

MEMO# 12873

November 20, 2000

ICI DRAFT LETTER ON MSRB'S INTERPRETIVE GUIDANCE ON DEALER RESPONSIBILITIES IN CONNECTION WITH MUNICIPAL SECURITIES TRANSACTIONS

[12873] November 20, 2000 TO: FIXED-INCOME ADVISORY COMMITTEE No. 12-00 RE: ICI DRAFT LETTER ON MSRB'S INTERPRETIVE GUIDANCE ON DEALER RESPONSIBILITIES IN CONNECTION WITH MUNICIPAL SECURITIES TRANSACTIONS Attached is the Institute's draft letter on the MSRB's draft interpretive guidance in connection with the responsibilities of brokers, dealers and municipal securities dealers under the MSRB's fair practice, quotation, uniform practice and new issue securities rules. The comment period ends Friday, December 1, 2000. The Institute has scheduled a conference call to discuss the draft letter. The call is scheduled for Monday, November 27, 2000 at 11:00 a.m. EST. Please contact Stephanie Holly at (202) 326-5814 to let her know if you will be able to participate on the call. If you will be unable to participate on the call but would like to provide comment on the draft letter, please contact Barry Simmons at (202) 326-5923 (phone), (202) 326-5827 (fax) or bsimmons@ici.org (email) by Monday, November 27th. The main focus of the draft letter deals with the MSRB's proposed creation of a class of "sophisticated market professionals," which would result in institutional customers having a lesser degree of protection under the MSRB rules than other customers of brokers and dealers. The Institute opposes this categorization and explains that the proposed two-tier disclosure system is based on faulty premises regarding the current state of disclosure in the municipal marketplace, and notes in particular the erroneous presumption that information is consistently available to "sophisticated market professionals." The letter adds that shifting the burden of disclosure obligations from broker-dealers to investors is not justified in the current municipal marketplace, and would facilitate the establishment of electronic trading systems by brokers and dealers at the expense of a generalized and unwarranted reduction in the disclosure obligations of brokers and dealers engaged in traditional sales of municipal securities. The letter urges the MSRB to rethink its approach to the application of the MSRB rules to electronic trading, and refrain from interpreting its rules in a manner that balkanizes the market by varying the legal protections available to different categories of investors until there is greater access to disclosure by institutional investors to warrant such different protections. The letter also comments on other aspects of the MSRB's proposal consistent with these views. Barry E. Simmons Associate Counsel 2Attachment (in .pdf format)

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