

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68081; File No. SR-MSRB-2012-07)

October 22, 2012

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Order Approving a Proposed Rule Change To Amend the Real-Time Transaction Reporting System Information System and Subscription Service

I. Introduction

On August 24, 2012, the Municipal Securities Rulemaking Board (“MSRB”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to enhance the transaction data publicly disseminated from the Real-Time Transaction Reporting System (“RTRS”) information system. The proposed rule change was published for comment in the Federal Register on September 12, 2012.³ The Commission received three comment letters regarding the proposed rule change.⁴ This order approves the proposed rule change.

II. Description of the Proposal

RTRS is a facility for the collection and dissemination of information about transactions occurring in the municipal securities markets. MSRB Rule G-14 requires brokers, dealers, and municipal securities dealers (collectively, “dealers”) to report all transactions in municipal

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 67792 (September 6, 2012), 77 FR 56244 (SR-MSRB-2012-07) (“Notice”).

⁴ See Letters from Dorothy Donohue, Deputy General Counsel–Securities Regulation, Investment Company Institute, to Elizabeth M. Murphy, Secretary, Commission, dated September 28, 2012; Michael Nicholas, Chief Executive Officer, Bond Dealers of America, to Elizabeth M. Murphy, Secretary, Commission, dated October 3, 2012; and Michael Decker, Managing Director and Co-Head of Municipal Securities, Securities Industry and Financial Markets Association, to Elizabeth M. Murphy, Secretary, Commission, dated October 3, 2012. All three commenters supported the proposed rule change.

securities to RTRS within fifteen minutes of the time of trade, with limited exceptions. The MSRB makes transaction information available to the public through subscription services as well as for free on the Electronic Municipal Market Access (“EMMA®”) website.

Currently, transaction information disseminated from RTRS includes the exact par value on all transactions with a par value of \$1 million or less, but includes an indicator of “1MM+” in place of the exact par value on transactions where the par value is greater than \$1 million. The exact par value of transactions having a par value greater than \$1 million is disseminated from RTRS five business days later. The MSRB implemented this approach in response to concerns that, given the prevalence of thinly traded securities in the municipal securities market, it is sometimes possible to identify institutional investors and dealers by the exact par value included on trade reports.⁵

The MSRB now proposes to include in transaction data publicly disseminated from RTRS in real-time the exact par value on all transactions with a par value of \$5 million or less, and to include an indicator of “MM+” in place of the exact par value on transactions where the par value is greater than \$5 million.⁶ The exact par value of transactions having a par value greater than \$5 million would be disseminated from RTRS five business days later.⁷

According to the MSRB, a foundational principle of RTRS is that all market participants have equal access to transaction information. In a recent report on municipal securities market structure, the Government Accountability Office (“GAO”) observed that certain market

⁵ See Notice, *supra* note 3, at 56245.

⁶ Instead of changing the indicator to “5MM+,” the MSRB plans to include an indicator of “MM+” so that the par value threshold can be changed in the future without requiring subscribers to make system changes to accommodate a new indicator. See *id.* at 56245 n.6.

⁷ See *id.* at 56244.

participants are able to determine, through their relationships with dealers, the par amount of large transactions for which the par value is masked in RTRS subscription services and on EMMA.⁸ According to the MSRB, the GAO's observation undermines the purpose of masking the exact par value, as well as the foundational principle of RTRS, since the equality of access to transaction information is lost for the five business day period that certain institutional customers have access to the exact par value while the rest of the marketplace must await the unmasking of such information by RTRS five business days after the trade was reported.⁹ Additionally, while commenters opposed the MSRB's original proposal to eliminate the practice of masking large trade sizes entirely,¹⁰ commenters stated that raising the par value threshold for masking large trade sizes to \$5 million would provide additional transparency to the municipal securities market without adversely impacting liquidity.¹¹

III. Discussion and Commission's Findings

The Commission has carefully considered the proposed rule change, as well as the comment letters received and the MSRB's response, 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.¹² In particular, the proposed rule change is consistent with Section

⁸ See U.S. Government Accountability Office, *Municipal Securities: Overview of Market Structure, Pricing, and Regulation*, GAO-12-265, January 17, 2012.

⁹ See Notice, supra note 3, at 56245.

¹⁰ The MSRB has indicated it plans to continue to evaluate whether this threshold can be raised further, or completely eliminated, with a view towards bringing full transparency of exact par values to the municipal securities market in real-time. The MSRB plans to evaluate any impacts on liquidity from the near-term increase of the trade size mask threshold to \$5 million to assist it in determining whether any future changes to this threshold are merited or could result in unanticipated consequences. See id.

¹¹ See supra note 4. See also Notice, supra note 3, at 56245.

¹² In approving the proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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 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.¹³

The Commission recently urged the MSRB promptly to pursue enhancements to its EMMA website so that retail investors have better access to pricing and other municipal securities information, noting that retail investors continue to have access to substantially less pricing information than institutional investors and dealers.¹⁴ The MSRB believes that raising the par value masking threshold to par values over \$5 million is an appropriate first step to take in the short term as it would greatly reduce the number of trades subject to the par value mask.¹⁵ The Commission believes the proposed rule change is reasonably designed to remove impediments to and perfect the mechanism of a free and open market in municipal securities by increasing the number of transactions disseminated from RTRS in real-time that include the exact par value of such transactions, thereby providing more transparency to market participants, including retail investors, about transactions disseminated from RTRS.

¹³ 15 U.S.C. 78o-4(b)(2)(C).

¹⁴ See Report on the Municipal Securities Market, July 31, 2012, available at <http://www.sec.gov/news/studies/2012/munireport073112.pdf>.

¹⁵ According to the MSRB, based on 2011 trade data, 342,906 trades were subject to the over \$1 million trade size mask, while 97,124 trades had par values over \$5 million. See Notice, supra note 3, at 56245.

IV. Conclusion

For the foregoing reasons, the Commission 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 and, in particular, Section 15B(b)(2)(C)¹⁶ of the Exchange Act. The proposal will become effective on November 5, 2012.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁷ that the proposed rule change (SR-MSRB-2012-07) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Kevin M. O'Neill
Deputy Secretary

¹⁶ 15 U.S.C. 78o-4(b)(2)(C).

¹⁷ 15 U.S.C. 78s(b)(2).

¹⁸ 17 CFR 200.30-3(a)(12).