securities orders, told the MSRB that the CTC indicator should be incorporated but without requiring dealers to report the date and time of the CTC agreement. The MSRB should instead define a CTC as any trade report executed on the first day of trading in a new issue that is a result of an order formed more than a specified number of hours in the past, Wasney wrote.

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