

**MEMO# 17795**

July 21, 2004

## **SEC STAFF REPORT ON TRANSACTIONS IN MUNICIPAL SECURITIES**

[17795] July 21, 2004 TO: FIXED-INCOME ADVISORY COMMITTEE No. 10-04 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 12-04 RE: SEC STAFF REPORT ON TRANSACTIONS IN MUNICIPAL SECURITIES The Securities and Exchange Commission's Office of Municipal Securities (Division of Market Regulation) and Office of Economic Analysis have completed a study of transactions in municipal securities and have issued a report summarizing their findings.<sup>1</sup> The report covers transactions in municipal securities from November 1, 1999 through October 31, 2000. Among other things, the report provides important statistical information related to the size and characteristics of the municipal securities market, the types of securities traded, the dealers and other contra-parties involved in the distribution process, and the various attributes of the municipal securities distributed. The report makes the following findings: As of November 5, 2000, there were about 51,000 issuers with outstanding municipal securities. Over 1,600 dealers traded municipal securities with customers. The median size of all municipal securities trades was \$30,000. Most transaction activity was in a relatively small number of securities and in the securities of a relatively small number of issuers. The median estimated spread on a customer trade in fixed coupon municipal securities – or the cost of purchasing and then selling a security – was 1.66% of the principal amount traded. 1 See SEC Report on Transactions in Municipal Securities, July 1, 2004, which is available from the SEC's website at <http://www.sec.gov/news/studies/munireport2004.pdf>. The SEC notes that the report is a byproduct of the transaction reporting requirement of the rules promulgated by the Municipal Securities Rulemaking Board – particularly MSRB Rule G-14, which requires municipal securities dealers to report to the MSRB information on their trades with other dealers and with customers. The report, however, provides no recommendations or conclusions regarding the staff's findings. 2 Different customers purchasing (or selling) the same amount of the same fixed coupon security on the same day frequently paid (or were paid) substantially different prices. Recently offered fixed coupon securities were much more likely to trade than were seasoned fixed coupon securities. Large municipal securities had higher turnover rates than small securities. Barry E. Simmons Associate Counsel