

# Client Alert

Current Issues Relevant to Our Clients

August 6, 2014

## MSRB to Take Action on Municipal Bond Price Transparency

The Municipal Securities Rulemaking Board (“MSRB”) recently announced its intent to move forward with several actions aimed at enhancing price transparency for municipal securities. These actions include:

- a rule proposal this fall that would require a dealer to disclose on retail customer trade confirmations the price the dealer paid for the subject security on the same day if the dealer is acting as principal and possible disclosure of bond mark-ups for trades that could be considered riskless principal transactions by a dealer;
- a forthcoming request for comment on enhancing the Real-Time Transaction Reporting System (“RTRS”) to collect additional post-trade information for public display on the MSRB Electronic Municipal Market Access system (“EMMA”); and
- submitting proposed MSRB Rule G-18 (Best Execution) to the Securities and Exchange Commission (“SEC”) for approval this month.

### Price Transparency Confirmation Disclosure

The MSRB Board has developed a rule proposal that focuses on requiring additional disclosure of information by municipal securities dealers to retail customers to help customers better understand the costs of transactions. The MSRB intends to publish the proposal for public comment this fall. The proposal focuses on disclosure on customer confirmations of the price of a corresponding dealer transaction in the same security that occurs on the same day as the customer trade. This information is already effectively available on EMMA, but the rule would require dealers to provide the information directly to investors on trade confirmations in connection with their transactions. The proposal will also seek input on alternative regulatory approaches, including mark-up disclosure on confirmations for trades that could be considered riskless principal transactions and on how to define a “riskless principal transaction.” While the MSRB has not yet released full details of the forthcoming proposal, the proposed rule will apparently apply to retail-sized sales of \$100,000 or less and would require a dealer to disclose to its customer what the dealer paid for the subject security on the same day. The rule would apply to principal transactions and not agency trades.

### Real-Time Transaction Reporting System (RTRS)

The MSRB Board approved a forthcoming request for comment on enhancing its RTRS to collect additional

post-trade information for public display on EMMA. The MSRB also announced that its staff will continue efforts to seek input from market participants for the first phase of an incremental approach for collecting and disseminating bid-wanted information and other pre-trade data on EMMA.

### Best Execution Rule

The MSRB Board agreed to proceed with its proposed MSRB Rule G-18 establishing its first ever explicit “best-execution” standard for transactions in municipal securities. The basic best execution obligation in the previously proposed MSRB Rule G-18 was essentially identical to the obligation stated in existing FINRA Rule 5310 for non-municipal securities. The original proposed Rule G-18 would require that in any transaction in a municipal security for or with a customer or a customer of another dealer, a dealer must use “reasonable diligence” to ascertain the best market for the subject security and buy or sell in that market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. This basic best execution obligation would not apply to transactions with sophisticated municipal market professionals (“SMMPs”) under proposed amendments to MSRB Rule G-48 and would not apply to municipal fund securities (such as 529 college savings plans). For a detailed discussion of the original MSRB rule proposal, see our February 24, 2014 Client Alert entitled “MSRB Proposes Best Execution Rule” which is available [here](#).

Market participants were not wholly supportive of all aspects of the original MSRB proposal. Comment letters submitted to the MSRB on the original proposal are available [here](#). The MSRB said that it will move forward this month to seek SEC approval of the best execution rule. The MSRB did not provide full details on any changes in the final draft rule compared to the original proposal but an official did say that the final draft rule will include certain technical changes clarifying the exemption for SMMPs. The SEC approval process requires that the SEC publish the proposed rule for public comment. This means that market participants will have at least one further opportunity to comment on the proposal before adoption.

## For More Information

---

*To discuss any topic covered here, please contact any member of the Investment Management Group or visit us online at [chapman.com](http://chapman.com).*

This document has been prepared by Chapman and Cutler LLP attorneys for informational purposes only. It is general in nature and based on authorities that are subject to change. It is not intended as legal advice. Accordingly, readers should consult with, and seek the advice of, their own counsel with respect to any individual situation that involves the material contained in this document, the application of such material to their specific circumstances, or any questions relating to their own affairs that may be raised by such material.

To the extent that any part of this summary is interpreted to provide tax advice, (i) no taxpayer may rely upon this summary for the purposes of avoiding penalties, (ii) this summary may be interpreted for tax purposes as being prepared in connection with the promotion of the transactions described, and (iii) taxpayers should consult independent tax advisors.

© 2014 Chapman and Cutler LLP. All rights reserved.

Attorney Advertising Material.