

MEMO# 36035

March 4, 2025

Concept Release: MSRB Requests Comment on a Municipal Securities Pre- Trade Data Initiative

[36035]February 28, 2025TO:ICI Members

Investment Company Directors

ICI Global Members

Municipal Securities Advisory CommitteeSUBJECTS:Municipal SecuritiesRE:Concept Release:
MSRB Requests Comment on a Municipal Securities Pre-Trade Data Initiative

On January 13, 2025, the Municipal Securities Rulemaking Board ("MSRB") published a concept release^[1] seeking public comment on a potential initiative to collect pre-trade data (the "Pre-Trade Initiative") for certain municipal securities from brokers, dealers, and municipal securities dealers (collectively, "dealers") and other entities.^[2] In today's marketplace, MSRB believes that pre-trade data is complex, not centralized, and not equally available to all participants. MSRB believes that the Pre-Trade Initiative could set the stage to help rectify this gap by eventually benefitting the overall market with free and broader access to increased pre-trade information.

According to MSRB, this initial data collection phase would help inform MSRB about the nature of pre-trade data across the marketplace and, if the initiative were to ultimately proceed to a transparency phase at a future date, how best to disseminate such information in a manner that benefits market participants, does not create unintended negative consequences in the market, and minimizes the burden on market participants who would be reporting pre-trade data. MSRB indicates that such preliminary analysis would, for example, assist MSRB in understanding how to level the playing field for market participants of all types and sizes, including smaller participants, retail investors or their surrogates, and other entities which may have incomplete, limited or no access currently.

The concept release does not implement data collection measures but seeks comment on the intended plan to gather such data. MSRB intends its concept release to be preliminary and wants to elicit comments from all interested parties on the potential benefits and burdens of such an initiative and on possible less costly alternatives. According to the MSRB, comments received will assist MSRB in determining next steps, if any, related to enhancing pre-trade transparency.

Background of Municipal Securities. MSRB states that the municipal securities market is essential to meeting the state and local needs of America's communities because it is

accessed by state and local governments to finance trillions of dollars in infrastructure spending and other public purpose projects. The market is comprised of a primary and secondary market where, in the primary market, dealers acting as underwriters purchase new municipal securities from issuers and sell them to investors during a primary offering period. In the secondary market, participants generally buy and sell municipal securities over-the-counter. Trades executed in the secondary market outnumber trades in the primary market.

There are currently approximately one million outstanding municipal securities. MSRB believes that, due to the large number of unique issuers and securities, this large and diverse market is fragmented and relatively thinly traded compared to other fixed income markets. MSRB suggests that since the odds of most outstanding bonds trading on any given day are small, dealers generally do not publish many bid-side live quotes. However, dealers may often respond to a customer's "bid-wanted" because a bid-wanted indicates an actual selling interest in a particular bond by an investor and, therefore, the bond is much more likely to trade. Because of the difficulty and expense related to short selling municipal securities without actually owning the bond, most entities usually provide only live offer-side quotes on municipal securities subject to availability, *i.e.*, for bonds they own or could readily buy.

Lack of pre-trade data. MSRB believes that the availability and access to pre-trade information is piece-meal, incomplete, and largely limited to larger market participants even as post-trade data has become broadly available. MSRB recognizes that, while MSRB's Real-Time Transaction Reporting System (RTRS) has democratized access to post-trade pricing information, there is currently no similar central repository for comprehensive pre-trade data on the more than one million outstanding municipal bonds. Also, with no freely available public source for pre-trade data, MSRB believes that there is information asymmetry where larger market participants may have access to significantly more pre-trade data than smaller market participants (although larger market participants may still have gaps in the pre-trade data to which they do have access). As such, MSRB believes that, if a pre-trade initiative reaches a later transparency phase, where information is more freely available, there may be many types of recipients and beneficiaries of quote data as well as various alternative methods to disseminate quote data.

Potential Framework for a Pre-Trade Initiative. MSRB described its proposed framework for the Pre-Trade Initiative in its concept release as summarized below.

A. Potential Definition of Pre-Trade Data

MSRB refers to pre-trade data as live quote data (bid-side and offer-side) signaling prospective trading interest in specific municipal securities as well as bid-wanted data and responses to bid-wanted, also sometimes known as requests for quotes (RFQs). MSRB views live quote data and responses to bid-wanted as different data points since live quotes can be acted upon at any time that they are live. In contrast, bid-wanted have a defined time during which bids may be entered and a defined time for how long the bids may be acted upon.

B. Phased Approach

MSRB is preliminarily contemplating a phased approach where the initial phase of the Pre-Trade Initiative would be a collection and research only phase. MSRB would not seek to move directly to a transparency phase as it anticipates the possibility that such a direct

move, without an opportunity to study the data and its benefits, could have a significant impact on the municipal securities market structure, some of which could be negative. During a preliminary collection and research phase, MSRB would collect and analyze the data and make summary-level research public.[\[3\]](#)

MSRB's goal of the Pre-Trade Initiative would be to collect data that is adequately representative of the quote population without posing undue burdens on dealers while being able to assess the potential value of various quotes. MSRB seeks to collect a large set of different types of market data in order to better evaluate potential next steps.

C. Potential Municipal Securities Products and Exemptions

Because the current municipal securities market is diverse, MSRB believes that the potential value of a pre-trade data set may vary by the type of municipal security and therefore is contemplating exclusions for certain products. Preliminarily, MSRB believes the municipal securities that could most benefit from pre-trade data, and therefore could be collected and used in the pre-trade data set, would include secondary market fixed rate securities with assigned unique identifiers. This data set would include capital appreciation bonds and zero-coupon bonds. MSRB is considering excluding from the Pre-Trade Initiative quotations in variable rate demand obligations ("VRDOs"), auction rate securities, commercial paper, and floating rate notes.[\[4\]](#) These securities have more similar characteristics of short-term instruments and have limited secondary trading. For these reasons, MSRB would potentially exclude these securities from the Pre-Trade Initiative as the information obtained would provide limited value.

D. Potential Sources of Pre-Trade Quote Data

While MSRB has identified dealers and buy-side institutional accounts as primary producers of pre-trade quote data in the municipal securities market, MSRB only has authority to mandate submission of pre-trade quote data from dealers. MSRB states that dealers are generally very active in producing quotes, as well as conveying quotes by other dealers and investors to other market participants. Preliminarily, MSRB believes that electronic quotes that already exist in structured format would be the easiest and most cost-effective source for any Pre-Trade Initiative. While MSRB can only mandate submission from dealers, MSRB could consider receiving voluntarily quotes from other sources such as institutional investors and industry vendors, including operators of systems through which dealers and/or institutional investors may exchange trading interests in municipal securities (such as ATSs).

E. Formats of Currently Distributed Quote Data and Manner of Submission to MSRB

MSRB has identified that quotes are distributed in the market via electronic feeds, electronic messaging systems, bid-wanted systems, bulletin board systems, email, and voice quotes, which include negotiations. Preliminarily, MSRB believes a potential initial phase of a pre-trade initiative would include quotes in a structured format, such as quotes sent via an electronic feed, and the respective ATS and broker's broker would, acting as a collection intermediary, submit the quotes to MSRB. Regarding quotes that exist in an unstructured format like via chat or e-mail that may also be valuable and informative, MSRB seeks insight from commenters on the feasibility of capturing and submitting such unstructured quote data to MSRB easily and cost efficiently.

Request for Comment. As stated above, MSRB seeks comments on the potential costs and benefits of the Pre-Trade Initiative by May 16, 2025. In particular, MSRB seeks suggestions regarding possibly more effective and/or less costly alternatives including whether to seek alternative sources of pre-trade quote data. MSRB's questions are listed in the attached Appendix A.

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Notes

[1] Concept Release: MSRB Requests Comment on a Municipal Securities Pre-Trade Data Initiative, MSRB Notice 2025-02 (Jan. 13, 2025), *available at* <https://www.msrb.org/sites/default/files/2025-01/MSRB-Notice-2025-02.pdf>.

[2] MSRB indicated that the data collection could occur from a sub-set of dealers (*i.e.*, broker's brokers, ATSS registered as dealers, and/or some or all other dealers) as well as from other sources, as appropriate, with the goal of minimizing potential duplication of data collected and collecting data in the most effective and cost-efficient manner possible.

[3] The provider of the quote would continue to retain control over the dissemination of its quote, including determining what entities see any quotes, when they see the quotes, and at what price they see the quotes.

[4] Although VRDOs are long term securities that have interest rates that reset periodically (daily, weekly, etc.), they include a puttable feature allowing investors to "put" the bonds back to the remarketing agent thereby giving them characteristics of short-term instruments. Similarly, commercial paper has very short durations with maturities no longer than 270 days from the date of issuance. Both VRDOs and commercial paper have limited secondary market activity. VRDOs are almost always offered at par whereas prices of commercial paper may vary slightly from par depending on fluctuations in short term interest rates. Further, VRDO investors do not tend to liquidate their positions between remarketing periods, and the trades are reported at the end of day pursuant to MSRB Rule G-14, which delays their transparency.