

MSRB Rule G-43

Summary: Establishes duties of dealers acting as broker's brokers, including when conducting auctions of municipal securities known as "bid-wanted"; requires broker's brokers to establish policies and procedures regarding bid-wanted and offerings; and prohibits certain wrongful conduct.

(a) *Duty of Broker's Broker.*

(i) Each dealer acting as a "broker's broker" with respect to the execution of a transaction in municipal securities for or on behalf of another dealer shall make a reasonable effort to obtain a price for the dealer that is fair and reasonable in relation to prevailing market conditions. The broker's broker must employ the same care and diligence in doing so as if the transaction were being done for its own account.

(ii) A broker's broker that undertakes to act for or on behalf of another dealer in connection with a transaction or potential transaction in municipal securities must not take any action that works against that dealer's interest to receive advantageous pricing.

(iii) A broker's broker will be presumed to act for or on behalf of the seller in a bid-wanted for municipal securities, unless both the seller and bidders agree otherwise in writing in advance of the bid-wanted.

(b) *Conduct of Bid-Wanted.* A broker's broker will satisfy its obligation under subsection (a)(i) of this rule with respect to a bid-wanted if it conducts that bid-wanted as follows:

(i) Unless otherwise directed by the seller, a broker's broker must make a reasonable effort to disseminate a bid-wanted widely (including, but not limited to, the underwriter of the issue and prior known bidders on the issue) to obtain exposure to multiple dealers with possible interest in the block of securities, although no fixed number of bids is required.

(ii) If securities are of limited interest (e.g., small issues with credit quality issues and/or features generally unknown in the market), the broker's broker must make a reasonable effort to reach dealers with specific knowledge of the issue or known interest in securities of the type being offered.

(iii) Notwithstanding subsection (a)(ii) of this rule, each bid-wanted must have a deadline for the acceptance of bids, after which the broker's broker must not accept bids or changes to bids. That deadline may be either (A) a precise (or "sharp") deadline or (B) an "around time" deadline that ends upon the earliest of: (1) the time the seller directs the broker's broker to sell the securities to the current high bidder, (2) the time the seller informs the broker's broker that the bonds will not be sold in that bid-wanted, or (3) the end of the trading day as publicly posted by the broker's broker prior to the bid-wanted.

(iv) If the high bid received in a bid-wanted is above or below the predetermined parameters of the broker's broker and the broker's broker believes that the bid may have been submitted in error, the broker's broker may contact the bidder prior to the deadline for bids to determine whether its bid was submitted in error, without having to obtain the consent of the seller. If the high bid is within the predetermined parameters but the broker's broker believes that the bid may have been submitted in error, the broker's broker must receive the oral or written permission of the seller before it may contact the bidder to determine whether its bid was submitted in error.

(v) If the high bid received in a bid-wanted is below the predetermined parameters of the broker's broker, the broker's broker must disclose that fact to the seller, in which case the broker's broker may still effect the trade, if the seller acknowledges such disclosure either orally or in writing.

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(c) Policies and Procedures.

(i) A broker's broker must adopt and comply with policies and procedures pertaining to the operation of bid-wanted and offerings for municipal securities, which at a minimum:

(A) require the broker's broker to disclose the nature of its undertaking for the seller and bidders in bid-wanted and offerings;

(B) require the broker's broker to disclose the manner in which the broker's broker will conduct bid-wanted and offerings;

(C) require the broker's broker to be compensated on the basis of commissions or other economically similar basis and to provide the seller and bidders with a copy of its commission or other economically similar schedules for transactions, with such schedules reflecting at a minimum the maximum charge that the broker's broker could impose on a given transaction;

(D) if the winning high bidder's bid or the cover bid in a bid-wanted has been changed, require the broker's broker to disclose the change to the seller prior to execution and provide the seller with the original and changed bids;

(E) if a broker's broker allows customers (as defined in Rule D-9) or affiliates (as defined in Rule G-11(a)(x)) to place bids, require the disclosure of that fact to both sellers and bidders in writing and require disclosure to the seller if the high bid in a bid-wanted or offering is from a customer or an affiliate of the broker's broker; provided, however, that the broker's broker is not required to disclose the name of the customer or affiliate;

(F) if the broker's broker wishes to conduct a bid-wanted in accordance with section (b) of this rule, require the broker's broker to adopt predetermined parameters for such bid-wanted, disclose such predetermined parameters prominently on its website in advance of the bid-wanted in which they are used, and periodically test such predetermined parameters to determine whether they have identified most bids that did not represent the fair market value of municipal securities that were the subject of bid-wanted to which the predetermined parameters were applied;

(G) describe in detail the manner in which it will satisfy its obligation under subsection (a)(i) of this rule in the case of offerings and bid-wanted not conducted in accordance with section (b) of this rule;

(H) prohibit the broker's broker from maintaining municipal securities in any proprietary or other accounts, other than for clearance and settlement purposes;

(I) prohibit self-dealing by the broker's broker;

(J) prohibit a broker's broker from encouraging bids that do not represent the fair market value of municipal securities that are the subject of a bid-wanted or offering;

(K) prohibit a broker's broker from giving preferential information to bidders in bid-wanted, including but not limited to, "last looks," directions to a specific bidder that it should "review" its bid or that its bid is "sticking out";

(L) prohibit a broker's broker from changing a bid price or offer price without the bidder's or seller's respective permission;

(M) prohibit a broker's broker from failing to inform the seller of the highest bid in a bid-wanted or offering;

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(N) prohibit a broker's broker from accepting a changed bid or a new bid from a bidder in the same bid-wanted after the broker's broker has selectively informed that bidder whether its bid is the high bid ("being used") in the bid-wanted; and

(O) subject to the provisions of sections (b), if applicable, and paragraph (c)(i)(N) of this rule, prohibit the broker's broker from providing any person other than the seller (which may receive all bid prices) and the winning bidder (which may only receive notice that its bid is the winning bid) with information about bid prices, until the bid-wanted has been completed, unless the broker's broker makes such information available to all market participants on an equal basis at no cost, together with disclosure that any bids may not represent the fair market value of the securities, and discloses publicly that it will make such information public.

(ii) The broker's broker must disclose the policies and procedures adopted pursuant to subsection (c)(i) of this rule to sellers of, and bidders for, municipal securities in writing at least annually and post such policies and procedures in a prominent position on its website.

(d) *Definitions.*

(i) "Bidder" means a potential buyer in a bid-wanted or offering.

(ii) "Bid-wanted" means an auction for the sale of municipal securities in which:

(A) the seller does not specify a minimum or desired price for the securities that are the subject of the auction at the commencement of the auction;

(B) the identities of the bidders and the seller are not disclosed prior to the conclusion of the auction, other than to the broker's broker;

(C) bidders must submit bids for the auctioned securities to the broker's broker; and

(D) the seller decides whether to accept the winning bid.

(iii) "Broker's broker" means a dealer, or a separately operated and supervised division or unit of a dealer, that principally effects transactions for other dealers or that holds itself out as a broker's broker. A broker's broker may be a separate company or part of a larger company.

An alternative trading system, registered as such with the Commission, is not a broker's broker for purposes of this rule if, with respect to its municipal securities activities:

(A) it utilizes only automated and electronic means to communicate with bidders and sellers in a systematic and non-discretionary fashion (with the exception of communications that are solely clerical or ministerial in nature and communications that occur after a trade has been executed);

(B) all of the customers (as defined in Rule D-9) of the alternative trading system, if any, are sophisticated municipal market professionals; and

(C) the alternative trading system adopts, and complies with, policies and procedures that, at a minimum,

(1) require the alternative trading system to disclose the nature of its undertaking for the seller and bidders in bid-wanted and offerings;

(2) require the alternative trading system to disclose the manner in which it will conduct bid-wanted and offerings; and

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(3) prohibit the alternative trading system from engaging in the conduct described in paragraphs (H)-(O) of subsection (c)(i) of this rule.

(iv) For purposes of paragraph (c)(i)(O) of this rule, a bid-wanted for a municipal security will be considered "completed" when either of the following occurs: (A) the security is traded, whether through the broker's broker or otherwise or (B) the broker's broker is notified by the seller that the security will not trade;

(v) "Cover bid" means the next best bid after the winning bid.

(vi) "Dealer" means broker, dealer, or municipal securities dealer.

(vii) For purposes of this rule, "offering" means a process for the sale of municipal securities in which:

(A) the seller specifies a minimum or desired price for the securities as part of the offering, at the offering's commencement;

(B) the identities of the seller and the bidders are not disclosed prior to the conclusion of the offering; and

(C) a broker's broker negotiates between the seller and the bidders to arrive at a price acceptable to the parties.

(viii) "Predetermined parameters" means formulaic parameters based on objective pricing criteria that are: (A) reasonably designed to identify most bids that may not represent the fair market value of municipal securities that are the subject of bid-wanted to which they are applied, (B) determined by the broker's broker in advance of the acceptance of bids in such bid-wanted, and (C) systematically applied to all bids in such bid-wanted. Predetermined parameters may not be based on bids submitted in the bid-wanted to which they are applied (*e.g.*, cover bids). A broker's broker may establish different predetermined parameters for different types of municipal securities.

(ix) For purposes of this rule, "seller" means the selling dealer, or potentially selling dealer, in a bid-wanted or offering and does not include the customer of a selling dealer.

(x) For purposes of Rule G-43 only, a security will be considered to have "traded" through a broker's broker when it has been purchased by the broker's broker from the seller and sold to the bidder by the broker's broker, as an intermediary.