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Regulators Close In On Bond-Markup Rules.

U.S. securities industry regulators are close to proposing final rules requiring brokerage firms and bond dealers to disclose how much they mark up the price of most bonds they sell to retail customers.

The controversial rules, proposed in November by the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB), aim to help the public assess the reasonableness of prices charged by brokers for corporate and municipal bonds. Unlike stocks that have a price publicly available on an exchange, individual dealers determine the price at which they sell or buy bonds.

“I expect us to be moving forward with some proposal to the (Securities and Exchange) Commission in the near future,” FINRA Chairman and Chief Executive Richard Ketchum said at Reuters Wealth Management Summit in New York on Wednesday.

In comments submitted earlier this year, the securities industry slammed the proposed rules as expensive to implement, unnecessary and potentially confusing to investors.

“From an operational and implementation perspective,” the proposals are “irredeemably flawed,” Wells Fargo Advisors wrote. Others said investors can already estimate markups by checking industry-financed databases, and might be confused by numbers on a trade confirmation.

FINRA, which is funded by the securities industry, is taking especially seriously comments related to operational issues and also is working with the MSRB to address some minor differences between FINRA and MSRB’s proposals, Ketchum said.

The municipal bond regulator is likewise working out “details of our proposal with FINRA so that we can coordinate next steps to the extent possible,” MSRB Executive Director Lynnette Kelly wrote in an e-mailed statement.

The regulators’ rules would apply to corporate and municipal bonds bought by brokers and dealers on the same day they sell them to an investor. Most are purchased by dealers within an hour of the sale, presenting little risk of price volatility. However, “the range of markups (among dealers) is quite substantial,” Ketchum said.

Brokers would be required to put on trade confirmation statements how much more customers pay to buy, or how much less they receive to sell, “same-day” bonds. Most firms today only include a purchase/sale price and quantity of bonds traded on the confirmation.

Disclosure “should deter overcharging” in the $1.6 trillion corporate bond and the $3.6 trillion municipal bond markets, SEC Chairwoman Mary Jo White said in a speech a year ago.

Ketchum said disclosure is especially timely because of an expected jump in interest rates that will affect bond valuations. “These next few years is a time to focus on the ways fixed-income securities are traded and sold to investors,” he said at the Reuters Summit.

(The story was refiled to change the sixth paragraph to show that FINRA, not SIFMA, is the subject of Ketchum's remarks.)

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