

Bond Case Briefs

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Regulator Revises Proposed Rule on Muni Bond Pricing Disclosure.

(Reuters) – A U.S. regulator on Thursday modified a proposed rule in hopes of making it easier and less expensive for bond dealers to tell retail customers how much above wholesale they are paying to buy or sell municipal bonds.

The Municipal Securities Rulemaking Board asked for comment on a proposal that would require bond dealers to disclose on customer trade confirmations the dealer “mark-up” – how much more than market price a customer pays to buy muni bonds or how much less to sell them.

The proposal revises one made in November 2014 that would have required dealers to disclose a reference price they paid for bonds taken into inventory on the same day as the trade made with a customer. Dozens of bond dealers told the MSRB in comment letters that the difficulties of determining reference prices and of building systems to identify them made the initial plan unworkable and could lead some of them to stop sales to retail investors.

The contraction from a full day to the two-hour limit aims to ensure that dealers are not taking unnecessary risk in warehousing bonds for which they deserve to be paid. The MSRB proposal notes that since dealers are already required to ensure that their mark-ups on trades from their inventory are fair and reasonable, they should already have systems for mark-up monitoring.

Unlike the original proposal, which would have required disclosure only on bond trades valued at \$100,000 par amount or less, the revised one would apply to trades for all retail accounts.

In addition to substituting a mark-up for a reference price, the revised rule would require dealers to print the time of trade execution to the nearest minute so that customers could check the prevailing market price on systems such as the MSRB’s EMMA database. Dealers also would have to print a hyperlink and URL address to the Security Details page for the customer’s security on EMMA.

The mark-up would be the difference between the price to the customer and the market price, and would be required to be given as a total dollar amount and as a percentage of the principal amount of the customer trade.

While the MSRB noted that it prefers its revised rule to the original one, it will continue to take comments on the original proposal. All comments are due by Nov. 20, 2015.

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(Reporting By Jed Horowitz; Editing by David Gregorio)