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Dealers Want Subsection of Rule G-12 Eliminated.

The Municipal Securities Rulemaking Board's proposal on Rule G-12(c), the subsection of its uniform practices dealing with inter-dealer confirmations, which would simplify some existing guidance, retire some others and merge much of it into Rule G-15, should go further and eliminate the subsection altogether, dealers say.

MSRB Rule G-12 on uniform practice establishes the industry standards for the processing, clearance and settlement of transactions between municipal securities dealers. The MSRB's current proposal is focused solely on Rule G-12(c) and would codify existing interpretive guidance on inter-dealer disclosure requirements that are ineligible for automated comparison.

Since the vast majority of transactions are eligible for automated comparison, Rule G-12(c) doesn't touch a large swath of the market but for those it does, paper confirmations among dealers are outdated and new requirements to simplify these disclosures would only streamline a process largely out of sync with the rest of the market.

"Rule G-12(c) should be deleted as electronification of systems has rendered it obsolete," Leslie Norwood, managing director, associate general counsel and head of municipal securities at the Securities Industry and Financial Markets Association wrote in the proposals' only comment letter. "Rule G-12(c) had value when it was originally adopted, and it served a valid purpose in an operational environment where there were a significant number of trades that were ineligible for automated comparison. However, Rule G-12(c) has been made obsolete in large part to the speed of computers as settlement cycles have continued to shrink from T+3 to the current T+2 and the planned move to T+1 in May 2024."

The draft amendments, proposed as part of the MSRB's retrospective rule review, would reorganize the content of Rule G-12(c) on inter-dealer confirmation to align with the format for similar provisions in Rule G-15(a) on written confirmations. The amendments would also regroup requirements into the three buckets of transaction information, securities identification information and securities descriptive information.

The proposal would also require inter-dealer confirmations to include confirming party's name, address and telephone number, contra party identification, designation of purchase from or sale to, par value of the securities, trade date, settlement date, yield and dollar price, amount of concession, final monies, delivery of securities and "additional information about the transaction," the proposal said.

They would also have to include the name of the issuer, CUSIP number, maturity date, interest rate and dated date and descriptive information such as credit backing, features of the securities, information on status of securities, and tax information. Some of this may be worth disclosing to customers but not for dealers.

"While Rule G-15 customer confirmations still have value, paper interdealer transactions do not," the SIFMA letter said. "Currently industry practice is to evidence interdealer trades with Bloomberg

screen captures, VCONs, or trade blotters. These are also the types of items that FINRA examiners ask for as evidence of interdealer trades.”

Harmonizing Rule G-12(c) with Rule G-15 would be unnecessary, as disclosures of information as such would “merely create a web of potential regulatory foot-faults without any benefit,” SIFMA said.

The scope of the proposal is also overwhelming and if the board chooses to proceed with the proposal, the amount of guidance being amended, codified, merged and retired should be significantly reduced, as the sheer scope makes it difficult to gauge any unintended consequences, SIFMA said.

SIFMA also recommends that the MSRB should prioritize guidance not being incorporated into the rule before taking further action, and should address the guidance being retired or codified in a FAQs page before being codified into the rule.

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