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Request for
Information

Comment Deadline
November 27, 2018

Request for Information on the Accessibility, Methodology and Utility of Indices, Yield Curves and Other Benchmarks

Overview

The Municipal Securities Rulemaking Board (MSRB) is requesting information from market participants and the public on the accessibility, methodology and utility of indices, yield curves and other benchmarks currently available in the municipal market. The purpose of this notice is to obtain information and insight from commenters to inform and support the MSRB's mission to promote a fair and efficient municipal market. This request is a continuation of the MSRB's interest in the use and availability of benchmarks in the municipal securities market and is intended exclusively to inform the MSRB. The MSRB does not have regulatory jurisdiction in this area, and this request is not a precursor to initiating rulemaking.

Comments should be submitted no later than November 27, 2018 and may be submitted in electronic or paper form. [Comments may be submitted electronically by clicking here.](#) Comments submitted in paper form should be sent to Ronald W. Smith, Corporate Secretary, Municipal Securities Rulemaking Board, 1300 I Street NW, Suite 1000, Washington, DC 20005. All comments will be available for public inspection on the MSRB's website.¹

Questions about this notice should be directed to John Bagley, Chief Market Structure Officer, or Carl E. Tugberk, Assistant General Counsel, at 202-838-1500.

¹ Comments generally are posted on the MSRB's website without change. For example, personal identifying information such as name, address, telephone number or email address will not be edited from submissions. Therefore, commenters should only submit information that they wish to make available publicly.



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Background

More than one million unique bond issues, each with their own specific structural characteristics, ratings and yields, comprise the municipal securities market. As in other financial markets, market indicators used in the municipal securities market can provide sector-specific or broad market information about the general level of interest rates. These indicators include indices, yield curves and other benchmarks. An index is a statistical composite that can be used to measure changes in a market; a yield curve represents a set of interest rates for a series of maturity dates that, when compiled and plotted on a graph, produces a curve; and a benchmark is the basis of measurement for an interest rate, an index or peer group of bond prices or other values that is used as a reference point.² All of these indicators provide a relative snapshot of the market and can be useful tools for, among other things, evaluating bond prices and yields, assessing market direction and performance, and determining the pricing for new bond issues.

Since 2012, the MSRB has used its unique position in the market to enhance understanding of the methodologies, mechanics and functions of municipal market indices, yield curves and other benchmarks by providing educational resources for investors and state and local governments and to also make these benchmarks more widely available. MSRB educational resources include, but are not limited to: (1) a primer on understanding market indicators, how they are used, their limitations and the most commonly used examples³ and (2) an overview of the London Interbank Offered Rate (LIBOR) and its relevance to the municipal market in the wake of the manipulation of that benchmark that impacted a number of markets and financial products globally.⁴ In light of the importance of indices, yield curves and other benchmarks for retail and other investors in the municipal market, the MSRB

² Indices and yield curves can themselves be benchmarks.

³ [Understanding Municipal Market Indices, Yield Curves and Benchmarks](#) (originally published in Sept. 2012 and updated in Aug. 2017).

⁴ [LIBOR and the Municipal Market](#) (Sept. 2012). Since April 2018, the Federal Reserve Bank of New York has been producing and publishing three rates based on data for overnight repurchase transactions on Treasury securities, one of which, the Secured Overnight Financing Rate, has been designated as the recommended replacement for LIBOR. See 82 FR 58397 (Dec. 12, 2017). Similarly, the Bank of England and the Financial Conduct Authority have announced a broad-based transition from LIBOR to the Sterling Overnight Index Average (SONIA) across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021). See <https://www.fca.org.uk/news/press-releases/bank-fca-launch-next-phase-sterling-libor-transition-work>

is focused on continuing to help educate market participants as market practices and the market itself evolve.

In addition to providing educational resources, the MSRB has addressed indices, yield curves and other benchmarks in the municipal securities market as part of its efforts to promote market transparency. In February 2012, the MSRB published its Long-Range Plan for Market Transparency Products (“Long-Range Transparency Plan”), which set out a vision for the further evolution of the MSRB’s market transparency products, including, but not limited to, expanding the universe of information available and providing additional tools and utilities.⁵ Subsequently, in the Securities and Exchange Commission’s (SEC) 2012 Report on the Municipal Securities Market, the SEC recommended that the MSRB pursue enhancements to its Electronic Municipal Market Access (EMMA®)⁶ website so that retail investors have better access to pricing and other municipal securities information.⁷ In making this recommendation, the SEC noted that, although the transaction and other municipal securities information available to investors on EMMA is a substantial improvement over what was available to them prior to EMMA, “retail investors continue to have access to substantially less pricing information than institutional investors and municipal bond dealers.”⁸ The SEC further suggested that the MSRB, consistent with its Long-Range Transparency Plan, could take additional steps to enhance both the nature of the information made available on EMMA and the ease with which it can be utilized by retail investors by, for example, creating analytical tools and research, and additional pricing-related market data, such as available yield curves.⁹ In July 2017, as part of the MSRB’s ongoing implementation of its Long-Range Transparency Plan and consistent with the SEC’s 2012 Report, the MSRB made third-party yield curves and indices available on EMMA, giving investors and other market participants ready access to these tools at no cost, and continues to consider the addition of other yield curves to EMMA.

The MSRB believes that a general review of benchmarks in the municipal securities market will allow it to evaluate their accessibility, methodology and utility and inform the MSRB’s continued efforts to educate market

⁵ See [Long-Range Transparency Plan](#); see also [MSRB Notice 2012-06](#) (Feb. 23, 2012).

⁶ EMMA is a registered trademark of the MSRB.

⁷ [SEC Report on the Municipal Securities Market](#) (July 31, 2012), at 145 (“2012 Report”).

⁸ *Id.*

⁹ *Id.*

participants and develop EMMA in support of promoting transparency and a fair and efficient municipal securities market.

Request for Information

The MSRB seeks public comment on the following questions.

- 1) Please indicate what type(s) of, and which specific, benchmark(s) you use in the municipal securities market.
 - a. Indices.
 - b. Yield curves.
 - c. Other products.

- 2) Please explain how you use benchmarks in the municipal securities market?
 - a. For new issue pricing.
 - b. For institutional investor bids and offers in the secondary market.
 - c. For individual investor bids and offers in the secondary market.
 - d. For block-size dealer bids and offers.
 - e. For retail-size dealer bids and offers.
 - f. For periodic interest rate resets.
 - g. For other uses.

- 3) Do all market participants in the municipal securities market (*i.e.*, issuers, retail investors, institutional investors and market professionals) use benchmarks?
 - a. Are there differences in how these participants use benchmarks?
 - b. Do market participants typically use one or multiple benchmarks?
 - c. Should all market participants have equal access to benchmarks? If not necessarily equal access, do all market participants currently have adequate access to benchmarks?
 - d. Does the size of an entity (*e.g.*, large vs. small broker-dealers, institutional investors or municipal advisors) affect the entity's access to benchmarks?

- 4) What type of inputs are used to create benchmarks for the municipal securities market and are any inputs more useful than others?
 - a. New issue pricings?
 - b. Secondary market quote data?

- c. Trade data?
 - d. Observations and opinions?
 - e. Other inputs?
- 5) Are the methodologies used by the benchmarks currently available in the municipal securities market sufficiently transparent? If not, would greater transparency be beneficial or harmful to the market?
- 6) Do you have concerns regarding the integrity of benchmarks in the municipal securities market? If so, how can the risks associated with any such concerns be mitigated?
- 7) Are the International Organization of Securities Commissions' Principles for Financial Benchmarks appropriate for benchmarks in the municipal securities market?
- 8) Please provide any additional information and data you believe are relevant to benchmarks in the municipal securities market.

August 28, 2018

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