

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-47888; File No. SR-MSRB-2003-02)

May 19, 2003

Self-Regulatory Organizations; Order Granting Approval of a Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Rule G-14, on Reports of Sales or Purchases

On April 7, 2003, Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities and Exchange Act of 1934 (the “Exchange Act”) and Rule 19b-4 thereunder,¹ a proposed rule change (File No. SR-MSRB-2003-02). The proposed rule change relates to Rule G-14, on reports of sales or purchases, to increase transparency in the municipal securities market. The proposed rule change does not change the wording of Rule G-14.

The proposed rule change was published for notice and comment in the Federal Register on April 15, 2003.² The Commission received two comment letters on the proposed rule change.³ This order approves the proposed rule change.

I. DESCRIPTION OF THE PROPOSED RULE CHANGE

The MSRB’s T+1 Daily Report and the Comprehensive Report are made available for market professionals seeking information on market price levels and trading activity for individual securities. In preparation for the move to real-time price

¹ 15 U.S.C. 78s(b)(1) and 17 CFR 240.19b-4 thereunder.

² See Release No. 34-47650 (April 8, 2003) 68 FR 18313.

³ May 7, 2003 letter from Kevin Olson, Municipalbonds.com to SEC Commissioners, Commission (“Olsen letter”); May 9, 2003 letter from John M. Ramsay, Senior Vice President and Regulatory Counsel, The Bond Market Association to Jonathan G. Katz, Secretary, Commission (“TBMA letter”).

transparency in mid-2004, the MSRB believes that the trading threshold in the T+1 Daily Reports should be eliminated to further increase the price transparency that is available on T+1. The current transaction threshold for the T+1 Daily Report is two or more trades per day. Under the proposed rule change, all trades reported by dealers on trade date would be made visible on T+1.

The MSRB's proposed rule change is part of the MSRB's longstanding plan to introduce transparency in measured steps. The MSRB believes that these steps allow the market time to adjust to new situations presented by each new level of price transparency. The proposed rule change would increase the number of trades and issues appearing each day on the T+1 Daily Report. Furthermore, the MSRB believes that the proposal will increase price transparency for municipal securities by increasing the amount of price data available on the day after trade date.

II. SUMMARY OF COMMENTS

The Commission received two comment letters relating to the proposed rule change that express concerns. The TBMA letter expressed concerns about "the potential impact of real-time transparency on the market for less-frequently traded bonds." Although TBMA indicated that it does not oppose the move to next-day transparency, it suggests that "it should only be undertaken in connection with a more deliberate study of potential liquidity effects from a move to real-time transparency, consistent with the approach taken by the NASD and endorsed by the Commission in the area of corporate bond transparency."⁴ It expressed concern about the possible negative effects on

⁴ See TBMA letter at 1.

liquidity from price dissemination. TBMA believes that “for inactively traded bonds, the publication of price information, particularly in block size, may provide information to other market participants that would affect the ability of a holder of the same bonds to sell them without incurring a loss.” Thus, TBMA supports the MSRB’s proposal to display a large trade indicator for trades of \$1 million or more instead of revealing the actual par value traded in the T+1 Daily Report. TBMA has formed a “Price Transparency Task Force” to conduct an analysis of the liquidity issue.⁵ TBMA believes that examining the impact of next-day price transparency could be useful for considering potential liquidity impacts in the move towards real-time dissemination and that further steps to increase transparency in both the municipal and corporate bond markets should be delayed until the conclusion of such a study.

The Olsen letter supports the MSRB’s proposed elimination of the trading threshold in the T+1 Daily Report.⁶ However, he strongly opposes the MSRB’s proposal to use a large trade indicator instead of the specific amount of trades of \$1 million or more. Olsen believes that the change is “unacceptable” and that smaller investors deserve “full reporting and trade information.”⁷

⁵ Id. at 3.

⁶ Providing next-day transparency has been one of Olsen’s key market demands. Olsen’s other demands include, “1) dealer identifiers be attached, and 2) if there are reporting errors [sic] they be corrected and explained in a dedicated and public error report.” See Olsen letter at 1.

⁷ Id.

III. DISCUSSION AND COMMISSION FINDINGS

Section 19(b) of the Exchange Act⁸ requires the Commission to approve the proposed rule change filed by the MSRB if the Commission finds that the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder. The Commission has reviewed carefully the proposed rule change, and the comments received, and finds that the modification to the transaction threshold on the T+1 Daily Report, as described in the proposed rule change, is consistent with the requirements of the Exchange Act and the rules and regulations thereunder that govern the MSRB.⁹ The language of Section 15B(b)(2)(C) of the Act requires that the MSRB's rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principals of trade, to foster cooperation and coordination with persons engaged in regulating, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest.¹⁰

The Commission supports the ongoing efforts of the MSRB to increase transparency in the municipal securities market and notes the careful and deliberate

⁸ 15 U.S.C. 78s(b).

⁹ Additionally, in approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

¹⁰ 15 U.S.C. 78o-4(b)(2)(C).

manner in which it has proceeded to do so over the last nine years.¹¹ This approach has provided an opportunity for the market to adjust incrementally. It has also permitted the Board, the Commission and market participants to observe whether any market disruption has been caused by the release of an increasing amount of trading data. No significant disruption has been observed. The Commission expects that market participants will adjust to the release of information regarding all daily trades in a similar manner.

The Commission believes that the proposal will provide the benefit of price transparency to the municipal securities market while addressing the TBMA's concerns regarding potentially negative effects from disclosure of the size of specific institutional trades. The release of such transaction data facilitates the flow of information for use by market professionals and pricing services.¹² In addition, increased transparency leads to greater market efficiency and increased accuracy in pricing municipal securities being traded in the secondary market. The Commission believes that the proposal is an

¹¹ The MSRB began to collect information from reports of inter-dealer trades in 1994 and began issuing a summary report of such trades in January of 1995. In March of 1998, reporting of customer trades began, followed by the release of a summary report of combined inter-dealer and customer trades in August 1998. In January 2000, the Board began releasing a report on T+1 of all bonds that traded four or more times daily. In May 2002, the MSRB lowered the threshold from four to three trades on the T+1 Daily Report. In November 2002, the MSRB lowered the trade threshold to two trades per day. See Release No. 34-34955 (November 9, 1994), 59 FR 59810; Release No. 34-45861 (May 1, 2002), 67 FR 30989; Release No. 34-46819 (November 12, 2002), 67 FR 69779.

¹² The T+1 Daily Report has been well received by market professionals and investors seeking information on market price levels and trading activity for municipal securities and has garnered greater and greater use over time.

appropriate preparatory step towards the 2004 implementation of real time disclosure in both the municipal and corporate bond markets.¹³

IV. CONCLUSION

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act,¹⁴ that the proposed rule change (File No. SR-MSRB-2003-02) be and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Margaret H. McFarland
Deputy Secretary

¹³ The Commission believes that the MSRB's real time trade reporting initiative should be accorded the highest priority and implemented as soon as possible, but not later than the current mid-2004 deadline.

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ 17 CFR 200.30-3(a)(12).