

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41916; File No. SR-MSRB-99-9]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Reports of Sales and Purchases, Pursuant to Rule G-14

September 27, 1999.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and rule 19b-4 thereunder,² notice is hereby given that on September 7, 1999, the Municipal Securities Rulemaking Board ("Board" or "MSRB") filed with the Securities and Exchange Commission ("Commission" or "SEC") a proposed rule change. The proposed rule change is described in Items I, II, and III below, which Items have been prepared by the Board. The MSRB has designated this proposal as one constituting a stated policy, practice or interpretation with respect to the enforcement of an existing rule under Section 19(b)(3)(A)³ of the Act, which renders the proposal effective upon receipt of the filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Board is filing a proposed rule change describing its plan to use transaction information collected under the Board's current Transaction Reporting System⁴ to demonstrate a possible method for disseminating "real-time" transaction reports in the municipal securities market. The Demonstration System can be accessed from the Board's web site, www.msrb.org. The Board is requesting comment on this Demonstration System to assist it in designing its next major phase of the Transaction Reporting Program.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Board included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Since 1995, the Board's Transaction Reporting Program has provided increasing levels of transaction price information using transaction data that is reported to the Board each day by brokers, dealers and municipal securities dealers ("dealers") pursuant to Board Rule G-14 on Transaction Reporting. The Board is reviewing ways too make the transaction price information now available to the public more comprehensive and more contemporaneous with the execution of trades in the market. The Board is now making available a Demonstration System, designed to show a possible means of publicly disseminating transaction information that, in the future, the Board expects to collect from dealers on a "real-time" basis. The Demonstration System can be accessed from the Board's web site, www.msrb.org. The Board is requesting comments on the content and format of information in the planned demonstration.

Background: Current Daily Reports of Transaction Prices. The Transaction Reporting Program now produces two Daily Reports that summarize the municipal securities market by providing high, low and average prices for the "frequently traded" issues, *i.e.*, issues trading four or more times on a given day. The Inter-Dealer Daily Report gives a view of the inter-dealer market, and the Combined Daily Report covers both inter-dealer transactions and transactions between dealers and customers. Before the end of the year, the Board expects to produce a new "Daily Transaction Report" that will cover the same transactions as the Combined Daily Report, but that will list individual prices and quantities for each transaction, instead of giving the

high, low and average prices for the issue.⁵

Goal: "Real-Time" Transaction Reports. Both the current Daily Reports and the planned Daily Transaction Report make prices available early on the morning of the day after the trade date, and the prices given on the reports are only for "frequently traded" issues. The MSRB, however, is looking at ways to make available transaction price information in a more comprehensive and contemporaneous manner and is in the early stages of designing a system for that purpose.

There are a number of issues that must be addressed before a system can be designed to make municipal securities transaction prices available to all interested parties on a "real-time" basis or a near "real-time" basis. For example, many dealers have automated trade processing systems that are set up to process and transmit trade data using an "overnight batch" method. Time will be needed to work through the steps necessary for the industry to convert from overnight trade processing to data processing environment that approaches real-time. The MSRB will be working with dealers, their clearing brokers, service bureaus, and industry utilities to find the most efficient and cost-effective manner to complete this transition.

Separate from the issue of how data is to be collected from dealers is the issue of how trade data will be made available to investors, dealers and others interested in following prices in the market. The Demonstration System is intended to generate comment on this issue. It simulates one way in which transaction prices might be formatted and disseminated to investors, dealers and others through the world wide web. Comments on the Demonstration System from potential users of the system will not only assist the Board in arriving at the best possible system for disseminating trade data, but also may help the MSRB to arrive at the procedures and systems necessary for collecting this data from dealers.

Description of Demonstration System. Like the existing Daily Reports, the Demonstration System is structured to take into account the unique nature of the municipal securities markets. In contrast to the approximately 10,000 issues of stock traded in the equity markets, there are over 13 million different issues of municipal securities. Because of this large number of issues and the infrequent trading of most

⁵ See "Public Reporting of Individual Transactions in Frequently Traded Municipal Securities: Rule G-14," *MSRB Reports*, Vol. 19, No. 3 (September 1999), and File No. SR-99-8 (September 7, 1999).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ See, *e.g.*, Securities Exchange Act Release No. 37998 (November 29, 1996), 61 FR 64782 (December 6, 1996), in which the Commission approved the current system for collecting transaction information.

issues, it is not practical to list each issue. Therefore, the Demonstration System allows the user to view simulated transaction activity during the day, regarding either a specific security or the most frequently traded issues.

The Demonstration System uses actual transaction prices reported to the Board for trade date November 4, 1998. On that day, 22,606 transactions were reported as having occurred in 9,660 separate issues of municipal securities. Most of these trade records were reported to the Board, as required by the current Rule G-14, on the night of trade date. The Demonstration System uses the "time of trade" reported on each trade to simulate how a "real-time" transaction reporting system might look if the transactions were being reported simultaneously with execution. In a real system, of course, some time would be necessary for the dealer to create the trade record and enter it into its own system and for that record to be received, processed and disseminated by the Board's system. Nevertheless, the use of actual transaction data should give potential users a sense of what a "real-time" system would be like.

For each transaction reported, the Demonstration System shows the CUSIP number, a short description of the issue, the par value traded, the time of trade reported by the dealer, and the individual price of the transaction. Yield is included if it was submitted by the dealer with the transaction report. Transaction reports are categorized as one of three transaction types: (i) sales by dealers to customers, (ii) purchases by dealers from customers, and (iii) inter-dealer trades. These three categories of transactions are meant to provide additional useful information to system users, beyond the mere fact that a transaction was effected at a specific price. These categories of transactions are similar to the categories the Board has proposed in the Daily Transaction Report, mentioned above. The Demonstration System by default will use the time of the user's computer to simulate a time of day on November 4. However, the user may change the default time to simulate any time of day desired.

Comments Requested. The Board is requesting comment on the content and format of information in the Demonstration System. Comments can be sent to the Board by letter or by e-mail to webdemo@msrb.org.⁶ All comments, whether by letter or e-mail,

should refer to "Web Demonstration System," should contain the name and address of the commentator, and should indicate whether the comments offered are on behalf of a specific organization or company.

2. Basis

The Board believes the proposed rule change is consistent with Section 15B(b)(2)(C) of the Act,⁷ which provides that the Board's rules shall:

* * * be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating * * * transactions in municipal securities, to remove impediments to and perfect the mechanism of a free and open market in municipal securities, and, in general, to protect investors and the public interest * * *

B. Self-Regulatory Organization's Statement on Burden on Competition

The Board does not believe that the proposed rule change will impose any burden on competition because it applies equally to all dealers in municipal securities.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Comments on the production of the Demonstration System have neither been solicited nor received. The Demonstration System itself, however, has been produced specifically to obtain comment on the Board's view of "real-time" transaction reporting for municipal securities. The Board expects to make one or more filings with the Commission in the future on "real-time" transaction reporting and will discuss comments that have been made on the Demonstration System at that time.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Board has designated this proposed rule change as constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing Board rule under Section 19(b)(3)(A)⁸ of the Act, and Rule 19b-4(f)(1) thereunder,⁹ which renders the proposed rule change effective upon receipt of this filing by the Commission. The data used in the Demonstration System was collected by the Board under Rule G-14 and the Board's

Transaction Reporting System, a rule and facility that previously have been approved by the Commission.¹⁰ The proposed rule change describes a demonstration designed to obtain comment on a dissemination system for "real-time" transaction reporting so that the Board may move expeditiously forward with its previously announced plan to make public transaction data more contemporaneous and comprehensive.¹¹ At any time within sixty days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing will also be available for inspection and copying at the Board's principal offices. All submissions should refer to File No. SR-MSRB-99-9 and should be submitted by October 25, 1999.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,
Deputy Secretary.

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⁶The Demonstration System includes an option for sending e-mail comments directly to this address.

⁷ 15 U.S.C. 78o-4(b)(2)(C).

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(1).

¹⁰ See *supra* note 4.

¹¹ See letter from Robert Drysdale, Chairman, MSRB, to Arthur Levitt, Chairman, SEC, dated November 3, 1994.

¹² 17 CFR 200.30-3(a)(12).