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Dealers to MSRB: Finish MA Rules, Cut Costs.

WASHINGTON — Dealers want the Municipal Securities Rulemaking Board to reduce the cost of compliance and to move quickly to finish the municipal advisor rules, while issuers are unsure they want the MSRB's protection.

Market participants offered their views in response to the MSRB's call for commentary on its recently published strategic objectives, which include implementing the MA rules, protecting municipal entities, facilitating market efficiency, and improving price transparency. The board is federally mandated to protect both issuers and investors, and is required to write rules fleshing out the requirements of the Securities and Exchange Commission's MA registration rule.

Dealers have long said that non-dealer advisors needed to be subject to the same rules with which they already comply and both the Securities Industry and Financial Markets Association and the Bond Dealers of America said that the board should focus on quickly completing its MA rulemaking.

"A key initiative for the MSRB in 2015 will be the execution of rulemaking projects that will bring previously unregulated non-dealer municipal advisors under full and appropriate regulatory oversight," wrote David Cohen, a managing director and associate general counsel at SIFMA. "In general, we believe the MSRB's focus with regard to MA regulation should be to establish on an expedient basis a set of regulations that protects issuers and regulates dealer and non-dealer MAs equally."

Cohen also said the MSRB needs to figure out ways to reduce the cost of compliance for regulated entities and find a way to spread the costs more evenly between dealers and the newly-regulated non-dealer MAs. Cohen told The Bond Buyer in a separate interview that dealers pay more than 85% of the MSRB's fees and that MSRB revenues have increased sharply since 2010.

"It is vital that the MSRB find a means of taxing all industry members in an appropriately balanced manner to ensure that each segment of your membership pays its fair share of your expenses," he wrote. "We believe the MSRB should undertake an across-the-board evaluation of your financing model and consider alternatives that would ensure that non-dealer municipal advisors pay their fair share."

Mike Nicholas, chief executive officer of the Bond Dealers of America, urged the MSRB to move forward with the MA rulemaking, but cautioned that the group not be too rash in pursuing price transparency.

"The BDA supports this goal but would like to reiterate our concern that the information that the MSRB seeks to collect and report from dealers in striving to achieve this goal be examined and thoroughly considered in order to determine if this information is likely to result in any significant or real transparency benefit to the investor and issuers," Nicholas wrote. "Simply making more information available about the pricing of municipal securities is not the best way to achieve price transparency and may, in fact, confuse investors and issuers."

Nicholas added that while the BDA appreciates the MSRB including a formal cost-benefit analysis in its procedures, it should be more rigorous.

“In a market with so many unique securities, rules should be designed to encourage more participants in the business and support competition, not to drive people out of the business,” he wrote.

Dustin McDonald, director of the Federal Liaison Center at the Government Finance Officers Association, said the issuers’ group is “wary” of the MSRB’s mission to protect state and local governments.

“While we are supportive of the board’s educational outreach initiatives to governments through online videos and factsheets and in-person seminars, we have concerns about any efforts by the board to develop regulations over governments under the pretext of municipal entity protection,” McDonald wrote.

The board should continue to focus on education and on making the most possible rating agency information available on EMMA, McDonald concluded.

THE BOND BUYER

BY KYLE GLAZIER

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