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Municipal Dealer Settles FINRA Charges for Unfair Bond Prices: Norton Rose Fulbright

A municipal securities dealer settled FINRA claims for charging customers unfair prices on municipal bond trades and failing to supervise its pricing.

According to the AWC, during the relevant period, the firm failed to consider appropriate pricing information to determine the prevailing market price. FINRA found that the firm "continued to use its cost or proceeds as the prevailing market price even though it was no longer contemporaneous." In other instances, FINRA found the firm used dealer quotations even when a recent inter-dealer trade price was available. FINRA cited one instance in which the firm bought bonds from another dealer at $97.50 and sold part of that position to a retail customer. The firm used its purchase price as the market price and added a 2.56 percent mark-up. That set the sale at $100.00, but inter-dealer trades at the time were at $96.00. FINRA said that using the inter dealer price with the same mark-up would have resulted in a $98.46 trade.

FINRA determined that customers were harmed in the aggregate amount of $21,111.29 across 23 trades in violation of MSRB Rules G-30 ("Prices and Commissions") and G-17 ("Conduct").

FINRA also found that the firm's written procedures did not require staff to weigh the pricing sources listed in the rule, and did not include how the firm would review pricing. As a result FINRA found the firm's supervision was not reasonably designed for fair pricing in violation of MSRB Rule G-27 ("Supervision").

The settlement included a censure, a $20,000 fine, restitution of $21,111.29 plus interest, and certification that the firm remediated the issues.

Norton Rose Fulbright US LLP

June 29 2026

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