FINRA Lays Out Exam Priorities.

WASHINGTON – The Financial Industry Regulatory Authority's exam priorities for 2015 include making sure that both municipal advisors are complying with registration and other requirements and broker-dealers are meeting minimum denomination restrictions on bonds.

FINRA laid out its areas of focus in its 2015 regulatory and examination priorities letter, which it released Tuesday. Those areas include municipal advisor regulation, which FINRA will enforce with respect to dealer-affiliated MAs. FINRA only oversees MAs affiliated with dealers that are its members. The Securities and Exchange Commission oversees all MAs, including non-dealer MAs.

As of July 1 last year, any firm that provides state or local governments with advice related to muni bond issuance or the investment of muni proceeds must register as an MA with both the SEC and the Municipal Securities Rulemaking Board.

"FINRA has observed through onsite examination and regulatory coordinator outreach that some firms do not realize that the activities in which they engage subject them to municipal advisor registration requirements," FINRA said in its priorities letter.

"In 2015, FINRA examiners will focus on current SEC and MSRB municipal advisor requirements, reviewing for proper application of exclusions and exemptions, and potential unregistered activity," the letter continued. "Examiners will adjust their reviews to include new rules as they become effective."

Another priority cited in the letter, minimum denomination requirements, were highlighted last year when some firms sold a highly-anticipated $3.5 billion issuance of Puerto Rico general obligation bonds at amounts less than the specified $100,000 minimum.

MSRB Rule G-15 on uniform practice requirements prohibits broker-dealers from executing trades in sizes below the minimum denomination set by the issuer, except under very limited circumstances. The SEC sanctioned 13 firms for 66 illegal trades in November.

"In 2015, FINRA will focus on firms that sell municipal bonds in less than the minimum denomination, in violation of MSRB Rule G-15," the authority wrote. "Issuers often set high minimum denominations for lower-rated bonds that may make the investments inappropriate for retail investors. Investors who buy the bonds in smaller denominations may find limited liquidity, and thus poor pricing, when they choose to sell the bonds."

The letter also addresses some other priorities, such as best execution and fair pricing. The MSRB recently adopted a best execution standard for the muni market, requiring dealers to use "reasonable diligence" to ensure that customers get the most favorable price possible for a customer under the market conditions.

"In 2015, FINRA will increase its emphasis on reviewing firms' pricing practices, including whether firms have the supervision and controls in place to ensure they are using reasonable diligence and employing their market expertise to achieve best execution for their customers and avoiding excessive mark-ups (and mark-downs),” FINRA wrote.

FINRA urged firms to review their business practices with the authority’s concerns in mind.

“Serving the interests of the investing public and entities raising capital in a fair manner should be a guiding principle as firms pursue their business in 2015,” FINRA concluded.

THE BOND BUYER

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