# SIFMA: Cut MSRB's Proposed Close-Out Period for Muni Trades in Half.

WASHINGTON – The Securities Industry and Financial Markets Association wants municipal securities transactions to be closed out within 15 days of settlement, rather than the 30 days proposed by the Municipal Securities Rulemaking Board.

The MSRB proposed the 30-day period in January in an amendment to a more than 30-year-old portion of its Rule G-12 on uniform practice that the board said would lessen the effect of interdealer transaction failures on the market. The self-regulator currently recommends that dealers who fail to deliver securities to another dealer by the agreed upon settlement date close out the interdealer trade failure within 90 days of the settlement date.

The proposal would allow the purchasing dealer to issue a close-out notice the day after the settlement date and mandate the 30 calendar-day timeframe. The changes would also allow the purchasing dealer to start close-out procedures within three business days of the settlement date instead of the current 10-business day window. Once the rule is approved, dealers would have 90 days to comply with it.

Leslie Norwood, a Securities Industry and Financial Markets Association managing director and co-head of its munis group, said SIFMA believes "30 days is great" but that the MSRB has not gone far enough and should instead mandate the close-out occur in 15 days.

"In the interest of investor protections, investors need the certainty to know that securities are in their accounts," Norwood said. SIFMA is also proposing that if both sides agree that more time is needed to complete the close-out, the shorter timeline could be extended another 15 days.

"The industry is willing to commit to a faster standard and we think the MSRB should take us up on it," Norwood said, adding in her comment letter that "almost universally, failed transactions don't get better with age, and it is easier to have conversations about close-outs for failed transactions sooner rather than later."

In addition to proposing an even shorter close-out period, SIFMA also requested that the MSRB reconsider the existing requirement that close-outs need both sides to agree before they can be carried out. SIFMA asked for additional guidance when one dealer is trying to resolve a fail but the other party is not cooperating. It suggested the MSRB should consider allowing a party that has already taken reasonable steps to resolve the fail to unilaterally cancel a transaction if the counterparty is unresponsive.

The group also said it would like to talk to the MSRB and Depository Trust & Clearing Corp., whose managing director expressed his support for the MSRB proposal in a letter to the board, on whether a purchasing dealer should be required to accept a partial delivery on an inter-dealer fail from the National Securities Clearing Corp.'s Continuous Net Settlement system, which often serves as counterparty for buyers of municipal bonds.

While the MSRB wants to limit the close-out timeline, it made clear in its proposal that the three interdealer options for remedying a failed transaction would remain the same through the transition. The options would allow the purchasing dealer to either: choose a “buy-in” and go to the open market to purchase the securities; choose to accept securities from the selling dealer that are similar to the originally purchased securities; or allow the purchasing dealer to require the seller to repurchase the securities along with payment of accrued interest and the burden of any change in market price or yield.

Mike Nicholas, chief executive officer for Bond Dealers of America, said BDA appreciates “the commonsense approach the MSRB has taken in regard to the proposed amendments” but has several concerns with the three options available for closing out a transaction and would like to see a 180-day transition period for dealers to adjust to the rules after they’re finalized.

Nicholas pointed out that some munis trade infrequently and that in some cases only a few investors may hold the vast majority of a small serial maturity within a larger issuance. In that case, it is hard for dealers to use the first close-out option and buy the same security within 30 days.

While dealers could then try to find a comparable security for its customer, Nicholas said, it is important to note that finding such bonds could be cost prohibitive for BDA’s small and middle market dealers.

BDA also suggested the MSRB add a requirement to the third close-out option for the selling dealer to deliver securities to its customer within 30 days.

Additionally, BDA is requesting that the MSRB clarify information related to several systems dealers may use to resolve fails. First, the group is asking the MSRB to state more clearly that dealers should use the original settlement date for calculating timeframes. BDA said dealers would have questions if they use the NSCC’s automated fail clearance system, called the Reconfirmation and Pricing Service, which resets the settlement date to make net capital calculations. It is also asking that the MSRB give additional guidance on how dealers should resolve fails using the Automated Customer Account Transfer Service, which facilitates the transfer of securities from one trading account to another at a different brokerage firm or bank.

**The Bond Buyer**

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