



## What Is Mark-up?

There are costs associated with transactions in any financial product. For investors in municipal bonds, the cost of purchasing a bond may include a charge called a “mark-up.” This document for individual investors describes what a mark-up is, how to review information about it on a trade confirmation and where to learn more.

*Financial firms routinely charge a mark-up on principal trades. To improve transparency regarding transaction costs, new rules effective May 14, 2018 require disclosure on customer confirmations of the amount of mark-up for certain trades.*

When you buy a municipal bond, a financial firm typically sells it to you from its own account. This means the firm owns the bond, even if only for a brief time, before selling it to you. In this type of trade, referred to as a “principal trade,” the firm’s compensation for its services, or mark-up, is built into the price you pay for the bond. It’s important to note that the higher the price for your particular bond — including the mark-up — the lower your yield, or return on investment.

See also:

- [Ways to Buy Municipal Bonds](#)
- [Seven Questions to Ask When Investing in Municipal Bonds](#)
- [What to Expect When Selling Municipal Bonds Before Maturity](#)
- [How Are Municipal Bonds Quoted and Priced?](#)

### Reviewing the Amount of the Mark-up on Your Trade

The firm that sells you a municipal bond must send you a confirmation statement (see sample on page 3) reflecting certain details of your trade. Generally, under rules

established by the Municipal Securities Rulemaking Board (MSRB), the confirmation must include the amount of mark-up *if* the firm bought and sold those bonds on the same day (e.g., the firm buys bonds in the morning and later that day, sells them to you). However, depending on a firm’s business practices, it may include the amount of the mark-up on every confirmation statement, even when it’s not technically required.

MSRB rules also require that firms determine the mark-up on a bond based on the “prevailing market price.” In other words, the mark-up will be the difference between the price you pay to purchase your bond and its “prevailing market price.” Generally, the term “prevailing market price” means the price at which firms that deal in bonds buy and sell among each other at a given time. Typically, the prevailing market price of a bond you buy will be the price your firm paid for that bond in a trade that took place recently or close in time to your trade. However, because some bonds trade infrequently, determination of the prevailing market price of a bond can involve additional considerations.



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When the mark-up is disclosed on your confirmation, it will be displayed as a total dollar amount and as a percentage of the prevailing market price of the municipal bond. Remember that the mark-up is not an additional itemized fee paid to the firm but instead is included in the price of the bond.

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**Mark-ups Must be Fair.** MSRB rules require mark-ups to be fair and not excessive, but the determination of whether a mark-up is fair may depend on the facts and circumstances of the particular trade. Factors considered include the expense involved in executing the transaction, the size of the transaction, the services provided and the availability of the securities in the market. If you have questions about the amount of mark-up charged on your trade, call your financial professional.

**Service Charges.** Your trade may include additional charges that should not be confused with the mark-up. For example, a "service charge," "transaction fee" or "miscellaneous fee" is typically a fee

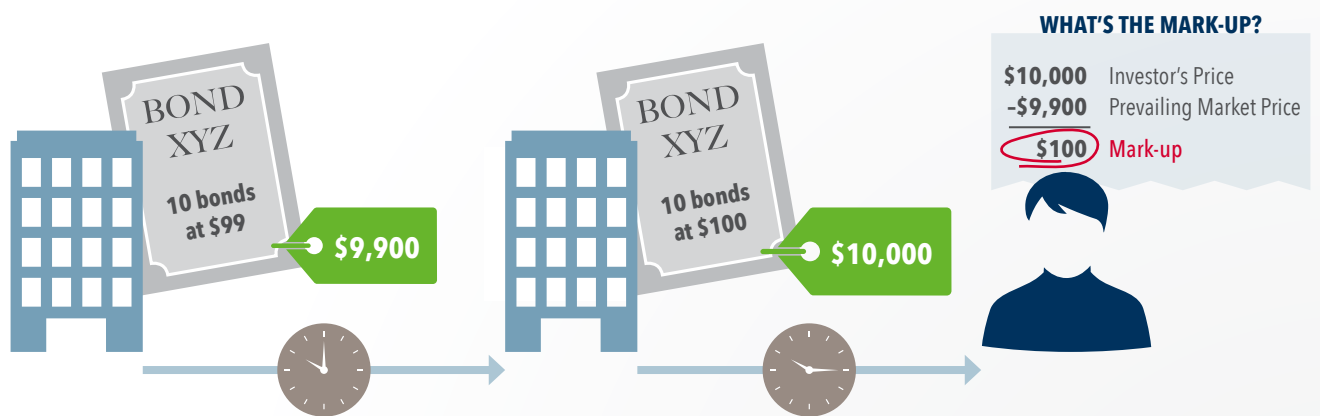
charged on the trade for specific services provided as part of the trade. These fees might include things such as postage, printing or similar services. These flat fees are generally modest and different from the mark-up charged on principal trades.

**Other Disclosures.** Firms also are required to disclose the time of trade on nearly all individual investor confirmations and to include a link or URL to the MSRB's [Electronic Municipal Market Access \(EMMA®\) website](#) where you can see any other trade prices in your bond at or around the time of your trade. This information can help you compare the price you received to other trades in your bond. It also can help you assess the fairness of the price you received on your trade. Use the information on EMMA to start a conversation with your financial professional and to inform future bond trade decisions.

See also:

- [Understanding Your Confirmation](#)
- [Did I Get a Fair Price?](#)

### Sample Path of a Principal Trade



**Financial Firm A sells bonds to Financial Firm B which then sells bonds to the Investor.**

*This is an illustrative example only. Not all determinations of the prevailing market price and corresponding mark-up will be as straight forward.*



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## Sample Confirmation

Sample confirmation only. The MSRB does not necessarily endorse or approve the language used in this confirmation. Your confirmation may appear different.

# Financial Firm ABC®

May 21, 2018

Trade Confirmation – Account # 123456789

Jane Doe  
123 Retail Customer Street  
City, ST 12345

Financial Firm ABC  
123 Main Street  
City, ST 12345  
(123) 456-7890

### Trade Confirmation – Account # 123456789

We are pleased to confirm the below transaction:

Buy

**CUSIP 99999999 SCHOOL DISTRICT BOND Unlimited Tax General Obligation 3.25% Due 04/01/36**

You bought: **15,000** Price: **100.000**

Order Number: 000000001

Use this information to help identify your trade on the EMMA website.

**Trade Calculation**

Principal Amount\*: \$15,000.00

Accrued Interest: \$ 70.42

Transaction Fee: \$ 4.95

Total: \$15,075.37

Bank Qualified: No

State: ST

Bank Qualified: No

Dated Date: 04/01/1996

Yield to Maturity: 3.25

Yield to Call: 3.25

Callable 04/01/27 @ 100

Federally Tax Exempt: Yes

Capacity: Principal Book Entry

Bond Form:

Trade Date: 05/21/2018

Trade Time: 2:55 PM

Settlement Date: 05/23/2018

Miscellaneous service charge; not Financial Firm ABC's compensation

Compensation to Financial Firm ABC; included in the price of \$15,000

**\*This Principal Amount includes a mark-up of \$150.00 (1.00% of the prevailing market price of the security).**

A mark-up is the amount you paid to Financial Firm ABC over and above the prevailing market price of the security. It typically includes compensation to your financial advisor and an additional amount that may account for Financial Firm ABC's expenses in the transaction and/or risk taken by Financial Firm ABC.

For more information about this security (including the official statement and trade and price history), visit <https://emma.msrb.org/CUSIP/999999999>.

Follow this link to view your trade on the EMMA website and compare it to other trades in your bond.



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**Not Sure if You Paid a Mark-up?** Review your confirmation as soon as you receive it to verify that the trade was executed in accordance with your instructions, and contact your financial professional immediately with any questions or concerns you may have.

If there is not a mark-up disclosure on your confirmation, that does not necessarily mean that you did not pay a mark-up. It may just mean that no disclosure was required for that trade. Generally, if you identify your trade on EMMA and your trade does not have an "N" in the "Special Condition" column, which is used to indicate that a trade involved non-transaction-based compensation, then your firm likely charged a mark-up on your trade. Call your financial professional to discuss the firm's compensation on your trade.

See also:

- [Understanding Special Condition Indicators for Trades on EMMA](#)

### What Is a Mark-down?

If you wish to sell a bond that you own, your financial firm will conduct research to determine what it believes is a fair price for your bond and typically will offer to purchase it from you at a price that is less than the prevailing market price. In effect, the firm "marks down" the purchase price of your bond as compensation for purchasing it from you. Like a mark-up, you can think of this "mark-down" as part of your transaction costs. This document focuses on understanding mark-up associated with your purchase of a bond and the firm's disclosure requirements. However, the information also applies to a markdown associated with your sale of a bond.



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