

MEMO# 22146

January 24, 2008

MSRB Issues Notice Related to Bond Insurance Ratings

[22146]

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TO: INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 2-08
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 1-08
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 3-08 RE: MSRB ISSUES NOTICE
RELATED TO BOND INSURANCE RATINGS

Following on the recent credit rating agency reviews and rating downgrades of bond insurance companies, the MSRB has published a notice reminding broker-dealers effecting transactions in insured municipal securities to review the MSRB's investor protection rules, including the requirements applicable to time of trade disclosure to customers, suitability determinations, fair pricing requirements and confirmation disclosure. [\[1\]](#)

In the notice, the MSRB urges dealers to review four particular rules to ensure compliance in the changing environment for bond insurance companies. First, dealers are reminded of the fair dealing requirements in Rule G-17 that require dealers to ensure that customers are informed of all material facts concerning a transaction. The MSRB states that the required disclosure in the context of insured municipal securities would include identification of any bond insurance, material facts that relate to the credit rating of the issue, and, perhaps, material facts about the credit enhancement applicable to the issue. [\[2\]](#)

Second, the MSRB discusses the suitability requirements of Rule G-19, noting that facts relating to the credit rating of a bond insurer may affect suitability determinations, particularly for customers who have expressed investment objectives relating to the credit quality of investments. Third, the MSRB explains that, when evaluating the fair pricing

requirements of Rule G-30, dealers should consider the effect of ratings and information from rating agencies on the value of securities involved in customer transactions. The MSRB makes clear that dealers should consider “actual or potential changes in the rating of any bond insurance applicable to the security.”

Finally, the MSRB reminds dealers of the confirmation disclosure requirements of Rule G-15(a), including those requirements for securities with additional credit backing, such as bond insurance. The MSRB concludes the notice by stating that, “dealers may wish to review how transactions in insured securities are being recommended, priced and confirmed to customers to ensure compliance with other MSRB investor protection rules.”

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endnotes

[1] MSRB Notice 2008-04: Bond Insurance Ratings - Application of MSRB Rules (January 22, 2008). The notice may be found at <http://www.msrb.org/msrb1/whatsnew/2008-04.asp>.

[2] For additional information, the MSRB directs dealers to look at the MSRB’s March 2002 interpretative notice on Rule G-17 disclosure requirements and the MSRB’s April 2002 guidance on sophisticated municipal market professionals.