
New Rules on U.S. Bond Dealer Pay Come Closer to Fruition.

(Reuters) – The fight over dealer compensation in the $3.7 trillion U.S. municipal bond market is heating up, with the groups that oversee the market floating proposals on Monday that would require dealers to provide bond buyers with pricing references.

The Municipal Securities Rulemaking Board (MSRB) and the Financial Industry Regulatory Authority (FINRA) released twin proposals that would have dealers tell individual investors, also called a retail buyers, how much a security traded for in other transactions on the same day.

Investors would see the price comparisons on their trade confirmation sheets and also see the differences between the reference prices and what they paid.

Through “markups” and “markdowns,” dealers tack their compensation to the prices of bonds, making it difficult for individual investors to discern how much they have been charged. The MSRB has been working toward greater visibility of the fees in what are called “riskless principal transactions” for about a year.

Regulation is hazy on dealer compensation. Dealers must disclose their remuneration if they act as agents facilitating trades, but not if they act as principals in the trade. For most trades in the municipal bond market, dealers are “riskless principals” purchasing securities from their customers and immediately reselling them to other dealers.

In a sweeping report on the municipal bond market in 2012, the Securities and Exchange Commission said the lack of information about markups and markdowns in these transactions put retail buyers at a disadvantage. Then, last January, commissioners began calling for regulatory change.

The MSRB – made up of banks, issuers and advisers – writes the rules the SEC enforces. In June, SEC Chair Mary Jo White said she was “concerned that in the fixed income markets, technology is being leveraged simply to make the old, decentralized method of trading more efficient for market intermediaries.”

Her comments directly led to the development of the proposals.

The MSRB and FINRA are self-regulatory organizations overseeing the municipal bond market, which is dominated by individual investors, but FINRA also helps govern the private sector and the requirements would cover corporate bonds.

MSRB Executive Director Lynnette Kelly said the groups released the proposals at the same time to “facilitate consideration of whether any differences between the municipal securities and corporate bond markets justify differences in regulations.”

Comments on the proposals are due by Jan. 20, 2015.

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(Reporting By Lisa Lambert; Editing by Steve Orlofsky)