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MSRB Prepares to Change the Market for Dealers in 2024.

The Municipal Securities Rulemaking Board is gearing up to change how broker-dealers operate in 2024, as the controversial move to a one-minute trade reporting window will come into effect, a change to a T+1 settlement cycle, in addition to a new proposal aimed at soliciting market feedback on pre-trade data.

The board's last few years have been dominated by its self-described focus on pre-trade, time of trade, and post-trade regulations and in the new year, those efforts will begin to shape the market.

"Most likely in the first quarter of 2024, we will see the MSRB file amendments to our Rule G-14 on trade reporting," said MSRB Chief Executive Officer Mark Kim. "This is the culmination of a years-long effort to look at market structure, examine post-trade transparency and to look specifically at shortening the trade reporting requirements from the current 15 minutes to the proposed one-minute timeline."

"The rule filing the MSRB is anticipating to make early next year will include two important exemptions to the one-minute trade reporting requirement," Kim said. "They focus around an exemption for de minimis market activity, or firms that do not trade a significant amount in the municipal securities market, as well as an exemption for manually-executed trades."

In addition to amendments to Rule G-14 on time of trade, the MSRB will also move to a T+1 settlement cycle, with the compliance date set for equities and corporate bonds May 28, 2024, and launch a new proposal on pre-trade reporting.

"The MSRB has systematically been examining market structure and our rules thereunder," Kim said. "Rule G-14 is an example of post-trade transparency and looking at how long it takes the market to report the trades once they happen. Earlier this year, the MSRB examined time of trade disclosures in proposing amendments to its Rule G-47," he added. "In the year ahead, I would expect the MSRB to continue its examination of pre-trade market transparency in the form of soliciting feedback from the industry."

The Financial Data Transparency Act will upend the way in which most issuers present and submit financial information and has received a heavy dose of criticism since it passed a year ago. Rulemaking from the SEC is coming in 2024 and the board looks forward to the opportunity to comment.

"I think the market is looking forward to the data standards that will be coming from the Treasury and SEC as mandated by Congress under the FDTA," Kim said. "We're expecting those standards to come out for public comment sometime in the middle of this next year, sometime perhaps in the summer of 2024."

The MSRB has already put in some effort to educate the market. Within the last year the board has published its structured data lab on its own EMMA Labs platform and within that, has published case studies that show how some issuers have dealt with structured data so far.

Early in the new year the MSRB plans to publish another case study from what it calls a “prominent issuer” to give market participants even more information ahead of the regulations.

The board also plans, early next year, to publish a 2023 year in review research piece, which analyzes many of the ups and downs of 2023. But as far as what can be predicted for the new year, the MSRB is keeping an eye on the new rate environment for 2024. Rates are widely expected to drop and that expectation is already being priced into the market, Kim said.

“We’ve seen a very rapid rise in interest rates over the last two years and if you believe some of the projections for the coming year, the interest rate cycle may have peaked, and we may be expecting the Fed to begin lowering interest rates. Of course, if that doesn’t happen, we will see a lot more volatility across our markets which have already priced in that expectation.”

The SEC’s Best Execution rule, proposed at the end of 2022, has been controversial due to the fact that there are already Best Execution rules on the books at the MSRB and FINRA. Once that’s finalized, the MSRB will likely have to reexamine its own rule.

“If the SEC adopts a new Best Execution standard, that almost certainly would require the MSRB to pivot and re-examine our own Best Execution rule to make sure that our rules are harmonized across markets,” Kim said.

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