

Mark-up Disclosure

Prevailing Market Price Countdown: You're Already Behind

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May 14th started a one-year countdown to the implementation of the Mark-up Disclosure Rule and the implementation of the PMP Waterfall approach for fixed income in **2018**. If your firm hasn't started working on a process and solution, you are already behind.

In our conversations with industry participants we have learned that many large firms haven't begun to focus on a solution and some smaller firms believe they can do it manually. It's no small undertaking, and regardless of their approach, all firms need about **12 months** to evaluate their options, develop their solution, test and implement them. Unfortunately, there are not 12 months until the rule goes live. On July 12th the industry received additional guidance from the regulators by way of a coordinated release of FAQs by both the MSRB and FINRA to assist in understanding the nuances of the rule, thus further narrowing the development and implementation window.

It's a complicated rule to satisfy. To recap, in February of 2016, the Financial Industry Regulatory Authority's Board of Governors approved a proposal designed to help retail customers understand and compare transaction costs in fixed-income securities. The mark-up disclosure rule requires firms to disclose on the customer confirmation the firm's mark-ups and mark-downs based on a "Prevailing Market Price" (PMP) on bonds bought and sold to retail customers on the same day that they are bought or sold for the firm's own account. The rule offers guidance on how firms should determine a PMP, establishing a multi-step 'waterfall' approach in establishing the value. While the regulation only applies to retail trades done on the same trading day as firm principal trades, many firms are choosing to disclose mark-ups and mark-downs on all retail transactions to ensure consistent reporting on client confirms.

Firms should be asking themselves:

How do we...

...get to and justify this number?

...get this number in real-time in the trade record?

...explain what the number represents?

...avoid errors on customer confirmations?



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Imagine that

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There are many steps to solving the PMP puzzle, and at a high level this list would include at least the following:

Build or Buy

Deadline: 2 Months Ago

The first step is for firms to conduct a thorough analysis and decide if they will be building or buying a solution to tackle the new requirements. And be aware, even if a firm outsources, it remains their responsibility – not the vendor's – to have accurate numbers. Plus, outsourcing to an ATS would still require the firm to send all trades both as principal and for customers processed elsewhere through that ATS, adding a layer of complexity.

Gather Your A-Team

Deadline: Yesterday

Putting together a project team that spans the organization is crucial to success. The new requirements impact the firm from the front to back office and the more robust the team the more seamless the entire process will go. Ideally, your team should consist of trading, sales, legal, compliance, and internal and external operations.

Building the Framework

Deadline: Tomorrow

The legal framework will take anywhere between 1-3 months. Each firm will need to work out what their framework will be for determining the PMP. Firms must decide what inputs they are providing, analyze direct inputs or inputs from third parties, and define a clear project timeline for these.

Deciding on a Process

Deadline: August

Since there is no standard language and the firm is responsible for the entire confirmation, creating a consistent and repeatable process is key for continuity and clarity. Build a process that enables the firm to be consistent and transparent. If/when regulators come knocking they will see this process and the consistency behind them, most likely offering tweaks to your process rather than fines.

Implementation

Deadline: December – January

It is vital to have your solution implemented by late fall. Regardless if it is manual or automated, firms need to have it in place and ready for testing / working through the process and framework laid out in the months prior. During this step firms must also decide who owns which aspects of the process, compliance or trading?

Testing

Deadline: January - February

With the fast approaching deadline of May, firms need to move into testing by the end of January. Firms need to be going through the various stages of full front to backend solution or process testing in order to identify areas for remediation.

In an ideal world, firms would have 24 months to thoughtfully plan and implement a PMP solution. Now firms are faced with basically doing 18 months of work in less than 12.

To learn more, please contact us at info@bondwave.com or by calling 630.517.7017