



Did I Get a Fair Price?

As an investor, how do you know if you paid a fair price when buying a municipal bond, or received a fair price when selling one? There are three factors the retail investor should consider when evaluating prices:

1. Who is handling your transaction;
2. The definition of a fair and reasonable price under investor protection rules; and
3. Publicly available information on the [Electronic Municipal Market Access System \(EMMA®\)](#) website about municipal bond trades.

Access other resources for investors in the [MSRB Education Center](#).

1. What is your status in the transaction?

As a retail investor, your price will be affected by the nature of the relationship and compensation arrangements with your financial professional.

- Are you trading with a broker or financial adviser and buying from the firm's inventory of bonds?
- Is your broker/adviser acting as an agent in trading with another customer?
- Are you paying a transaction-based fee or a managed account fee?

Your financial professional and his or her firm play many important roles when you buy, sell or decide to accept a recommendation to continue holding a security. At the time of trade, your broker must disclose to you all material facts about the bond including important facts about the structure of the security. Among other the questions to consider include:

- What are the bonds' optional redemption features?

- How are they triggered?
- What is the bonds' tax status — tax-exempt, taxable, subject to alternative minimum tax (AMT)?
- What are the associated risks?
- Are there challenging factors for the bonds' issuer or a dedicated source of revenues that pay off the bonds at maturity?

Your financial professional must know where to obtain and how to understand that information. Also, financial professionals are required to know that a security is suitable for you and your established risk tolerance, investment time horizon and liquidity needs, for example. Note there are separate duties owed to the seller and buyer. Even when a customer is selling, the firm has a duty to make the seller aware of potentially important information, such as a partial call coming up for this security, which means there is a chance you could get full value for your bond rather than selling at a discount today.



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Finally, over the length of time you own a security, the firm will keep track of crediting interest payments to your account, and potentially handle a bond call by the issuer. The amount of work involved can be quite different depending on the structure and complexity of the security, the knowledge level of the investor, and the thoroughness of the financial representative. Those factors should be kept in mind when considering compensation paid for a transaction.

2. Know the definition of “fair and reasonable price” under investor protection rules.

The Municipal Securities Rulemaking Board’s (MSRB) [Rule G-30](#), on prices and commissions, requires brokers and municipal securities dealers to charge fair and reasonable prices. A financial professional’s compensation for the work involved in the transaction may vary. For principal transactions, the “all-in” price, including the dealer’s compensation in the form of a mark-up or mark-down, must be fair and reasonable.

For agency transactions, the dealer must try to provide a fair and reasonable price related to prevailing market conditions and must charge a fair commission. [MSRB Rule G-18](#) requires a dealer to use reasonable diligence to determine the best market for a bond and execute in that market so that the resulting price to the customer is as favorable as possible under prevailing market conditions.

Effective May 2018, dealers selling to you from inventory or buying from you and placing the bonds into their inventory — this is known as acting as a principal — must disclose both the percentage and the total dollar value of mark-up or mark-down

for certain trades (see MSRB Rules G-15 and G-30). Generally, if the dealer bought or sold the security in a transaction that offsets your transaction on the same day that you bought or sold your securities, the dealer would be required to disclose on your confirmation the amount of mark-up or mark-down on your transaction. While dealers will only be required to disclose the mark-up or mark-down on principal transactions with retail customers where they also executed a same-day offsetting transaction, some dealers may exceed the requirements of the rule and proactively disclose the mark-up or mark-down on additional transactions, or even all transactions where they act as principal.

Under MSRB rules, the mark-up or mark-down on a transaction is determined from the prevailing market price of the security — generally, the dealer’s reasonable assessment of the inter-dealer market price prevailing at the time of the customer transaction. If you deduct the disclosed mark-up from the price you paid in the transaction, you can determine the prevailing market price for your security.

Dealers can also act as agents for customers, meaning that they are not selling from, or buying into, their own inventory of bonds. When acting as an agent, the dealer is paid a commission by the customers on each side of the transaction. Dealers are required to disclose the commissions charged on the trade confirmation.

If you look at a series of transactions that you reasonably infer involve a single dealer that is buying from its own customer and then, somewhat later, selling to another of its own customers, you may see both a mark-down to the selling customer and a mark-up to the purchasing customer.



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Importantly, neither customer is paying both a mark-down and a mark-up; rather the selling customer is paying the mark-down, and the purchasing customer is paying the mark-up.

Another important factor in determining whether the aggregate price to you is fair and reasonable is that the yield on the bond should be comparable to the yield on other securities of comparable quality, maturity, coupon rate and block size then available in the market.

3. Trade Information on EMMA®

Reviewing the trading history of a municipal bond on the MSRB's EMMA website, at emma.msrb.org, can provide an indication of what the yield should be. EMMA displays most trades in municipal securities. Brokers and municipal securities dealers must report transaction information within 15 minutes of the time of trade to the MSRB's Real-time Transaction Reporting System (RTRS) for display to the public on EMMA. The information available on EMMA means that an investor buying or selling a bond can see the history of

EXAMPLE A:

Finding Trade Price Information on EMMA

Find the CUSIP number — the nine-digit unique identifier for the bonds — on your trade confirmation or statement. Type the CUSIP number in the EMMA Quick Search box to access the Security Details page for the bond. Click on the "Trade Activity" tab to view a real-time listing of trades in that bond.

Imagine that you bought \$50,000 of general obligation refunding bonds of New York State, CUSIP number 649791AM2, issued in December 2009 and maturing in February 2020. The data below show a day on which these bonds were traded.

CUSIP 649791AM2	State of New York General Obligation Refunding Bonds, maturing 02/01/2020				Interest Rate 4.5%
Trade Date/Time	Settlement Date	Price (%)	Yield (%)	Trade Amount (\$)	Trade Type
6/30/2016 11:49	7/6/2016	113.372	0.7	50,000	Customer bought
6/30/2016 11:34	7/6/2016	112.703	0.877	50,000	Customer sold
6/30/2016 11:34	7/6/2016	112.703	0.877	50,000	Inter-dealer trade

Note that at 11:34 a.m., there was a customer sale at 112.703, and an inter-dealer trade at the same price. About 15 minutes later, a customer bought the same number of bonds at a higher price of 113.372. This example shows a trade size of \$50,000, which indicates a typical retail trade. That means the total par amount of the trade is generally that of private-client investors.

It could reasonably be inferred that on the trade date, a customer sold bonds to a dealer, who later sold them to another of its customers at a slight mark-up. But it is also possible that the second trade at 11:49 a.m. was independently done by a different dealer with its own customer, selling the bonds out of its inventory. That second dealer may well have priced its trade by examining the data from the inter-dealer trade that occurred at 11:34 a.m. For reasons of privacy and the protection of competition, EMMA does not publicly display the information about which firm sold to which customer. Because the data are anonymous, it is important not to make assumptions about precisely what happened in an apparent "transaction chain."



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trading in the security before and after a transaction. This information provides the relative trade price.

Take advantage of the following information on EMMA to be a more informed investor.

Review “Inter-Dealer” Trades to Find the Market Price of a Municipal Bond

The simplest, easiest case for finding the prevailing market price of a municipal bond occurs when there has been an inter-dealer trade shortly before the transaction. An

inter-dealer trade, close in time to your trade, is considered the best indication of market price. In an inter-dealer transaction, two dealers in municipal securities, both with professional, experienced traders, have agreed on this price.

Use EMMA’s Price Discovery Tool to Better Understand the Municipal Bond Market

Note that finding an inter-dealer trade price in your security close in time to your trade may not be possible. Frequently, there is

EXAMPLE B:

Using the Pricing Discovery Tool

From the EMMA homepage, click on the “Tools and Resources” tab to access the Price Discovery Tool. Enter the CUSIP for a security into the Price Discovery Tool and click “find and compare.”

A set of search criteria closely matching your CUSIP will pre-populate the next screen. Adjust the criteria as desired to widen your search, such as increasing the maturity date range to within two years of the maturity date of your CUSIP and the interest rate to within .5% of your CUSIP’s interest rate or coupon. Click “Find Securities” to search EMMA for bonds matching your criteria.

Using the bond from the previous example, this search identifies another State of New York general obligation bond issued in 2009 that matures at just about the same time. This is an exact match to the previous example for issuer, source of repayment and ratings. The interest rate is slightly different at .5% lower.

Click on Trade Details icon for that similar security to view its recent trades. Looking for a trade relatively close in date and time to the time of your trade in the similar security can provide additional context for the price you paid.

Here’s what you find about the prices:

CUSIP 6497987751		State of New York General Obligation Bonds, maturing 02/15/2020			Interest Rate 4.0%	
Trade Date/Time	Settlement Date	Price (%)	Yield (%)	Trade Amount (\$)	Trade Type	
6/28/2016 11:56	7/1/2016	108.163	0.845	20,000	Customer bought	
6/28/2016 11:55	7/1/2016	107.913	0.938	20,000	Customer sold	
6/28/2016 11:55	7/1/2016	107.913	0.937	20,000	Inter-dealer trade	

Because the stated interest rate on these bonds is different, you would expect the prices to be different. But the yield to the customer who bought two days earlier (0.845%) is clearly close to the yield of 0.7% provided in the previous example.

Why are the prices and yields not the same? Generally, averaged municipal bond yield curves shift slightly each day. Other factors can also affect the price of the bond. For example, there may have been a ratings outlook change, or recent financial data might have been published by the issuer, or the redemption provisions could be somewhat different.



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not a recent inter-dealer trade (or even a customer trade) for your exact municipal security. In such situations, EMMA provides a tool that is helpful for finding trades in similar securities — the [Price Discovery Tool](#). In the event there are no trades in a specific security, EMMA's Price Discovery Tool helps users find comparable securities.

Special Condition Indicators

There are certain [special condition indicators](#) that appear on EMMA. Unless two trades have the same kind of indicator, the price and yield may not be comparable.

Perhaps the most significant special condition indicator is for a Non-Transaction Based Compensation Arrangement Trade (marked with an "N" on EMMA). This trade does not have any mark-up or mark-down associated with the trade, and should not be compared with trades that do. Also, when looking at historical data for comparison, examine the data carefully. It is possible that older trades may have had a special condition that is reflected in the pricing. For municipal bonds that were traded before certain "special condition indicators" became mandatory in trade reporting, there can be apparent price differences that occur because the customer did not pay a transaction-based

mark-up/mark-down for the transaction. Instead, the customer is charged for services on a percentage of assets or flat-fee basis, usually annually. That amount is not shown in the bond price. The bond may have traded on an electronic trading platform with a different compensation arrangement.

What if I Feel that the Price Was Not Fair?

Consider whether the dealer's compensation fairly reflects the work completed on your behalf. Ask your financial professional for written information about how they are compensated and which fees apply to your account. Always ask for an explanation from your financial professional about why you paid the price that you did. An investor who believes a dealer has been unfair or that MSRB rules or federal securities laws have been violated may report a complaint to the MSRB, which will direct the complaint to the appropriate authority.

► **Call or email the MSRB to file a complaint:**
202-838-1330
complaints@msrb.org



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