

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66622, File No. SR-MSRB-2012-01)

March 20, 2012

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Granting Approval of Amendments to Rule G-14, on Reports of Sales or Purchases, including the Rule G-14 RTRS Procedures, and Amendments to the Real-Time Transaction Reporting System

I. Introduction

On January 20, 2012, the Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“SEC” or “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change consisting of amendments to Rule G-14, Reports of Sales or Purchases, including the Rule G-14 RTRS Procedures, and amendments to the Real-Time Transaction Reporting System. The proposed rule change was published for comment in the Federal Register on February 8, 2012.³ The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

II. Background and Description of Proposal

The proposed rule change consists of amendments to Rule G-14, Reports of Sales or Purchases, including the Rule G-14 RTRS Procedures, and amendments to the Real-Time Transaction Reporting System (“RTRS”) information system and subscription service (the “RTRS Facility”; collectively, “proposed rule change”). The proposed changes to Rule G-14 would remove certain outdated information. The proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 66309 (February 2, 2012), 77 FR 6615.

changes to the RTRS Facility would (A) remove certain outdated information and amend certain definitions to reflect current system operating hours and business days; (B) add an RTRS-calculated yield to the information disseminated for inter-dealer transactions; (C) remove certain infrequently used data reporting requirements; (D) require dealers to submit dollar prices for certain trades; and (E) reduce the number of customer trades suppressed from dissemination because of potentially erroneous price/yield calculations. The MSRB proposes that the proposed rule change be implemented in three phases, as further described herein.

Amendments to Rule G-14, on Reports of Sales or Purchases, and Rule G-14 RTRS Procedures. MSRB Rule G-14 requires brokers, dealers, and municipal securities dealers (collectively, “dealers”) to report certain information about each purchase and sale transaction effected in municipal securities to RTRS. Such transaction information is made available to the public, the SEC, the Financial Industry Regulatory Authority (“FINRA”) and certain federal bank regulatory agencies to assist in the inspection for compliance with and enforcement of MSRB rules. The reporting requirements are further outlined in Rule G-14 RTRS Procedures and the RTRS Users Manual.⁴

The proposed rule change would amend Rule G-14 and the Rule G-14 RTRS Procedures to update certain references (such as references to the National Association of Securities Dealers, the predecessor of FINRA); eliminate certain provisions that are no longer relevant (such as provisions relating to testing during the original RTRS start-up

⁴ Rule G-14 RTRS Procedures are included in the text of MSRB Rule G-14, and the RTRS Users Manual is available on the MSRB website at www.msrb.org. The RTRS Users Manual will be revised as necessary to reflect the changes made by the proposed rule change.

period) or that, by their original terms, have expired; and conform terms in certain definitions.

Amendments to the RTRS Facility. The RTRS Facility provides for the collection and dissemination of information about transactions occurring in the municipal securities market, and requires dealers to submit information about each purchase and sale transaction effected in municipal securities. The proposed rule change would (A) remove certain outdated information and reporting requirements and amend certain definitions to reflect current system operating hours and business days; (B) modify RTRS specifications to perform certain yield calculations for inter-dealer transactions; (C) remove certain infrequently used data reporting requirements; (D) require dealers to submit dollar prices for certain trades; and (E) modify RTRS specifications to reduce the number of trades suppressed from dissemination because of erroneous price and yield calculations.

Remove certain outdated information and conform definitions to reflect current system operating hours and business days. The proposed rule change would remove references throughout the text of the RTRS Facility to prior amendments to Rule G-14, to certain testing requirements and to the implementation plan relevant to the initial phases of the RTRS system; update current hours of operation; conform certain definitions to reflect such change; and make non-substantive revisions to the language of certain portions of the RTRS Facility to reflect the passage of time since its initial approval.

Yields on inter-dealer transactions. Inter-dealer transaction reporting is accomplished by both the purchasing and selling dealers submitting information about the transaction to the DTCC's real-time trade matching system ("RTTM"). Information

submitted to RTTM is forwarded to RTRS for trade reporting. For most inter-dealer transactions, dealers report final money, par amount and accrued interest to RTTM – as opposed to a dollar price and yield⁵ as is done for customer trades – and RTRS computes a dollar price from these values for inter-dealer transaction price dissemination.⁶ Currently, RTRS does not compute a corresponding yield from the RTRS-computed dollar price for dissemination, resulting in a disparity between what is disseminated for inter-dealer and customer transactions.

To facilitate yield-based comparisons of transaction data across securities, the proposed rule change would cause RTRS to be reprogrammed to perform this calculation so that a yield for most inter-dealer transactions would be added to the information disseminated from RTRS, thereby improving the usefulness of the inter-dealer data disseminated to subscribers and displayed on the MSRB’s Electronic Municipal Market Access (EMMA[®]) website.⁷ Since EMMA[®] is a subscriber to the RTRS real-time subscription service, the yield disseminated for inter-dealer transactions also would be displayed on EMMA[®] in the same manner as it would be provided to RTRS subscribers.⁸

⁵ Dollar price and yield on customer transactions are required to be computed in the same manner as required under MSRB Rule G-15(a), on customer confirmations. Accordingly, from the transaction dollar price, dealers report yield calculated to the lower of an in-whole call feature or maturity.

⁶ For transactions in new issue securities traded on a when, as and if issued basis prior to the closing date being known, dealers only report a dollar price or yield since a final money and accrued interest calculation cannot be performed.

⁷ In addition to calculating and disseminating yield for future inter-dealer transactions, amendments to RTRS specifications would calculate and disseminate yields for historical inter-dealer transactions in RTRS to the extent that such calculations can be accurately performed.

This amendment to the RTRS Facility is reflected in the changes under the heading “Price Dissemination by RTRS – List of Information Items to be Disseminated” and “MSRB Real-Time Transaction Data Subscription Service – Description – Transaction Data Disseminated – Yield (if applicable),” and conforming changes to the RTRS Users Manual will be made.

Transaction reporting requirements. MSRB rules on transaction reporting contain two requirements that were included in the original design for RTRS in 2005 to provide additional details about certain transactions for use in market surveillance. These requirements have applied to few transactions, yet continue to generate questions from dealers, and have provided only limited value for use in market surveillance. The proposed rule change would revise the RTRS specifications to remove these requirements.

The first of these two requirements relates to inter-dealer transactions and requires the identity of an “intermediate dealer,” or correspondent of a clearing broker that passes data to the clearing broker about transactions effected by a third dealer (“effecting dealer”), to be included on applicable trade reports. One of the original purposes of having the intermediate dealer included in a trade report was to assist market surveillance staff by having an additional dealer associated with a transaction reported in the event that the effecting dealer’s identity was erroneously reported. However, few transaction reports contain such an intermediate dealer and, since the November 2009 enhancement to transaction reporting to add the effecting broker to the matching criteria in RTTM, the

⁸ Since the RTRS subscription service already includes a field for yield, no significant system changes should be necessary for existing RTRS subscribers to receive yields on inter-dealer transactions.

identity of the effecting dealer is rarely, if ever, erroneous. The proposed rule change would delete the requirement for dealers to identify the intermediate dealer. This amendment to the RTRS Facility is reflected by the deletion of the penultimate paragraph under the heading “RTRS Facility – Enhancement of Information Available to Regulators,” and conforming changes to the RTRS Users Manual will be made.

The second requirement applies to any transaction effected at a price that substantially differs from the market price as a result of the parties to the transaction agreeing to significantly deviate from a normal settlement cycle. For such transactions, dealers are required to include an identifier on the trade report that allows the trade report to be entered into the RTRS audit trail yet suppressed from price dissemination. Since a small number of transactions are reported with this identifier, for example only .01% of trade reports were identified with this indicator in August 2011, these transactions could be reported using the generic “away from market” indicator used for reporting any transaction at a price that differs from the current market price for the security to simplify transaction reporting requirements. Thus, concurrently with the elimination of the intermediate dealer reporting requirement, the RTRS Users Manual would be revised to delete the “away from market – extraordinary settlement” special condition indicator from RTRS and require that such transactions be reported using the generic “away from market” indicator.

Reporting dollar price for all inter-dealer transactions. RTRS currently computes a dollar price for inter-dealer transactions using the final money, par amount and accrued interest submitted to DTCC. Since the information reported for inter-dealer transactions also is used by DTCC for purposes of clearance and settlement, DTCC procedures

require dealers to report par value as an expression of the number of bonds traded as opposed to the actual par amount traded. If the par value of a security is no longer a \$1,000 multiple because, for example, the issuer has prepaid a portion of the principal on a security on a pro rata basis, dealers continue to report for inter-dealer transactions par value expressed as the number of bonds (i.e. ten bonds would be reported as \$10,000 par value). Transactions between dealers in this security would result in erroneous RTRS-calculated dollar prices since the final money reported by the dealers would be based on a transaction in a security for which each bond costs less than \$1,000.⁹

Since MSRB transaction reporting for inter-dealer transactions began in 1994, a very small portion of inter-dealer transactions have been in securities with a non-standard \$1,000 par multiple.¹⁰ However, primarily since many Build America Bonds issued in recent years included partial call features with a pro-rata redemption provision, there is a likelihood that many more securities may contain par values that are no longer \$1,000 multiples. In addition, there have been press reports that more securities may be issued in nontraditional denominations, such as securities issued in \$25 par amounts similar to preferred stock and other “mini bonds” with sub-\$1,000 principal values.

To ensure that the dollar price disseminated for inter-dealer transactions remains accurate and to minimize the impact on dealer operations as well as the clearance and

⁹ For example, if an issuer has prepaid 50% of the principal on a \$1,000 denominated security, each bond would cost \$500 so a transaction of 10 bonds at “par” would be reported with a par value of \$10,000 and final money of \$5000 resulting in an RTRS-computed dollar price of \$50. This anomaly only occurs on inter-dealer transactions since customer transactions are reported with a dollar price and yield. In this example, the dollar price on a customer transaction in this security would be reported as \$100, or 100% of the principal amount.

¹⁰ Historically, this problem primarily has been limited to transactions in certain municipal collateralized mortgage obligations.

settlement use of the data submitted to DTCC, the MSRB proposes to require dealers to report – in addition to the information currently reported for inter-dealer transactions – the contractual dollar price at which the transaction was executed.¹¹ This amendment to the RTRS Facility is reflected in the changes under the heading “MSRB Real-Time Transaction Data Subscription Service – Description – Transaction Data Disseminated – Dollar Price,” and conforming changes to the RTRS Users Manual will be made.

Increase dissemination of customer transactions. As described above, dealer reports of customer transactions include both a dollar price and yield. Depending on whether the transaction was executed on the basis of a dollar price or yield, a corresponding value must be computed and reported to RTRS by the dealer consistent with the customer confirmation requirements so that the corresponding value reflects a value to the lower of an in-whole call feature or maturity. RTRS also computes the dollar price from the reported yield on customer transactions using security descriptive information from the RTRS security master as a data quality check to ensure that the reported information is accurate. Currently, this data quality check returns an error to dealers and suppresses the transaction from being disseminated in the event that the dollar price computed by RTRS does not exactly match the dollar price reported by the

¹¹ For data quality purposes, RTRS would compare the buy and sell-side contractual dollar prices and return errors to dealers in the event of a material difference between the two reported dollar prices and continue to calculate a dollar price from the reported final money, par value and accrued interest. Since the dealer reported dollar price would not be used for clearance or settlement at DTCC, this data field would be able to be modified in RTRS by dealers to correct errors, even after trade matching had occurred. In the event that the dollar prices disagree between dealers, RTRS would disseminate the RTRS-calculated dollar price and if the dealer reported dollar prices agree yet differ from the RTRS-calculated dollar price (which would occur if the security par value is no longer a \$1,000 multiple) RTRS would disseminate the dealer reported dollar price.

dealer. Dealers receiving this error are required to review the information reported and, if incorrect, modify the transaction information in RTRS. However, in some cases, dealers submit correct information yet RTRS computes an erroneous dollar price as a result of an error in the security descriptive information used by RTRS.¹²

In 2010, of those trades receiving this error, over 75% of the reported dollar prices disagreed with the RTRS-calculated dollar price by less than one dollar. To increase the number of customer transactions disseminated, the proposed rule change would cause RTRS to be reprogrammed to adjust the tolerance of the error code so that the error would continue to be returned to dealers for customer transactions where the reported dollar price disagrees with the RTRS calculated price but allow the trade report to be disseminated so long as the dealer and RTRS-calculated dollar prices are within \$1 of each other. Further, since the disseminated dollar price would be unable to be exactly verified, RTRS would also be programmed to include with the disseminated trade report an indicator that the dollar price of these trades was unable to be verified. Thus, concurrently with the amendment to require dollar price reporting for all inter-dealer transactions, the RTRS Users Manual would be revised to reflect these changes in programming.

Phased Effective Dates of Proposed Rule Change. The MSRB proposes that the proposed rule change be implemented in three phases. Those changes to Rule G-14, the Rule G-14 RTRS Procedures, and the RTRS Facility removing outdated provisions and amending certain definitions, as described above under the caption “Amendments to the

¹² In these cases, there is no action the dealer can take to disseminate the trade report and, to ensure the integrity of RTRS, the MSRB does not manually manipulate trade data or security descriptive information to cause the trade to meet the criteria of the error code.

RTRS Facility – Remove certain outdated information and conform definitions to reflect current system operating hours and business days”, would be made effective upon approval by the SEC. Those changes to the RTRS Facility not requiring dealers to perform significant system changes, as described above under the captions “Amendments to the RTRS Facility – Yields on inter-dealer transactions” and “Amendments to the RTRS Facility – Transaction reporting requirements”, would be made effective on April 30, 2012. Those changes to the RTRS Facility requiring dealers and subscribers to the RTRS subscription service to make significant system changes, as described above under the captions “Amendments to the RTRS Facility – Reporting dollar price for all inter-dealer transactions” and “Amendments to the RTRS Facility – Increase dissemination of customer transactions”, would be made effective on a date to be announced by the MSRB in a notice published on the MSRB website, which date shall be no later than November 30, 2012 and shall be announced no later than 30 days prior to the effective date thereof.

III. Discussion and Commission Findings

The Commission has carefully considered the proposed rule change and finds that the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to the MSRB.¹³ In particular, the proposed rule change is consistent with Section 15B(b)(2)(C) of the Exchange Act, which provides that the MSRB’s rules shall be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing

¹³ In approving this proposed rule change, the Commission notes that it has considered the proposed rule’s impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.¹⁴

The Commission believes that the proposed rule change is consistent with the Exchange Act because the proposed rule change would remove impediments to and perfect the mechanism of a free and open market in municipal securities by improving trade reporting and market transparency. The proposed rule change would facilitate comparison of trade data across securities and within data for a security, thereby contributing to fairer pricing, improve the reliability and accuracy of price information disseminated for inter-dealer transactions, and increase the number of customer transactions disseminated to the market. The Commission believes that these changes would contribute to the MSRB's continuing efforts to improve market transparency and to protect investors and the public interest.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange

¹⁴ 15 U.S.C. 78o-4(b)(2)(C).

Act,¹⁵ that the proposed rule change (SR-MSRB-2012-01) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Kevin M. O'Neill
Deputy Secretary

¹⁵ 15 U.S.C. 78s(b)(2).

¹⁶ 17 CFR 200.30-3(a)(12).