



Dealer Practice and Procedure Guidelines Regarding Disclosures, Suitability and Pricing of Municipal Securities Transactions in the Secondary Market

Executive Summary

June 6, 2011

In September 2010, the Financial Industry Regulatory Authority (FINRA) released Regulatory Notice 1041 (FINRA Notice) reminding brokers, dealers and municipal securities dealers (Dealers) of their disclosure, suitability and pricing obligations in municipal securities transactions in the secondary market (Secondary Market Transactions) established under the rules of the Municipal Securities Rulemaking Board (MSRB). FINRA published the FINRA Notice out of a concern that Dealers have not developed or implemented adequate policies and procedures that ensure their compliance in Secondary Market Transactions with the disclosure, suitability and pricing rules of the MSRB. The BDA has prepared a memorandum to guide Dealers in preparing and implementing practices and procedures that are responsive to FINRA's concerns.

The FINRA Notice primarily focused on Dealer compliance with three MSRB Rules that govern the activities of Dealers in Secondary Market Transactions: MSRB Rule G17, MSRB Rule G19 and MSRB Rule G30.

The MSRB has done little to clarify how Dealer's disclosure and suitability obligations in Secondary Market Transactions apply to the rapid technological developments that have shaped the municipal markets over the last decade. Until the MSRB provides additional guidance regarding electronic communications with customers, it is important to understand that the same rules apply to both in person and electronic communications between a dealer and its customer. We also note that the MSRB specifically mentioned electronic trading platforms in its interpretative notice about institutional investors who are Sophisticated Municipal Market Professionals (SMMP).

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