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Dealers to MSRB: Withdraw Principal Trade Disclosure Proposal.

WASHINGTON - Dealers want the Municipal Securities Rulemaking Board to withdraw a proposed rule that would require them, when acting as principals, to disclose to customers on their confirmations a "reference price" of the same security traded that same day. The dealers are urging enhancements to existing transparency systems as an alternative to the proposed rule.

They made their comments, as did investors and the Securities and Exchange Commission, in responses to the MSRB's request for comment on its draft amendments to Rule G-15 on confirmation.

The MSRB proposed the rule in November. It would apply to principal transactions of less than \$100,000 or those with 100 bonds or fewer, in an effort to attempt to address concerns about hidden markups in so-called "riskless principal transactions." The Financial Industry Regulatory Association released a very similar proposal simultaneously that would apply to corporate bonds.

David Cohen, managing director and associate general counsel at the Securities Industry and Financial Markets Association, told the MSRB that SIFMA supports the goals of the rule but not this approach to reaching those goals.

"Unfortunately, the proposals fail to leverage the very tools that have led to unprecedented improvement in fixed income price transparency: the price dissemination systems operated by FINRA and the MSRB," Cohen wrote.

In a brief interview, Cohen told The Bond Buyer that EMMA is a far more meaningful way of informing retail investors about market prices, and that enhancements to the system and further investor education could be part of a better approach. Dealer firms have put too much money into transparency systems through fees paid to the MSRB and FINRA to not utilize them to the fullest, Cohen argued.

"Dealers have invested tens of millions of dollars to fund TRACE and EMMA," he said. TRACE is FINRA's transparency system for corporate bonds.

Mike Nicholas, chief executive officer of the Bond Dealers of America, warned that investors could be confused by reference prices on their confirmations. A reference price would not provide an accurate picture of the market conditions, Nicholas wrote.

He urged the MSRB to conduct a thorough study on the burden dealers would bear in altering their trading systems to accommodate the proposed rule, and suggested allowing dealers to use a disclosure methodology of their choice subject to a baseline requirement. The rule should not apply to institutional investors or primary offerings, he added.

Several retail investors also submitted letters. Karin Tex, a California retiree, told the MSRB she has invested in munis and is shocked that transparency is so limited given the available technology.

“Disclosure of a municipal bond commission or markup to the general public should be mandatory,” she wrote.

An anonymous investor said dealers should be required to discuss with investors how the firm arrived at the price for a bond, and should know just before a trade what the most recent price for that bond was. Otherwise, the proposal does not go far enough, the investor said.

“Greater transparency should be made available to the customer at the point of purchase/sale, not after the fact,” the investor wrote.

Rick Fleming, the SEC’s Investor Advocate, said his office supports the MSRB proposal.

“By requiring firms to disclose the price to the dealer in a reference transaction and the differential between the price to the customer and the price to the dealer, customers in retail-size trades will be better equipped to evaluate the transaction costs and the quality of service provided to them by dealers,” Fleming wrote.

The MSRB would need SEC approval before the proposal could take effect, and the SEC will likely solicit its own requests for commentary after it receives a request to approve the amendments to G-15.

THE BOND BUYER

BY KYLE GLAZIER

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