

# Bond Case Briefs

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## MSRB Holds Quarterly Board Meeting.

Washington, DC - The Board of Directors of the Municipal Securities Rulemaking Board (MSRB) held its quarterly meeting January 27-28, 2016 where it discussed initiatives to shed more light on costs and potential risks to investors in the municipal market, and to improve the utility of its Electronic Municipal Market Access (EMMA®) website, among other topics.

### **Mark-Up Disclosure**

The MSRB is in the process of developing a possible new regulation that would require municipal securities dealers to disclose on customer confirmations the amount of the “mark-up” or “mark-down” on a certain class of transactions with retail investors. The MSRB has been coordinating with the Financial Industry Regulatory Authority (FINRA) on a parallel initiative for transactions in corporate bonds. At its meeting, the MSRB Board agreed that its next step is to seek public comment on regulatory guidance on how dealers calculate their mark-ups. Dealers in municipal securities, as in markets for other types of securities, benchmark such charges to investors off what is known as the “prevailing market price” of the security.

“We heard in comment letters on our mark-up disclosure proposal that the industry wants guidance on establishing the prevailing market price for municipal securities,” said MSRB Chair Nathaniel Singer. “The MSRB plans to proceed with developing this guidance by publishing a proposal for public comment. This step is critical to establishing prevailing market price guidance that is appropriately tailored for the municipal market.”

### **Bank Loan Disclosure**

For several years, the MSRB has been advocating for improved disclosure about direct purchases of securities and bank loans by state and local governments. These types of alternative financings are frequently not disclosed to municipal bondholders but may have priority payment status in the event a municipality is not able to meet its obligations. “This is a risk that is often unknown to bondholders,” Singer said. “Investors should have as full a picture as possible about a municipality’s overall debt.”

At its meeting, the Board authorized MSRB staff to develop a concept release seeking public input on whether and how the MSRB could improve disclosure of the amounts and material terms of these alternative financings. “We are taking our call for improved voluntary disclosure to the next level,” Singer said. “We want input from the public on the ways we might address this very important issue.” The MSRB has repeatedly called for voluntary disclosure of bank loans and other alternative financings by state and local governments. However, very few municipalities have publicly provided such information.

### **EMMA Enhancements**

At its meeting, the Board also discussed ways to improve the utility of its EMMA website, the official source of municipal bond data and disclosures. The Board approved the addition of an economic calendar on EMMA so that issuers, investors and others have easy access to federal economic data releases at the same source for information about municipal securities.

## **Other Regulatory Developments**

In other regulatory developments, the Board discussed [MSRB Rule G-15](#), on confirmation, clearance, settlement and other uniform practice requirements for dealers with respect to transactions with customers, related to minimum denominations. The Board approved issuing a request for comment regarding MSRB Rule G-15(f)(iii), which provides a limited exception to the prohibition against sales to customers in amounts below the minimum denomination of an issuance. The request will seek comment on whether the MSRB should expand the exception to include other transactions that may be consistent with the original intent of the prohibition.

In other dealer rulemaking, the Board approved filing a proposed rule change with the Securities and Exchange Commission (SEC) to amend MSRB Rules G-12 and G-15 in order to support the industry-wide initiative to move from a T+3 to a T+2 settlement cycle. To ensure consistency, the effective date of the amendments would be predicated on the SEC making amendments to its rules to establish a T+2 settlement cycle for the equity and corporate bond markets.

In support of the MSRB's efforts to promote research in the municipal market, the Board decided to move forward with its plans to create a historical municipal trade data product for higher education institutions. The proposed product still requires approval from the SEC.

Finally, the Board discussed the MSRB's jurisdiction with respect to the sale by municipal securities dealers of interests in ABLE accounts and the potential applicability of various MSRB rules. The Achieving a Better Life Experience (ABLE) Act of 2014 permitted states to create tax-advantaged savings programs to help individuals with disabilities maintain health, independence and quality of life. The Board agreed that if it is determined that the MSRB has jurisdiction over the sale of ABLE accounts, it would further review its rules for dealers and consider what amendments may be needed.

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