



Issuer Considerations for Reaching the Retail Investor

Retail investors are the largest holders of municipal bonds. In the course of a negotiated primary market offering of municipal bonds, state and local governments may offer retail investors¹ priority in purchasing municipal bonds. Municipal Securities Rulemaking Board (MSRB) rules² governing retail order periods help to ensure that a dealer³ conducts a retail order period in a fair and orderly manner and in accordance with the issuer's intent for retail investor participation.

This document provides a basic overview of some of the factors an issuer may consider when establishing a retail order period during a negotiated primary market offering of municipal bonds, including determining eligibility criteria and other terms and conditions.

An issuer's definition of retail investor and retail order period may vary. In fact, the same issuer might have different retail order period terms and conditions for each issuance of municipal bonds. Under MSRB Rule G-11, prior to the first offering of the municipal bonds, the senior manager is responsible for obtaining from the issuer all terms and conditions required by the issuer and all retail order period requirements. The issuer sets the eligibility criteria for who may place orders during the retail order period.

In general, MSRB Rule G-32 requires that the underwriter disclose to the MSRB on Form G-32 whether the primary offering

included a retail order period and the date(s) and time(s) it was conducted. During a retail order period, orders are typically only solicited from retail investors. Sometimes orders may be solicited from both retail and institutional investors, although orders from retail investors generally will be given priority in the municipal bond allocation process.

Factors for Considering a Retail Order Period

An issuer that gives priority to retail orders may do so based on various considerations including maintaining access to different types of investors, making bonds available to residents of their jurisdiction, setting the tone for institutional pricing, supporting fair pricing for retail investors, and achieving favorable pricing.

Since retail investors generally are not in the municipal bond primary market

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¹ Generally, retail investors are individual investors who buy and sell securities for their personal account, and not on behalf of another company or organization. Retail investors are also known as "small investors." This may also include a retail customer for which professional retail has a customer with a conditional commitment.

² MSRB Rule G-11 specifies dealer obligations for primary offering practices including the retail order periods. This document contains only a summary of the key provisions of MSRB Rules G-11, G-8 and G-32 and Form G-32 with respect to priority provisions as of the date of the publication of this document. This document should not be relied upon as a substitute for careful review of the rules themselves. The complete text of the rules is available at <http://msrb.org/Rules-and-Interpretations/MSRB-Rules.aspx>.

³ As used in this document, the term "dealers" refers to brokers, dealers and municipal securities dealers.



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frequently, they may not be as aware of municipal bond offerings as are larger institutional investors. By providing notice of an upcoming offering and advance opportunity to place an order for these bonds, issuers provide retail investors with an opportunity to purchase bonds when they are initially offered and on the same or comparable terms as institutional investors.

For more information on the roles of the different parties in an initial offering of municipal bonds, read [Roles and Responsibilities: The Financing Team in an Initial Bond Offering](#).

Eligibility Criteria

MSRB Rule G-11 makes clear that it is the issuer's prerogative to set the terms and conditions applicable to its priority of orders, including their eligibility criteria. Since each issuer sets these terms, they can vary widely from issuer to issuer and even between one issuer's different offerings. This gives issuers the flexibility to assign priorities to its investors that are more likely to achieve the issuer's objectives and take into account the needs and circumstances of a given offering.

Typically, issuers, in establishing their retail order period rules, define retail investors and order attributes in one or more ways:

- **Order size** — A dollar amount below a specified threshold. For example, all orders below \$500,000 par amount might be deemed a retail order. The issuer may reserve the right to cap the par amount of a retail order that is acceptable in the retail order period, or accept an order above a specified dollar amount at its discretion.
- **Individual investors** — Natural persons, as distinguished from legal entities such as small organizations.
- **Professional retail investors** — Investors that serve as proxies for retail investors such as bank trust departments, investment advisors and firms representing investors with separately managed accounts.
- **Non-institutional investors** — Any person except for institutional investor. The definition of "institutional investors" typically includes banks, financial institutions, bond funds, insurance companies or other business organizations that possess or control considerable assets for investing. However, an issuer may define the term as broadly or as narrowly as the issuer desires.
- **Geography** — Persons residing in the state or locality issuing the municipal bonds may be defined as a retail order. If priority is given according to geography, an issuer may give first priority to local orders and second priority to national orders.
- **Variations** — The eligibility criteria for retail orders may be a combination of the factors listed above. For example, retail orders may be defined as an order placed for the account of an individual, or a bank trust, investment adviser or money manager acting on behalf of individuals with separately managed accounts, with a maximum amount. Alternatively, an issuer may elect a more expansive definition of retail order by deeming as retail investors one or more groups of investors that are typically considered "institutional investors." Institutional investors are typically banks, financial institutions, bond funds, insurance companies or other business organizations that possess or control considerable assets for investing. If, however, an issuer wished to permit, for example, mutual fund managers to place orders during the retail order period, it might define retail orders to include orders from individual investors, professional retail investors on behalf of retail investors with separately managed accounts and mutual fund managers on behalf of the bond fund.



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The issuer may specify other terms and conditions for a retail order period, such as duration and notice.

Establishing Terms and Conditions

In addition to structuring the underwriting team and defining the eligibility criteria for investors that may participate in the retail order period, issuers may specify other applicable terms and conditions. These may include the duration of the retail order period as well as any additional conditions the issuer may wish to impose to ensure that orders received during the retail order period are in fact valid orders.

- **Duration** — A retail order period typically lasts anywhere from one hour to a few days. However, an issuer has the flexibility to terminate or extend this period even after the retail order period is announced. For example, the retail order period may terminate if all of the bonds marked for sale during the retail order period are sold. Alternatively, if the anticipated demand for the bonds is not as great as initially expected, the municipal advisor, if one is retained, or the senior manager may recommend extending the order period.
- **Notice** — An issuer may also wish to prescribe a minimum notice period to potential retail investors before the retail order period begins. Consideration should be given to duration and any notice period leading up to the retail order period to ensure that they are sufficient to permit an investor to evaluate whether to invest in the bonds.
- **Order Specific Requirements** — An issuer may grant priority to retail orders from a specific jurisdiction and request that each retail order be submitted with a zip code to verify retail order eligibility.
- **Order Audits** — An issuer may reserve the right to conduct an audit of compliance of the retail orders received either during or after the retail

order period to confirm that the orders represent legitimate investor orders. Such a provision might also include the remedies available to the issuer in the event that an order is not in compliance.

- **Other Criteria** — Issuers may require any other terms or conditions they deem appropriate to the order period. This may include requiring the disclosure of additional order identifying information. Such criteria might encourage compliance with the issuer's terms and conditions. For more information regarding order period disclosures, read [Establishing Priority of Orders](#).

Deal Team Involvement

Underwriter Communication

Because there may be various different criteria, it is very important that all members of the underwriting team know the specific details of these terms in sufficient time before the initial marketing of the bonds to investors. In the event that a syndicate (a group of underwriters formed to purchase a new issue of municipal bonds and resell them to the public) is designated by the issuer, the senior manager is required to communicate in writing the issuer's retail order period requirements to the syndicate members and other underwriters and dealers involved in marketing the municipal bonds. This would include both the co-managers and the selling group members, if any. This communication helps to ensure that each party selling the issuer's bonds is aware of the issuer's eligibility criteria for participation in the retail order period and other terms and conditions.

Order-Specific Disclosures

Dealers must obtain and provide to the senior manager specific information



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It is very important that all members of the underwriting team know the specific terms of the retail order period.

The Underwriting Team

Senior Manager	Runs the book, leads pricing negotiations, accepts orders, allocates the bonds and pays the takedown to the syndicate
Co-Managers	Other firms in the syndicate which market bonds and submit orders
Selling Group	Others firms who assist in selling and marketing the bonds during the retail order period

For more information, see [Roles and Responsibilities: The Financing Team in an Initial Municipal Bond Offering](#).

about each order placed during the retail order period,⁴ including any identifying information required by the senior manager on the issuer's behalf,⁵ the par amount of the order and whether the order meets the issuer's eligibility criteria, among other requirements. For example, if an issuer's eligibility requirements include a priority for retail investors within a geographical area, the issuer may wish to request that the dealer submit the investor's zip code along with any order.

If the issuer chooses to conduct an order audit, the issuer may review underwriter communications and order-specific disclosures.

MSRB Rule G-17 requires that the underwriter take reasonable measures to ensure that retail clients are bona fide. The issuer may wish to impose additional conditions to ensure that orders received during the retail order period are in fact valid orders.

Among the requirements of MSRB Rule G-32 is the requirement that the senior manager (or sole underwriter) report to the MSRB on Form G-32 whether a retail order period was conducted, the date or dates it was conducted, and the beginning and end time of the retail order period. This information is submitted to the MSRB's [Electronic Municipal Market Access \(EMMA®\) website](#) and is publicly available to market participants and regulators to promote transparency and assist in examining for dealer compliance with an issuer's retail order period terms and conditions.

Role of Municipal Advisor

An issuer may work with a municipal advisor to structure a municipal bond issuance. The municipal advisor may also offer advice as to whether to hold a retail order period. Municipal advisors owe a fiduciary duty to their state and local government clients. For more information regarding deal team

⁴ A sole managing underwriter has the same obligation to submit retail order information as required by MSRB Rule G-32.

⁵ MSRB Rule G-11(k) (iv) explicitly states "not including customer names or social security numbers."



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roles and responsibilities including the roles of municipal advisors, senior manager, co-managers and selling group members, read [Roles and Responsibilities: The Financing Team in an Initial Municipal Bond Offering](#).

A municipal advisor may offer advice as to whether to hold a retail order period.

Compensation

Compensation is typically paid by the issuer in the form of a takedown. A “takedown” is the compensation to the underwriter for selling the bonds and is usually paid out of the proceeds of the bond issuance. In a primary market bond issuance, the issuer generally defines the priority of orders (the order in which orders will be accepted) for the issue, and establishes the priority policy (which defines the parameters for takedown allocation, defined below, with regard to the priority of orders) with the senior manager. Compensation is typically paid by the issuer in the form of an agreed-upon takedown.

Takedowns are allocated among members of the syndicate based on criteria

established by the issuer’s designation policy. Typically, this takedown will be distributed among syndicate members according to each syndicate member’s orders filled. This includes retail orders. Read more about how underwriters may be compensated for different order types in [Establishing Priority of Orders](#).

For more information on underwriter compensation, see [Costs Associated with Issuing Municipal Securities](#).

The Pricing Wire

The pricing wire is the means through which the structure and pricing for a primary offering of municipal bonds is disseminated to the syndicate. It also provides a quick look at the terms of the underwriting, the priority policy and, if applicable, the definition of “retail order”. Below is a sample pricing wire—depicting sample retail order eligibility criteria, a sample priority of orders and a sample priority policy.

RE: \$XX, XXX, XXX
ISSUER XYZ

PRIORITY OF ORDERS AS FOLLOWS:

1. STATE RETAIL
2. NET DESIGNATED
3. MEMBER

A RETAIL ORDER IS DEFINED AS AN ORDER PLACED FOR THE ACCOUNT OF AN INDIVIDUAL, OR A BANK TRUST, INVESTMENT ADVISOR OR MONEY MANAGER ACTING ON BEHALF OF AN INDIVIDUAL, WITH A MAXIMUM OF \$500,000 PER ACCOUNT, UNLESS OTHERWISE APPROVED BY ISSUER XYZ. ALL RETAIL ORDERS MUST INCLUDE A VALID ZIP CODE FOR THE PURCHASING ACCOUNT.

ISSUER XYZ WILL HAVE THE RIGHT, DURING AND AFTER THE RETAIL ORDER PERIOD, TO AUDIT ANY ORDER TO VERIFY THAT SUCH ORDER REPRESENTS A LEGITIMATE RETAIL ORDER.

PRIORITY POLICY:

AT LEAST 4 FIRMS MUST BE DESIGNATED.

NO FIRM MAY RECEIVE MORE THAN 60.00% OF ANY DESIGNATION.

TAKEDOWN

MATURITY	AMOUNT	COUPON	PRICE	(Pts)
10/01/20XX (Approx. \$ Price 102.057)	X,000M	X.00%	0.XX	X/X
10/01/20XX (Approx. \$ Price XXX.XXX)	X,XXXM	X.00%	0.XX	X/X
...				

THE COMPLIANCE ADDENDUM MSRB RULE G-11 WILL APPLY. THE AWARD IS EXPECTED ON WEDNESDAY, APRIL XX, 20XX. DELIVERY IS FIRM FOR TUESDAY, APRIL X, 20XX. THIS ISSUE IS BOOK ENTRY. THIS ISSUE IS CLEARING THROUGH DTC.



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