

INFORMATIONAL

Municipal Securities Transaction Reporting

NASD Reminds Members Of Their Obligations Regarding Municipal Securities Transaction Reporting

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Operations
- Senior Management

KEY TOPICS

- Customer Transactions
- Inter-dealer Transactions
- MSRB Rules G-12 And G-14

Executive Summary

NASD Regulation, Inc. (NASD RegulationSM) reminds member firms about the obligations imposed by Municipal Securities Rulemaking Board (MSRB) Rules G-12 and G-14, particularly the requirement that member firms report their municipal securities transactions accurately and in a timely manner. The initial phase of the MSRB Transaction Reporting System, which became effective in 1995, requires the reporting of all inter-dealer municipal transactions. The second phase, effective since 1998, requires the reporting of all customer municipal transactions.

Accurate and timely automated comparison and reporting of municipal securities transaction information is critical to a member firm's trade processing function, accurate public transaction dissemination and resulting price transparency, and efficient and effective regulatory oversight of municipal securities trading and sales practices.

Questions/Further Information

Questions concerning this *Notice* may be directed to Malcolm Northam, Director, Fixed Income Regulation, NASD Regulation, at (202) 728-8085.

Transaction Reporting***Inter-dealer Transactions***

MSRB Rule G-12, in part, requires that dealers submit their municipal trades with other dealers for automated comparison to the National Securities Clearing Corporation (NSCC). After the transaction comparison is complete, the NSCC forwards the transaction information to the

MSRB. As a result, dealers that submit their transaction information to the automated comparison system, as required by MSRB Rule G-12, also satisfy the requirements of MSRB Rule G-14 for transaction reporting for inter-dealer transactions.

The NSCC compiles a "T-Input Percentage", which is an indicator of the accuracy and timely submission of inter-dealer municipal transaction information. Compliance indicators related to both customer and inter-dealer municipal securities transaction reporting include:

- accurate effecting broker symbols;
- accurate reporting of time of trade;
- the number of canceled and/or amended transactions; and
- the number of late-trade submissions.

The "T-Input Percentage" measures the accuracy and completeness of a member firm's municipal inter-dealer trade input. NASD Regulation monitors and uses member firm "T-Input Percentages" to evaluate compliance with MSRB Rules G-12 and G-14. In 1999, the industry average "T-Input Percentage" approximated 93 percent. Stated another way, clearing firms submitted inaccurate or incomplete municipal inter-dealer transaction information to the NSCC in approximately seven percent of their transactions. Clearing firms can monitor their inter-dealer trade input performance by reviewing the "Regular Way Trade Comparison Analysis" provided monthly by NSCC.

Customer Transactions

Member firms use a different process to report customer municipal securities transactions. Members firms may report their customer municipal securities transactions in one of three ways:

- 1) direct submission to the NSCC;
- 2) submission via either a service bureau or a clearing agent; or
- 3) submission through a PC dial-up connection directly to the MSRB.

Member firms can monitor their customer transaction reporting by calling the MSRB at (202) 223-9347 and requesting daily feedback on their reporting performance.

Possible Disciplinary Action For Late Or Inaccurate Reporting

When a member firm submits required municipal transaction information late, or submits inaccurate information, it violates MSRB Rule G-12 and/or G-14, and subjects the member firm to a potential disciplinary action.

NASD Regulation has recently instituted and settled formal disciplinary proceedings against several member firms for failing to provide accurate and timely information regarding their inter-dealer municipal securities transactions during the first half of 1999. Each of these firms attained NSCC "T-Input Percentages" significantly below the industry

average. The fines aggregated \$25,500 and ranged from \$1,000 to \$4,000 for each firm. NASD Regulation continues to monitor both municipal inter-dealer and customer transaction submissions for accuracy and timeliness and will be seeking sanctions in appropriate instances. We encourage firms to monitor the timeliness and accuracy of transaction reporting and take appropriate steps to ensure compliance.

© 2000, National Association of Securities Dealers, Inc. (NASD). All rights reserved. Notices to Members attempt to present information to readers in a format that is easily understandable. However, please be aware that, in case of any misunderstanding, the rule language prevails.