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MSRB to Revise Proposed Rule on Disclosing Bond Price Markups.

Aug 3 (Reuters) - The Municipal Securities Rulemaking Board is modifying a controversial proposal that would require brokers and dealers to disclose how much above their cost they sell certain municipal bonds to small investors, the regulator's executive director said on Monday.

The decision follows extensive comments from bond dealers on the costs and redundancies of building systems to comply with the rule, which was proposed last November, and the complexity of determining how to apply it.

The MSRB plans to seek comments on a new two-part proposal in September that addresses some complaints without sacrificing the customer-protection purpose of the rule. It will spell out a preferred new approach as well as a modification of the original proposal that limits the set of bonds requiring the pricing disclosure, Executive Director Lynnette Kelly told reporters.

Since there are no centralized marketplaces for buying and selling municipal and corporate bonds, as there are for trading stocks, retail investors cannot tell if they are getting reasonable prices from their dealers. Individual investors routinely pay as much as 5 percent more than institutional investors and dealers, U.S. Securities and Exchange Commissioner Luis Aguilar said earlier this year.

The MSRB is coordinating its approach to the rule with the Financial Industry Regulatory Authority, which in November published a similar disclosure proposal for corporate bonds traded by retail investors. FINRA's board in July said the regulator would issue a revised version of its proposal later this year.

Disclosure of bond markups should foster more-competitive pricing for retail customers, SEC Chair Mary Jo White and Republican Commissioner Michael Piwowar have said. The SEC must approve all rules proposed by the MSRB and FINRA.

The proposals require dealers to mark on customer trade confirmation statements how much above their cost they are selling bonds or how much below cost they are buying them from investors.

The initial rules applied to relatively small trades of 100 or fewer bonds with a maximum trade value of \$100,000. They would have applied as well only to bonds that brokers or dealers acquired or sold on the same day that they made a similar trade with a retail customer.

FINRA did not elaborate on details of its proposed changes. Kelly said MSRB might modify its initial proposal to apply to a more limited set of trades requiring disclosure.

At a board meeting last week, MSRB directors also voted to give municipal bond dealers guidance within the next few weeks on a new best-execution rule that takes effect in December.

(Reporting by Jed Horowitz; Editing by Chizu Nomiya and Lisa Von Ahn)

