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Small Firms Describe Frustrations in Response to MSRB Request.

Small muni market firms are being overburdened by an excessive regulatory environment that favors the large Wall Street firms, with small firms feeling overwhelmed by the recent amendments to Municipal Securities Rulemaking Board Rule G-14 on time of trade that reduces the trade reporting window to one minute.

Those complaints are being expressed as part of the MSRB's request for information on small firms, which encouraged all muni market participants to respond to eleven specific questions, such as what rules have had a disproportionate impact on smaller regulated entities, what makes a regulated entity small, medium or large, and whether there are circumstances in which the application of an MSRB rule has required firms to spend additional resources that have had a negative impact on the firm.

Mark Kim, chief executive officer of the MSRB, in announcing the effort late last year, noted that he believes that "an impactful way to support the efforts of regulated entities to comply with our rules is to assess whether a rule is no longer achieving its intended purpose or if there are disproportionate costs or burdens associated with compliance for certain types of firms."

Many of the commenters have noted not only the extremely difficult task of having to comply with the one-minute reporting window, but also the strenuous costs associated with establishing systems to make them comply with it, in addition to the challenges small firms face generally in having to comply with the "pile on" of regulations.

"Although I believe that the MSRB has good intentions, I strongly feel that the current regulatory environment disproportionately penalizes small broker-dealers who most likely don't have large compliance teams and the seemingly unlimited resources of larger firms," wrote Mike Petagna, president, Amuni Financial. "Since our small firm lacks a large dedicated compliance department, we spend precious time responding to regulatory inquiries and complying with new regulations; time that could otherwise be spent serving our clients," he added. "Often, we face unrealistic turnaround times, only to wait months for the next round of questions after our responses."

Petagna went on to note that the municipal market differs significantly from the taxable and equity markets, and that the one-minute reporting window will likely consolidate the marketplace further.

Matthew Kamler, president of Sanderline Securities said that the one-minute reporting window requires smaller firms to invest in order entry software, such as Bloomberg's TOMS system, which carries an annual price tag of \$250,000.

But outside of the one-minute reporting requirement coming soon, there are other issues that continue to burden some firms that don't fit squarely into being characterized as a municipal securities dealer.

"Despite our many years of employment and experience in the industry, MSRB required us to pass

two new exams in order to continue to be employed,” wrote Elaine Philbrick, principal at Derivative Advisors, a swap broker. “Both the new exams, Series 50 and 54, covered material unrelated to our firm or work. We estimate only 5% of the questions were related to interest rate derivatives, and the rest pertained to credit analysis and issuance of municipal debt which is unrelated to our firm and has nothing to do with us or our services.”

Uniform fees across all players in the market was also noted as a sore spot.

“Fees for small firms should not be the same as for larger firms, but lower,” wrote Dennis Dix, Jr., principal at Dixworks. “Using the SEC risk-based protocol for examinations, small firms require less monitoring than large firms. Large fees represent a substantial burden for small firms and should be reduced.”

Others took aim at smaller requirements that aren’t questioned as often. Dmitry Semenov, principal at Ridgeline Municipal Strategies, wrote that the requirement to develop written supervisory procedures “can be easily mitigated by provisioning an easy-to-use template with regular updates and notifications that smaller firms could utilize to develop and update their WSPs without having to hire outside consultants,” he said.

The MSRB is continuing to accept comments on this topic.

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