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SEC Approves MSRB's Shorter Period for Resolving Interdealer Failures.

WASHINGTON — Dealers will have 10 calendar days to close out failed inter-dealer transactions now that the Securities and Exchange Commission has approved the Municipal Securities Rulemaking Board's amendments to one of its rules.

The amendments to MSRB Rule G-12 on uniform practice require the 10-day closeout period and include an option for a one-time, 10-day extension if the buyer of the municipal security consents. The SEC approved the changes on Thursday and they will take effect on Nov. 16.

The MSRB's current rules for closeout procedures are included in a years-old portion of Rule G-12 and do not mandate a closeout time period. They instead recommend 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 MSRB said when it first proposed the changes that they would help to lessen the effect of interdealer transaction failures on the market. The self-regulator's first proposal would have set the closeout timeframe at 30 days.

The Securities Industry and Financial Markets Association responded to that proposal by asking the MSRB to instead move forward with a 15-day time period with the possibility of a 15-day extension.

The MSRB, citing concerns about small dealers being overburdened by a shorter timeframe, then proposed having a 20-day closeout time period. SIFMA, with the support of the Bond Dealers of America, responded again, saying the MSRB's concerns were unwarranted and that the time frame should be further shortened to the ultimate 10-day period with the possibility of a 10-day extension.

"Market support for this rule change reflects the extent to which dealers are committed to improving efficiencies in the municipal market," said MSRB executive director Lynnette Kelly after the SEC approved the amendments. "Dealers share the MSRB's desire for prompt resolution of open transactions. A shortened close-out period provides investors with additional certainty about their purchases and reduces risks for dealers."

In addition to the changes to the timeline for resolving interdealer failures, the SEC also approved MSRB proposals to 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. The amendments will also change the earliest day for execution to four days after electronic notification instead of the rule's current 11 days after notice by telephone.

While the time period for close-outs will be significantly shortened, the three interdealer options for remedying a failed transaction will 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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