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Dealers Raise Some Concerns About New Trade Data Requirements.

WASHINGTON — The Municipal Securities Rulemaking Board’s proposal to require dealers to submit new information through its trade reporting system has some support from the two major industry groups, but one is concerned about possible inefficiency and confusion and the other wants a longer implementation period.

SIFMA and the Bond Dealers of America made their comments in letters to the Securities and Exchange Commission late last week.

The proposed changes to Rule G-14, first floated by the MSRB last August, would require dealers to report new information through the Real-Time Transaction Reporting System, such as whether a trade occurred on an alternative trading system or involved a non-transaction based fee. It also would eliminate the requirement for dealers to report the yield for trades with customers.

Leslie Norwood, a managing director, associate general counsel, and co-head of municipals at SIFMA, told the SEC that the proposal to require dealers’ trade reports to include an indicator for non-transaction based fees is potentially helpful for transparency, but operationally very difficult.

“Importantly, these non-transaction-based compensation arrangements are private agreements between the investment manager and its clients, and the information about the account and trade type is typically not resident in the systems that handle trade reporting,” Norwood wrote, adding that the problem is especially difficult for third party agents who handle trade reporting on behalf of broker dealers.

“Upon further reflection, broker-dealers implementing this amendment are having a very challenging time conceptualizing automating this process,” Norwood wrote. “Potentially, each account and trade would need to be researched by the reporting entity and a flag manually put on the impacted trades. The infrastructure cost to provide such information would potentially outweigh any potential benefits.”

SIFMA members feel that the MSRB could provide this information itself because it already collects it, Norwood told the commission. The same holds true for a potential indicator on whether a trade was executed via an ATS, she wrote.

SIFMA supports the proposal to eliminate dealers having to calculate yield on trade reports, but is concerned that the change does come at a cost, Norwood wrote.

The questionable trade reports, however, alerted broker-dealers to trades where the dealer calculated yield was outside the acceptable tolerance from the MSRB calculated yield,” she wrote. This was typically due to reference database differences in call features or day count calculation due to questionable holidays or market closes, she continued.

“Broker-dealers could then reconcile these differences. It should be recognized that this control

mechanism does get eliminated with these amendments,” she wrote.

Customers could be confused if the MSRB yields don’t match the dealer calculated yields, Norwood added.

BDA chief executive officer Mike Nicholas said the proposal will benefit the muni market, but is concerned smaller dealers may need more than the proposed six-month testing period before the effective date in order to make the necessary changes to their systems.

“The MSRB’s proposed six-month testing period in advance of the effective date may be sufficient time for larger dealers to make the required changes necessary for implementation without disruption to their information technology plans or budgets, however smaller firms with fewer IT resources require at least a nine-month testing period prior to implementation,” Nicholas wrote. “Operationally, dealers will have to create new data fields and integrate them into existing systems as well as provide training for sales, trading and operations staff. Smaller firms with more limited resources will need additional time to successfully implement the changes required by the proposed rule.”

The SEC must approve the proposal before it could become effective. The commission could accept the proposal as is, or require that the MSRB make changes.

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