
Rule G-13

Quotations Relating to Municipal Securities

(a) *General.* The provisions of this rule shall apply to all quotations relating to municipal securities which are distributed or published, or caused to be distributed or published, by any broker, dealer or municipal securities dealer or any person associated with and acting on behalf of a broker, dealer or municipal securities dealer. For purposes of this rule, the term “quotation” shall mean any bid for, or offer of, municipal securities, or any request for bids for or offers of municipal securities, including indications of “bid wanted” or “offer wanted.” The terms “distributed” or “published” shall mean the dissemination of quotations by any means of communication. Reference in this rule to a broker, dealer or municipal securities dealer shall be deemed to include reference to any person associated with a broker, dealer or municipal securities dealer.

(b) *Bona Fide Quotations.*

(i) Except as provided below, no broker, dealer or municipal securities dealer shall distribute or publish, or cause to be distributed or published, any quotation relating to municipal securities, unless the quotation represents a bona fide bid for, or offer of, municipal securities by such broker, dealer or municipal securities dealer, provided, however, that all quotations, unless otherwise indicated at the time made, shall be subject to prior purchase or sale and to subsequent change in price. If such broker, dealer or municipal securities dealer is distributing or publishing the quotation on behalf of another broker, dealer, or municipal securities dealer, such broker, dealer or municipal securities dealer shall have no reason to believe that such quotation does not represent a bona fide bid for, or offer of, municipal securities. Nothing in this paragraph shall be construed to prohibit requests for bids or offers, including indications of “bid wanted” or “offer wanted,” or shall be construed to prohibit nominal quotations, if such quotations are, at the time made, clearly stated or indicated to be such. For purposes of this paragraph, a “nominal quotation” shall mean an indication of the price given solely for informational purposes.

(ii) No broker, dealer or municipal securities dealer shall distribute or publish, or cause to be distributed or published, any quotation relating to municipal securities, unless the price stated in the quotation is based on the best judgment of such broker, dealer or municipal securities dealer of the fair market value of the securities which are the subject of the quotation at the time the quotation is made. If a broker, dealer or municipal securities dealer is distributing or publishing a quotation on behalf of another broker, dealer, or municipal securities dealer, such broker, dealer or municipal securities dealer shall have no reason to believe that the price stated in the quotation is not based on the best judgment of the fair market value of the securities of the broker, dealer or municipi-

pal securities dealer on whose behalf such broker, dealer or municipal securities dealer is distributing or publishing the quotation.

(iii) For purposes of subparagraph (i), a quotation shall be deemed to represent a “bona fide bid for, or offer of, municipal securities” if the broker, dealer or municipal securities dealer making the quotation is prepared to purchase or sell the security which is the subject of the quotation at the price stated in the quotation and under such conditions, if any, as are specified at the time the quotation is made.

(iv) No broker, dealer or municipal securities dealer shall knowingly misrepresent a quotation relating to municipal securities made by any other broker, dealer, or municipal securities dealer.

(c) *Multiple Markets in the Same Securities.* No broker, dealer or municipal securities dealer participating in a joint account shall, together with one or more other participants in such account, distribute or publish, or cause to be distributed or published, quotations relating to the municipal securities which are the subject of such account if such quotations indicate more than one market for the same securities.

Rule G-13 Interpretations

Notice of Interpretation of Rule G-13 on Published Quotations

April 21, 1988

The Board has received complaints regarding published quotations, such as those appearing in *The Blue List*. The complaints, which have been referred to the appropriate enforcement agency, state that municipal securities offerings published by dealers often do not reflect prices and amounts of securities that currently are being offered by the quoting dealer.

Board rule G-13, on quotations, prohibits the dissemination of a quotation relating to municipal securities unless the quotation represents a bona fide bid for, or offer of, municipal securities. The term quotation is defined to mean any bid for, or offer of, municipal securities. A quotation is deemed to be bona fide if the dealer on whose behalf the quotation is made is prepared to purchase or sell the municipal securities at the price stated and in the amount specified at the time the quotation is made.

Under rule G-13, the price stated in a quotation for municipal securities must be based on the best judgment of the dealer making the quotation as to the fair market value of such securities at the time the quotation is made. The Board has stated that the price must have a reasonable relationship to the fair market value of the securities, and may take into account relevant factors such as the dealer’s current inventory position, overall and in respect to a particular security, and the dealer’s anticipation of the direction of the market price for the securities.

Rule G-13 also prohibits a dealer from entering a quotation on behalf of another dealer if the dealer entering the quotation has any reason to believe that the quotation does not represent a bona fide bid for, or offer of, municipal securities. In addition, participants in a joint account are prohibited from entering quotations relating to municipal securities which are the subject of the joint account, if such quotations indicate more than one market for the same securities. Rule G-13 does not prohibit giving “nominal” bids or offers or giving indications of price solely for informational purposes as long as an indication of the price given is clearly shown to be for such purposes.

A dealer that publishes a quote in a daily or other listing must stand ready to purchase or sell the securities at the stated price and amount until the securities are sold or the dealer subsequently changes its price. If either of these events occur, the dealer must withdraw or update its published quotation in the next publication. Stale or invalid quotations violate rule G-13. Rule G-13 does permit a dealer to publish a quotation for a security it does not own if the dealer is prepared to sell the security at the price stated in the quotation. If the dealer knows that the security is not available in the market or is not prepared to sell the security at the stated price, the quotation would violate rule G-13.

See also:

Rule G-17 Interpretations — Application of Board Rules to Transactions in Municipal Securities Subject to Secondary Market Insurance or Other Credit Enhancement Features, March 6, 1984.

Rule G-43 Interpretation — Notice to Dealers That Use the Services of Broker’s Brokers, December 22, 2012.

Interpretive Letter

Quotation of municipal securities. This will acknowledge receipt of your letter dated February 9, 1977 concerning the Board’s proposed rule G-13 on quotations relating to municipal securities. In your letter you raise certain questions concerning the intent and application of paragraph (b)(ii) of proposed rule G-13, which prohibits a municipal securities professional from distributing or publishing a municipal securities quotation, or causing such a quotation to be distributed or published, unless the quotation is based upon the professional’s best judgment as to the fair market value of the security.

While the provision in question would undoubtedly apply to situations involving outright fraud, the Board believes the rule to have appropriate application in other circumstances as well. Thus, the Board has attempted in paragraph (b)(ii) to proscribe conduct which, in the Board’s opinion, constitutes bad business practice but may not, depending on the circumstances, constitute fraud. The Board firmly believes that as a matter of just and equitable principles of trade in the municipal securities industry and with a view to promoting free and

open markets in municipal securities, certain practices should not be condoned, even though they do not necessarily rise to the level of fraud or cannot be proven to constitute fraud.

Some examples of how paragraph (b)(ii) would operate may be useful. First, assume that a dealer submits a bid for bonds, knowing that they have been called by the issuer. The bonds are not general market bonds and the fact that they have been called is not widely known. While called bonds ordinarily trade at a premium, the dealer’s bid is based on the value of the bonds as though they had not been called and is accepted by the dealer on the other side of the trade who is unaware of the called status of the bonds. In these circumstances, the bid clearly would not have been based upon the best judgment of the dealer making it as to the fair market value of the bonds. While one might argue that the dealer accepting the bid should have known of the called status of the bonds, the dealer making the bid acted unethically and in a manner not conducive to free and open markets in municipal securities. In the Board’s view, the actions of the dealer making the bid should not be condoned, although a charge of fraud might be difficult to sustain in dealings between professionals and might be inappropriate. The improper nature of the dealer’s conduct would be exacerbated, of course, if the person on the other side of the transaction is a non-professional. However, difficulties in proof that the conduct of the dealer was fraudulent suggest that the best judgment rule would provide an appropriate alternative basis for enforcement action.

Another situation that would be covered by the best judgment rule is one in which a dealer submits a bid for bonds based on valuations obtained from independent sources, which in turn are based on mistaken assumptions concerning the nature of the securities in question. The circumstances indicate that the dealer submitting the bid knows that the securities have a substantially greater market value than the price bid, but the fact that independent valuations were obtained, albeit based on mistaken facts, clouds the dealer’s culpability.

A third situation to which the best judgment rule would apply is one in which a dealer makes a bid for or offer of a security without any knowledge as to the value of the security or the value of comparable securities. While the Board does not intend that the best judgment of a dealer as to the fair market value of a security be second-guessed for purposes of the proposed rule, the Board does intend that the dealer be required to act responsibly and to exercise some judgment in submitting a quotation. In other words, a quotation which has been “pulled out of the air” is not based on the best judgment of the dealer and, in the interests of promoting free and open markets in municipal securities, should not be encouraged.

Given the manner in which the Board intends the “best judgment” rule to operate, the Board concluded that it would not have an anti-competitive impact on the municipal markets. The proposed rule is not intended to prohibit legitimate price discounts or mark-ups, as the case may be, based upon a dealer’s anticipation of the direction of the movement of the markets and other factors. The Board does not intend to inter-

ferre with legitimate pricing mechanisms and recognizes that there may be a variety of quotations with respect to a given security, each of which would comply with the terms of the proposed rule.

While it is not possible to anticipate all of the specific fact situations that might run afoul of the “best judgment” rule, I would like to make some general observations concerning the operation of the proposed rule. As you know, one of Congress’ principal purposes in calling for the establishment of the Board was to promote the development of a body of rules for the municipal securities industry that would furnish guidelines for good business conduct. The Senate Committee on Banking, Housing and Urban Affairs observed in its Report on the Securities Acts Amendments of 1975 that prior to the legislation, the conduct of municipal market professionals could be controlled only after the fact through enforcement by the Commission of the fraud prohibitions of the federal securities laws. The Senate Committee expressed hope that a self-regulatory body like the Board would develop prophylactic rules for the industry which would deter unethical and fraudulent practices in the first instance. See Senate Report 94-75, 94th Cong., 1st Sess., 42-43. *MSRB interpretation of February 24, 1977.*

Rule G-14

Reports of Sales or Purchases

(a) *General.* No broker, dealer or municipal securities dealer or person associated with a broker, dealer or municipal securities dealer shall distribute or publish, or cause to be distributed or published, any report of a purchase or sale of municipal securities, unless such broker, dealer or municipal securities dealer or associated person knows or has reason to believe that the purchase or sale was actually effected and has no reason to believe that the reported transaction is fictitious or in furtherance of any fraudulent, deceptive or manipulative purpose. For purposes of this rule, the terms “distributed” or “published” shall mean the dissemination of a report by any means of communication.

(b) *Transaction Reporting Requirements.*

(i) Each broker, dealer or municipal securities dealer (“dealer”) shall report to the Board or its designee information about each purchase and sale transaction effected in municipal securities to the Real-time Transaction Reporting System (“RTRS”) in the manner prescribed by Rule G-14 RTRS Procedures and the RTRS Users Manual. Transaction information collected by the Board under this rule will be used to make public reports of market activity and prices and to assess transaction fees. The transaction information will be made available by the Board to the Commission, securities associations registered under Section 15A of the Act and other appropriate regulatory agencies defined in Section 3(a)(34) (A) of the Act to assist in the inspection for compliance with and the enforcement of Board rules.

(ii) The information specified in the Rule G-14 RTRS Procedures is critical to public reporting of prices for transparency purposes and to the compilation of an audit trail for regulatory purposes. All dealers have an ongoing obligation to report this information promptly, accurately and completely. The dealer may employ an agent for the purpose of submitting transaction information; however the primary responsibility for the timely and accurate submission remains with the dealer that effected the transaction. A dealer that acts as a submitter for another dealer has specific responsibility to ensure that transaction reporting requirements are met with respect to those aspects of the reporting process that are under the Submitter’s control. A dealer that submits inter-dealer municipal securities transactions for comparison, either for itself or on behalf of another dealer, has specific responsibility to ensure that transaction reporting requirements are met with respect to those aspects of the comparison process that are under the Submitter’s control.

(iii) To identify its transactions for reporting purposes, each dealer shall obtain a unique broker symbol from NASDAQ Subscriber Services.

(iv) The provisions of this section (b) shall not apply to a dealer if such dealer does not effect any transactions in municipal securities or if such dealer’s transactions in municipal

securities are limited exclusively to transactions described in subsection (b)(v) of this rule and the dealer has confirmed that it is qualified for this exemption as provided in Rule A-12(g).

(v) The following transactions shall not be reported under Rule G-14:

(A) Transactions in securities without assigned CUSIP numbers;

(B) Transactions in Municipal Fund Securities; and

(C) Inter-dealer transactions for principal movement of securities between dealers that are not inter-dealer transactions eligible for comparison in a clearing agency registered with the Commission.

Rule G-14 RTRS Procedures

(a) *General Procedures.*

(i) The Board has designated three RTRS Portals for dealers to use in the submission of transaction information. Transaction data submissions must conform to the formats specified for the RTRS Portal used for the trade submission. The RTRS Portals may be used as follows:

(A) The message-based trade input RTRS Portal operated by National Securities Clearing Corporation (NSCC) (“Message Portal”) may be used for any trade record submission or trade record modification.

(B) The RTRS Web-based trade input method (“RTRS Web Portal” or “RTRS Web”) operated by the MSRB may be used for low volume transaction submissions and for modifications of trade records, but cannot be used for submitting or amending inter-dealer transaction data that is used in the comparison process. Comparison data instead must be entered into the comparison system using a method authorized by the registered clearing agency.

(C) The NSCC Real-Time Trade Matching (“RTTM”) Web-based trade input method (“RTTM Web Portal” or “RTTM Web”) may be used only for submitting or modifying data with respect to Inter-Dealer Transactions Eligible for Comparison.

(ii) Transactions effected with a Time of Trade during the hours of the RTRS Business Day shall be reported within 15 minutes of Time of Trade to an RTRS Portal except in the following situations:

(A) A “List Offering Price/Takedown Transaction,” as defined in paragraph (d)(vii) of Rule G-14 RTRS Procedures, shall be reported by the end of the day on which the trade is executed.

(B) A dealer effecting trades in short-term instruments maturing in nine months or less, variable rate instruments that may be tendered for purchase at least as frequently as every nine months, auction rate products for which auctions are scheduled to occur at least as

frequently as every nine months, and commercial paper maturing or rolling-over in nine months or less shall report such trades by the end of the RTRS Business Day on which the trades were executed.

(C) A dealer reporting an “away from market” trade as described in Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions shall report such trade by the end of the day on which the trade is executed.

(D) A dealer reporting an inter-dealer “VRDO ineligible on trade date” as described in Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions shall report such trade by the end of the day on which the trade becomes eligible for automated comparison by a clearing agency registered with the Commission.

(E) A dealer reporting an inter-dealer “resubmission of an RTTM cancel” as described in Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions shall resubmit identical information about the trade cancelled by the end of the RTRS Business Day following the day the trade was cancelled.

(iii) Transactions effected with a Time of Trade outside the hours of the RTRS Business Day shall be reported no later than 15 minutes after the beginning of the next RTRS Business Day.

(iv) Transaction data that is not submitted in a timely and accurate manner in accordance with these Procedures shall be submitted or corrected as soon as possible.

(v) Information on the status of trade reports in RTRS is available through the Message Portal, through the RTRS Web Portal, or via electronic mail. Trade status information from RTRS indicating a problem or potential problem with reported trade data must be reviewed and addressed promptly to ensure that the information being disseminated by RTRS is as accurate and timely as possible.

(vi) RTRS Portals will be open for transmission of transaction data and status of trade reports beginning 30 minutes prior to the beginning of the RTRS Business Day and ending 90 minutes after the end of the RTRS Business Day.

(b) Reporting Requirements for Specific Types of Transactions.

(i) Inter-Dealer Transactions Eligible for Comparison by a Clearing Agency Registered with the Commission.

(A) Bilateral Submissions: Inter-Dealer Transactions Eligible for Trade Comparison at a Clearing Agency Registered with the Commission (registered clearing agency) shall be reported by each dealer submitting, or causing to be submitted, such transaction records required by the registered clearing agency to achieve comparison of the transaction. The transaction records also shall include the additional trade information for such trades

listed in the Specifications for Real-Time Reporting of Municipal Securities Transactions contained in the RTRS Users Manual.

(B) Unilateral Submissions: For transactions that, under the rules of the registered clearing agency, are deemed compared upon submission by one side of the transaction (unilateral submissions), a submission is not required by the contra-side of the transaction. The contra-side, however, must monitor such submissions to ensure that data representing its side of the trade is correct and use procedures of the registered clearing agency to correct the trade data if it is not.

(ii) *Customer Transactions.* Reports of transactions with customers shall include the specific items of information listed for such transactions in the Specifications for Real-Time Reporting of Municipal Securities Transactions.

(iii) *Agency Transactions With Customers Effected By An Introducing Broker Against Principal Account of its Clearing Broker.* Reports of agency transactions effected by an introducing broker for a customer against the principal account of its clearing broker shall include the specific items of information listed in the Specifications for Real-Time Reporting of Municipal Securities Transactions for “Inter-Dealer Regulatory-Only” trades.

(iv) *Transactions with Special Conditions.* Reports of transactions affected by the special conditions described in the RTRS Users Manual in Section 4.3.2 of the Specifications for Real-Time Reporting of Municipal Securities Transactions shall be reported with the “special condition indicators” shown and in the manner specified. Special condition indicators designated as “optional” in these Specifications are required for the Submitter to obtain an extended reporting deadline under paragraphs (a)(ii)(B)-(C) of Rule G-14 RTRS Procedures, but may be omitted if a deadline extension is not claimed. All other special condition indicators are mandatory, including the List Offering Price/Takedown Transaction indicator for transactions identified in paragraph (a)(ii)(A) of Rule G-14 RTRS Procedures, alternative trading system transaction indicator for transactions defined in paragraph (d) (ix) of Rule G-14 RTRS Procedures, and non-transaction-based compensation arrangement indicator for transactions defined in paragraph (d)(x) of Rule G-14 RTRS Procedures.

(c) *RTRS Users Manual.* The RTRS Users Manual is comprised of the Specifications for Real-Time Reporting of Municipal Securities Transactions, the Users Guide for RTRS Web, Testing Procedures, guidance on how to report specific types of transactions and other information relevant to transaction reporting under Rule G-14. The RTRS Users Manual is located at www.msrb.org and may be updated from time to time with additional guidance or revisions to existing documents.

(d) *Definitions.*

(i) “RTRS” or “Real-Time Transaction Reporting System” is a facility operated by the MSRB. RTRS receives municipal securities transaction reports submitted by dealers pursuant to Rule G-14, disseminates price and volume information in real time for transparency purposes, and otherwise processes information pursuant to Rule G-14.

(ii) The “RTRS Business Day” is 7:30 a.m. to 6:30 p.m., Eastern Time, Monday through Friday, unless otherwise announced by the Board.

(iii) “Time of Trade” is the time at which a contract is formed for a sale or purchase of municipal securities at a set quantity and set price.

(iv) “Submitter” means a dealer, or service bureau acting on behalf of a dealer, that has been authorized to interface with RTRS for the purposes of entering transaction data into the system.

(v) “Inter-Dealer Transaction Eligible for Automated Comparison by a Clearing Agency Registered with the Commission” is defined in MSRB Rule G-12(f)(iv).

(vi) “Municipal Fund Securities” is defined in Rule D-12.

(vii) “List Offering Price/Takedown Transaction” means a primary market sale transaction executed on the first day of trading of a new issue:

(A) by a sole underwriter, syndicate manager, syndicate member, selling group member, or distribution participant to a customer at the published list offering price for the security (“List Offering Price Transaction”); or

(B) by a sole underwriter or syndicate manager to a syndicate member, selling group member, or distribution participant (“RTRS Takedown Transaction”).

(viii) “Distribution participant” means for the purposes of this rule a dealer that has agreed to assist an underwriter in selling a new issue at the list offering price.

(ix) “Alternative trading system transaction” means for the purposes of this rule an inter-dealer transaction with or executed using the services of an alternative trading system with Form ATS on file with the Securities and Exchange Commission.

(x) “Non-transaction-based compensation arrangement transaction” means for the purposes of this rule a transaction with a customer that does not include a mark-up, mark-down or commission.

Rule G-14 Interpretations

Notice Concerning Executing Broker Symbols: Rule G-14

December 16, 1996

MSRB Rule G-14 on Transaction Reporting requires that every dealer obtain an executing broker symbol, if one has not already been assigned, from National Association of Securities Dealers Automated Quotations (NASDAQ). NASDAQ will assign executing broker symbols to all dealers including bank dealers. NASDAQ Subscriber Services can be reached at 212-231-5180, option 3. When calling NASDAQ Subscriber Services for an executing broker symbol, dealers should state that they need the symbol for use in reporting transactions in municipal securities to the MSRB. If dealers experience difficulties in obtaining executing broker symbols, then they can send an e-mail to subscriber@NASDAQ.com.

NOTE: This notice was revised to reflect updated information.

Rule G-14 Transaction Reporting Procedures — Time of Trade Reporting

August 1, 1996

1. Q: When is the inter-dealer time of trade reporting requirement effective?

A: The amendment to the rule G-14 transaction reporting procedures requiring the submission of time of trade execution for inter-dealer transactions became effective on July 1, 1996.

2. Q: What is the purpose of submitting the time of trade to the Board?

A: The Board’s Transaction Reporting Program has two functions — public dissemination of price and volume information about frequently traded securities and the maintenance of a surveillance database to assist regulators in inspection for compliance with, and enforcement of, Board rules and securities laws. The surveillance database includes, among other things, the price and volume of each reported transaction, the trade date, the identification of the security traded, and the parties to the trade. The addition of the time of trade execution will enable the enforcement agencies to construct audit trails of inter-dealer transactions. When customer transactions are added to the system in 1998, these transaction records also will include time of trade. Time of trade will not be made public.

3. Q: How is time of trade reported?

A: Under rule G-14, inter-dealer transaction information is reported to the Municipal Securities Rulemaking Board using the same system used for automated comparison of inter-dealer transactions, operated by National Securities Clearing Corporation. Rule G-14 requires that the transaction information be submitted in the format specified by NSCC, and within such timeframe as required by NSCC to produce a compared trade for the transaction in the initial comparison cycle on the night of trade date. A broker, dealer or municipal securities dealer may employ an agent that is a member of NSCC or a registered clearing agency for the purpose of submitting

transaction information. For example, the clearing broker generally reports transactions to the MSRB through NSCC when there is an introducing/clearing broker arrangement.

Under the new amendment to rule G-14, the transaction information submitted in accordance with the rule G-14 procedures must include the time of trade execution. NSCC has provided a space designated for this purpose in the standard format used for submitting trade data into the automated comparison system.

4. Q: Which dealer in an inter-dealer transaction reports the time of trade?

A: Under NSCC's automated comparison procedures, both sides of a transaction generally are required to submit transaction information. Therefore, time of trade will be reported by each side of the transaction in most cases. For "syndicate take-down" transactions, which are reported by only the seller, the time of trade is reported only by the seller.

5. Q: If the time of trade that I submit does not agree with the time of trade that the contra party submits, will this cause the trade not to compare?

A: No. The time of trade is not a match item in the automated comparison system.

6. Q: Why do both sides to the transaction have to submit the time of trade?

A: In some cases, even though both sides of a transaction are supposed to submit transaction information, the Board receives transaction information from only one party to a transaction. This may occur, for example, when a dealer "stamps an advisory" to create a compared trade. It therefore is necessary for each side of a transaction to report the time of trade to ensure that the surveillance data base has at least one report of the time of trade.

7. Q: Does the time of trade reporting requirement apply only to secondary market transactions?

A: No. The time of trade is required for all inter-dealer transactions including those in the primary market.

8. Q: How does a dealer determine the time of trade for transactions?

A: In general, this is the same time as the "time of execution," as currently required for recordkeeping purposes under rule G-8(a)(vi) and (vii).

9. Q: What is the time of trade for syndicate allocations on new issues?

A: First it should be noted that the "initial trade date" for an issue of municipal securities cannot precede the date of award (for competitive issues) or the date that the bond purchase agreement is signed (for negotiated issues). See rule G-34(a)(ii)(C)(2) and MSRB Interpretations of April 30, 1982, *MSRB Manual* and October 7, 1982, *MSRB Manual*. Similarly, the time of trade may not precede the time of award (for competitive issues) or the time that the bond purchase agreement is

signed (for negotiated issues). In the typical case involving a competitive issue in which allocations are made after the date of award, the time of trade execution is the time that the allocation is made. If allocations have been "preassigned," prior to a competitive award, or prior to the signing of a bond purchase agreement, the time of award or signing of the bond purchase agreement should be entered as the "time of trade."

Reminder Regarding MSRB Rule G-14 Transaction Reporting Requirements

March 3, 2003

The Municipal Securities Rulemaking Board ("MSRB") and NASD would like to remind brokers, dealers and municipal securities dealers (collectively "dealers") about the requirements of MSRB Rule G-14, on transaction reporting. This document also describes services provided by the MSRB designed to assist dealers in complying with Rule G-14.

Transactions reported to the MSRB under Rule G-14 are made available to the NASD and other regulators for their market surveillance and enforcement activities. The MSRB also makes public price information on municipal securities transactions using data reported by dealers. One product is the Daily Report of Frequently Traded Securities ("Daily Report") that is made available to subscribers each morning by 7:00 am. Currently, it includes details of transactions in municipal securities issues that were "frequently traded" the previous business day.¹ The Daily Report is one of the primary public sources of municipal securities price information and is used by a variety of industry participants to evaluate municipal securities.²

Dealers can monitor their municipal transaction reporting compliance in several ways. For customer and inter-dealer transaction reporting, the MSRB Dealer Feedback System ("DFS") provides monthly statistical information on transactions reported by a dealer to the MSRB and information about individual transactions reported by a dealer to the MSRB. For daily feedback on customer trades reported, the MSRB provides dealers a "customer report edit register" on the day after trades were submitted. This product indicates trades successfully submitted and those that contained errors or possible errors.³ For inter-dealer transactions, National Securities Clearing Corporation ("NSCC") provides to its members daily files, sometimes called "contract sheets," that can be used to check the content and status of the transactions the member has submitted.

Inter-Dealer Transactions

Even before Rule G-14 imposed requirements for transaction reporting, MSRB Rule G-12(f), on use of automated comparison, clearance and settlement systems, required dealers to submit data on their inter-dealer transactions in municipal securities to a registered clearing agency for automated comparison on trade date ("T"). NSCC provides the automated comparison services for transactions in municipal securities.

The same inter-dealer trade record dealers submit to NSCC for comparison also is used to satisfy the requirements of MSRB Rule G-14 to report inter-dealer transactions to the MSRB. NSCC forwards the transaction data it receives from dealers to the MSRB so that dealers do not have to send a separate record to the MSRB. However, satisfying the requirements for successful trade comparison under Rule G-12(f) does not, by itself, necessarily satisfy a dealer's Rule G-14 transaction reporting requirements. In addition to the trade information necessary for a successful trade comparison, Rule G-14 requires dealers to submit accrued interest, time of trade (in military format) and the effecting brokers' (both buy and sell side) four-letter identifiers, also known as executing broker symbols ("EBS"). Failure to include accrued interest, time of trade and EBS when submitting transaction information to NSCC's automated comparison system is a violation of MSRB Rule G-14 on transaction reporting even though the trade may compare on T.

As noted above, the MSRB provides dealers with statistical measures of compliance with some important aspects of MSRB Rules G 12 and G 14 through its Dealer Feedback System.⁴ The statistics available for inter-dealer trades include:

- **Late or Stamped.** The frequency with which a dealer causes an inter-dealer trade not to compare on trade date is reflected in the "late or stamped" statistic. Trades that do not compare on trade date are ineligible for the Daily Report. The statistic is an indication of how often a dealer submits a trade late or stamps its contra-party's advisory, and is expressed as a percentage of the dealer's total compared trades. Because this statistic includes both "when, as and if issued" and regular-way trades, it provides a comprehensive analysis of the timeliness with which a dealer reports its trades.
- **Invalid Time of Trade.** This statistic reflects the total number of trade records submitted by a dealer in which the time of trade is null or not within the hours of 0600 to 2100. Accurate times of trade are essential to regulatory surveillance because they provide an audit trail of trading activity.
- **Uncompared Input.** A high percentage of uncompared trades may indicate that a dealer is submitting duplicative trade information, inaccurate information, or is erroneously submitting buy-side reports against syndicate takedowns.⁵ The uncompared input statistic reflects trade records that a dealer inputs for comparison that never compare and are expressed as a percentage of a dealer's total number of compared trades. It is a violation of Rule G-14 to submit trade reports that do not accurately represent trades. Moreover, Rule G-12(f) requires that dealers follow-up on inter-dealer trade submissions that do not compare in the initial trade cycle by using the post-original comparison procedures at NSCC. Trade reports made to MSRB and NSCC that never compare are a concern because they either represent inaccurate trade input or indicate that the dealer is not following-up on uncompared trades using the post-original comparison procedures provided by NSCC.

- **Compared but Deleted or Withheld.** This statistic represents deleted or withheld trade records and is a percentage of all compared trade records. Compared trade records that are subsequently deleted or withheld are a concern because these trades may have previously appeared on the Daily Report. While it is sometimes necessary to correct erroneous trade submissions using delete or withhold procedures, this will be an infrequent occurrence if proper attention is paid to transaction reporting procedures. Dealers that have a high percentage of such trades should review their procedures to determine why transaction data is being entered inaccurately.
- **Executing Broker Symbol (EBS) Statistics.** These statistics indicate the percentage of trade submissions for which the field identifying the dealer that effected the trade is either empty or contains an invalid entry. These statistics are compiled for every member of NSCC.⁶ It provides information on three types of EBS errors: 1) null EBS, where a dealer left the EBS field blank; 2) numeric EBS, where a dealer entered a number in the EBS field; and 3) unknown EBS, where a dealer populated the EBS field with a symbol that is not a valid NASD-assigned EBS. A large number of EBS errors may indicate that both clearing firm and correspondent dealer reporting procedures and/or software need to be reviewed to ensure that the EBS is entered correctly and does not "drop out" of the data during the submission process. The compatibility of correspondent dealer and clearing broker reporting systems also may need to be examined.

Note on Stamped Advisories

Firms often stamp advisories on T+1 after failing to submit accurate inter-dealer transaction information on trade date. A stamped advisory essentially is a message sent through the NSCC comparison system by the clearing firm on one side of a trade indicating that it agrees with the trade details submitted by the contra party.

A significant percentage of stamped advisories is a concern for two reasons. First, trades compared via a stamped advisory cannot be published in the Daily Report because they do not compare on trade date. Second, unless the dealer stamping the advisory verifies every data element submitted by the contra party (including accrued interest, time of trade and EBS) stamping the advisory may effectively confirm erroneous data about the trade, which will be included in the surveillance data provided to market regulators. With particular respect to EBS, both the MSRB and the NASD have observed that dealers do not always include accurate contra parties' EBSs in transaction reports. As a result, when a firm "stamps" a contra party's submission, its own EBS may not be correctly included in the transaction report sent to the MSRB.

In lieu of stamping an advisory, it is possible for a dealer to submit an "as of" trade record to match an advisory pending against it. This serves the same purpose as stamping an advisory but in addition allows the dealer to input its own EBS (and other data elements) and thus ensure the accuracy

of the information about its side of the trade. While the trade will still be reported late, the data about the trade will be more likely to be correct.

Note on Clearing Broker-Correspondent Issues

While Rule G-14 notes that accurate and timely transaction reporting is primarily a responsibility of the firm that effected a trade, it also notes that a firm may use an agent or intermediary to submit trade information on its behalf. For inter-dealer trades, a direct member of NSCC must be used to input transaction data if the dealer effecting the transaction is not itself a direct member. This Rule G-14 requirement that a clearing broker and correspondent work together to submit transaction reporting data in a timely and accurate manner is the same as exists in Rule G-12(f) on inter-dealer comparison.

Where there is a clearing-correspondent relationship between dealers, timely and accurate submission of trade data to NSCC generally requires specific action by both the direct member of NSCC (who clears the trade) as well as the correspondent firm. The MSRB has noted that the responsibility for proper trade submission is shared between the correspondent and its clearing broker.⁷ Clearing brokers, their correspondents and their counterparties all have a responsibility to work together to resolve inaccurate or untimely information on transactions in municipal securities. A clearing firm's use of a large number of stamped advisories may indicate systemic problems with the clearing broker's procedures, the correspondents' procedures, or both.⁸

Customer Transactions

Dealers that engage in municipal securities transactions with customers also are required to submit accurate and complete trade information to the MSRB by midnight of trade date under Rule G-14. MSRB customer transaction reporting requirements include the reporting of time of trade and the dealer's EBS for each trade.

Dealers have flexibility in the way they report customer transactions to the MSRB Transaction Reporting System. The three options available allow dealers to: 1) transmit customer transaction data directly to NSCC, which, using its communications line with MSRB, forwards trade data to the MSRB the evening on which it is received; 2) send the data via an intermediary, such as a clearing broker or service bureau, to NSCC, which forwards the data to the MSRB; or 3) submit the data directly to the MSRB using a PC dial-up connection and software provided by the MSRB.

The MSRB Dealer Feedback System also provides dealers with performance statistics for customer trade reporting. These statistics include:

- **Ineligible.** This statistic reflects the percentage of a dealer's initial customer trade records that were ineligible for the Daily Report, because either the trade reports were submitted after trade date or they contained some other dealer error that caused it to be rejected by the MSRB Transaction Reporting System.

- **Late.** Initial customer trade records that were submitted after trade date are indicated in this statistic and are a subset of ineligible trades. This percentage is reported separately because late reporting is the most common reason for trade records to be ineligible for the Daily Report.

- **Cancelled.** This is the percentage of a dealer's initial customer trade records that were cancelled by the dealer after initial submission. Cancelled trades are a cause for concern because the data in the trade record submitted prior to cancellation may have already been included in the Daily Report.

- **Amended.** This is the percentage of a dealer's initial customer trade records that were amended by the dealer after initial submission. Amended trades are a cause for concern because the data in the trade record may have already been included in the Daily Report. While it is important that customer trades be immediately amended if any of the required information was incorrectly reported, dealers sometimes amend customer trade records unnecessarily. If trade details solely for internal dealer recordkeeping or delivery are changed, the dealer should ensure that its processing systems do not automatically send MSRB an "amend" record. For example, if a transaction is reported correctly to the MSRB on trade date, the dealer should not amend the transaction (or cancel and resubmit another transaction record to the MSRB) simply because customer account numbers or allocation and delivery information is added or changed in the dealer's own records.⁹ Amendments to change settlement dates for when-issued transaction also are generally unnecessary. Since MSRB monitors settlement dates for new issues through other sources, dealers should not send amended trade records merely because the settlement date becomes known. Dealers may find that their automated systems are sending amended trade records to the MSRB in these cases, even though amendments are unneeded. Attention to these areas could greatly reduce the number of amendments sent to MSRB by some dealers.

- **Invalid Time of Trade.** This statistic reflects the total number of trade records submitted by a dealer in which the time of trade is null or not within the hours of 0600 to 2100. Accurate times of trade are essential to regulatory surveillance as they provide an audit trail of trading activity.

Questions / Further Information

Questions about this notice may be directed to staff at either MSRB or NASD. For more information on transaction reporting, including questions and answers and the customer transaction reporting system user guide, or to sign up for the Dealer Feedback System, we encourage dealers to visit the MSRB Web site at www.msrb.org, particularly the Municipal Price Reporting / Transaction Reporting System section.

¹ The Daily Report is available by subscription at no cost. Currently, "frequently traded" securities are those that traded two or more times during a trading day. As noted below, inter-dealer transactions must be compared on trade date to be eligible for this report.

- ² The MSRB also publishes a “Daily Comprehensive Report,” providing details of all municipal securities transactions that were effected during the trading day one week earlier. The Daily Comprehensive Report is available by subscription for \$2,000 per year. Along with trades in issues that are not “frequently traded,” this report includes transactions reported to the MSRB late, inter-dealer trades compared after trade date, and transaction data corrected by dealers after trade date.
- ³ A dealer may call the MSRB at (703) 797-6600 and ask to speak with a Transaction Reporting Assistant who can check to see if its firm is signed up for this free service.
- ⁴ A complete description of the service is available at www.msrb.org in the Municipal Price Reporting/Transaction Reporting System section. NASD also has informed dealers of this service in “Municipal Transaction Reporting Compliance Information,” *Regulatory and Compliance Alert* (Summer 2002).
- ⁵ Under NSCC procedures, no buy-side trade report should be submitted for comparison against a syndicate “takedown” trade submitted by the syndicate manager. Syndicate transactions are “one-sided submissions” and compare automatically after being submitted by the syndicate manager. Paragraph (a) (ii) of Rule G-14 procedures thus requires that only the syndicate manager submit the trade.
- ⁶ The EBS statistics reflect the aggregate number of such errors found in transaction data submitted by a particular NSCC member firm for itself and/or for its correspondents. This statistic cannot be generated individually for each correspondent because the EBS needed to identify the correspondent is itself missing or invalid. EBS statistics only measure the validity of the input the submitter provides to identify its own side of the trade and do not measure the accuracy with which a dealer uses EBSs to identify its contra-parties.
- ⁷ In 1994, the MSRB stated that, “introducing brokers share the responsibility for complying with [Rule G-12(f)] with their clearing brokers. Introducing brokers who fail to submit transaction information in a timely and accurate manner could subject either or both parties to enforcement action for violating [Rule G-12(f)].” See “Enforcement Initiative,” *MSRB Reports*, Vol. 14, No. 3 (June 1994) at 35. NASD has since reiterated this policy; see the following articles in *Regulatory and Compliance Alert*: “Introducing Firm Responsibility When Reporting Municipal Trades Through Service Bureaus and Clearing Firms” (Winter 2000) and “Municipal Securities Transaction Reporting Compliance Information” (Spring 2001).
- ⁸ As explained above, one of the problems often associated with stamped advisories is that the EBS on transaction records may be missing or inaccurate. Since a clearing broker may have many correspondents, stamping an advisory can make it impossible for market regulators to know which correspondent actually effected the trade.
- ⁹ Of course, if the initial information reported to the MSRB, such as total par value, is changed, the trade record must be amended to make it correct.

Reporting of Transactions Arising from Repurchase Agreements: Rule G-14

June 18, 2004

The MSRB has received inquiries from dealers as to whether they must report purchase and sale transactions that arise from repurchase agreements as “transactions” under Rule G-14, on transaction reporting. Typically, a bona fide, properly documented repurchase agreement (“repo”) is an agreement consisting of two transactions whereby one party purchases securities from a second party, and the second party agrees to repurchase the securities on a certain future date at a price that will produce an agreed-upon rate of return. The parties may be dealers, investors, or others. There is a repo program

known to the MSRB in which one party to the repo transaction is a dealer and the other party is a customer, so this type of repo results in a sequence of two customer transactions.

The Transaction Reporting Program, which disseminates prices of municipal securities trades reported to the Board by dealers under Rule G-14, has an objective to provide price transparency about the current market. Repos, however, are not the type of transactions that were intended for reporting under Rule G-14. This is because the paired transactions of a repo function as a financing agreement and the underlying transactions, while technically purchase-sale agreements, are not necessarily effected at market prices. Since there is no way in today’s batch Transaction Reporting System to suppress customer transaction reports from being portrayed as market prices, dealers should not report repos to the current Transaction Reporting Program. This approach is consistent with the practice for reporting of corporate bond transactions to the NASD’s TRACE system, in that NASD advises dealers not to report corporate bond repo transactions.¹

In January 2005, the MSRB plans to begin operation of the Real-Time Transaction Reporting System (RTRS) and to require reporting of transactions in real-time under a proposed change to Rule G-14.² In RTRS there is an indicator by which a dealer can report that a trade was done under special conditions, including trades done at other than the market price.³ The MSRB plans to amend the RTRS specifications to add a value to this indicator by which a dealer would report that a transaction was done at a price away from the market because it was a customer transaction and was part of a repo. Such reporting will support the creation of a complete “audit trail” for market surveillance purposes. The indicator in this case will cause the trade to be suppressed from publication to avoid misleading transparency reports.

When the RTRS Specification is amended to add the value for “repo not at market price,” an effective date will be stated for required reporting of such repos. Between January 2005 and the effective date of the amended Specification, dealers have the option to report such repos, or not, depending upon the configuration of their trade reporting systems. Before the effective date, if a dealer reports a repo that is a customer transaction away from the market, the report should include the value “R004” in the SPXR field, to indicate that it is a non-market price with “reason not listed” among currently used values.

¹ See, e.g., “TRACE Frequently Asked Questions (Reporting)” on www.nasd.com/mkt_sys/trace_faqs_reporting.asp.

² The proposed amendment was filed with the Commission on June 1, 2004. See “Real-Time Transaction Reporting: Notice of Filing of Proposed Rule Change to Rules G-14 and 12(f),” Notice 2004-13, on www.msrb.org.

³ See *Specifications for Real-time Reporting of Municipal Securities Transactions, Version 1.2, section 4.3.2, field “SPXR.”*