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How The MSRB Wants To Change Dealer Closeout Procedures.

WASHINGTON - The Municipal Securities Rulemaking Board has filed revised amendments with the Securities and Exchange Commission that would require municipal securities transactions to be closed out within 20 days rather than 30 days of settlement.

The MSRB's current rules for closeout procedures are included in a years-old portion of MSRB Rule G-12 on uniform disclosure. There is no mandate for a closeout, only a recommendation that a dealer who fails 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 changes would lessen the effect of interdealer transaction failures on the market.

"The MSRB believes that a more timely resolution of inter-dealer fails would ultimately benefit customers by providing greater certainty that their fully paid-for securities are in fact owned in their account, not allocated to a firm short, and would benefit dealers by reducing the risk and costs associated with interdealer fails," the MSRB said in its filing.

Dealers would have a 90-calendar day grace period after the rule is approved to resolve all outstanding dealer failures, which the MSRB estimated is about 170, according to the filing.

The self-regulator had originally planned to revise the rule to put a 30-day limit on closeouts, but the Securities Industry and Financial Markets Association made clear in a comment letter it thought the timeline could be shortened to 15 days with an option for a 15-day extension if both sides in a transaction agree more time is needed.

Ultimately, the MSRB chose 20 days because it was concerned small dealers would be overburdened by a shorter timeline and because it wanted to give all dealers the same fixed time frame.

The changes would also allow the purchasing dealer to start close-out procedures within three business days of the settlement date, a change from the current 10-business day window. Additionally, the proposal would change the earliest day for execution to four days after electronic notification instead of the rule's current 11 days after telephonic notice.

While the time period for close-outs would be significantly shortened, the three interdealer options for remedying a failed transaction would remain the same through the transition. The purchasing dealer could choose a "buy-in" and go to the open market to purchase the securities. It could also choose to accept securities from the selling dealer that are similar to the originally purchased securities in a number of areas. Lastly, the purchasing dealer could require the seller to repurchase the securities along with payment of accrued interest and the burden of any change in market price or yield.

The Bond Buyer

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