

The system produces daily, public reports of frequently traded issues⁴ and summary volume and price information about the inter-dealer market on the previous business day ("daily report"), and is building a surveillance database of detailed records about every inter-dealer transaction that has been successfully compared⁵ by the automated comparison system. Dealers report transaction information to the Board, pursuant to rule G-14, through the automated comparison system. The transaction reporting system has been operational and has been collecting and publicly reporting inter-dealer transaction information since January 23, 1995. The Board had begun working with the National Association of Securities Dealers ("NASD") and the bank regulatory agencies to establish detailed operational arrangements by which comprehensive information will be made available.⁶ This information includes, among other things identification of parties to each compared trade and the prices of all securities traded, and is not limited to transactions in issues that are traded four or more times a day.

The Commission has often noted the need to make an "integrated audit trail" of transaction information available to the agencies charged with enforcement of Board rules. The Commission believes that an audit trail will "provide valuable information for market surveillance and inspection purposes to the MSRB, the Commission, the NASD, and the relevant banking agencies."⁷

The surveillance databases of transactions being built as part of the transaction reporting system will provide an effective audit trail for the enforcement agencies. The proposed rule change will help to ensure that the audit trail contains the identify of all dealers involved in each compared

inter-dealer municipal securities transaction.

Currently, transaction information reported to the Board under rule G-14 through the automated comparison system always includes a numerical identifier for the dealer that "clears" the transaction through NSCC. In many cases, this dealer, called the "clearing broker," is also the dealer that executed the transaction. In other cases, the "clearing broker" submits the trade on behalf of another dealer that executed the transaction. In a clearing-introducing broker arrangement, the clearing broker may submit transaction information on behalf of the introducing broker. In this case, the introducing broker generally is identified as the "executing broker" in the comparison system.

During the first months of transaction reporting operations, the Board has noted that a substantial number of transactions submitted under G-14 do not include any indication whether the trade is actually done by the "clearing broker" or on behalf of another "executing broker."⁸ Under these circumstances, the surveillance database does not reflect the identity of all dealers involved in the transaction. The identity of the actual executing brokers on each transaction is critical to the surveillance database and to monitoring individual dealers' compliance with the requirement for trade comparison on the night of trade date.⁹

The proposed rule change would require dealers who clear transactions for other dealers to identify the executing dealers involved in the trade. This would involve relatively minor changes in current practice. Clearing brokers would have to ensure the presence of the executing broker identification for both the "buy side" and the "sell side" for every transaction submitted to the automated comparison

system.¹⁰ In addition, each executing broker of municipal securities transactions that has not yet been assigned an executing broker symbol would have to request an assignment.¹¹

2. Statutory Basis

The Board believes the proposed rule change is consistent with Section 15B(b)(2)(C), which requires, in pertinent part, that the Board's rules:

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, * * * 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 in that 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

The Board has neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change: (1) Does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; (3) was provided to the Commission for its review at least five days prior to the filing date; and (4) does not become operative for thirty days from the date of its filing on June 22, 1995, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(e)(6) thereunder. In particular, the Commission believes the proposed rule change would qualify as a "non-controversial filing" in that the proposed standards do not significantly affect the protection of investors or the public interest and do not impose any

¹⁰ A clearing broker that uses an "omnibus" account to handle introducing brokers' trades might have to change its practices to identify the introducing broker in each case, rather than using its own clearing broker symbol.

¹¹ The NASD assigns executing broker symbols to brokers, dealers, and municipal securities dealers. A self-clearing broker may use an NASD-assigned symbol to identify itself in its role as executing broker, or it may use its NSCC-assigned broker number for this purpose.

1994), 60 FR 2412, and see letters from Larry M. Lawrence, MSRB, to Keith Riley, SEC, dated December 31, 1994, and January 23, 1995.

⁴ Currently, only issues that are traded four or more times during a day are included in the next day's daily report.

⁵ In general, a "compared" transaction is one for which salient information items, provided by both parties to a trade, are matched and found to agree by the automated comparison system.

⁶ Cooperation between the Board and the enforcement agencies was noted by the Commission as important in the enforcement of the customer protection rules, and the Commission's order approving the system described the NASD as the primary entity responsible for conducting market surveillance. The NASD already has requested and received transaction information from the surveillance database, as part of its enforcement activities. The Board is making arrangements to further automate the process of making surveillance information available to the NASD and to expand such support to all enforcement agencies.

⁷ See note 1, *supra*.

⁸ Clearing brokers have the option of including the identity of the introducing brokers when reporting a transaction, in which case the introducing broker identifiers are entered into the Board's surveillance database. The database lacks the introducing broker identifier of transactions for which the clearing broker chooses not to identify the introducing broker.

⁹ Clearing and introducing brokers are jointly responsible for submitting transaction information for automated comparison under rule G-12(f). See "Enforcement Initiative," *MSRB Reports*, Vol. 14, No. 3 (June 1994), at 35. Therefore, the clearing broker bears responsibility for obtaining accurate and timely information from its executing brokers and submitting it for comparison in time to achieve comparison on the night of trade date. However, charting the performance of individual executing brokers would be helpful both to the clearing brokers and to the enforcement agencies, since it would indicate which executing brokers are presenting problems.