

# Frequently asked questions

## about fixed income disclosures from regulators



*Starting May 14, 2018, the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB) established new rules requiring Merrill Lynch to make additional disclosures on certain corporate (including market-linked investments), agency and municipal bond trade confirmations. The new rules will require us to disclose the mark-up (for client purchases) or mark-down (for client sales) determined based on the difference between the prevailing market price (PMP) and the client price.*

The following FAQs provide more detail as well as clarify some of the more specific parts of the rules.

### **Q1 When is the new mark-up / mark-down disclosure required on client trade confirmations?**

A broker-dealer must disclose the mark-up or mark-down on a trade confirmation when it transacts in a covered product (which means any corporate, agency or municipal debt security) on a principal basis with a non-institutional client and, on the same trading day, effects one or more offsetting principal transaction(s) in an aggregate trading size that meets or exceeds the size of the client's trade.

### **Q2 Will this new rule be implemented by Merrill Lynch as described above in Q1?**

Yes. The firm intends to be fully compliant with all regulatory requirements and will begin disclosing the amount of mark-up or mark-down on client trade confirmations for impacted products and transactions starting on May 14, 2018.

### **Q3 How is the prevailing market price (PMP) determined?**

The PMP is determined by the broker-dealer effecting the transaction for its client on a trade-by-trade basis in accordance with the new MSRB Rule G-30 and FINRA Rule 2121. Generally, when a broker-dealer executes a contemporaneous transaction (i.e., when it makes a contemporaneous purchase in a security when it is selling the security to a client, or when it makes a contemporaneous sale in a security when it is buying the security from a client), the prevailing market price (PMP) is the proceeds the dealer receives from the contemporaneous transaction. See the example to the right.

#### **Example:**

A broker-dealer makes a contemporaneous purchase of a bond through an electronic platform at \$990 per bond, and then executes a sale of the bond to the client at \$1,000 per bond. In this example the PMP for the transaction is the broker-dealer's contemporaneous cost of \$990 per bond, and the mark-up on this transaction would be the difference between the price the client paid for the bonds (\$1,000 per bond) and the PMP (\$990 per bond) which is \$10 per bond or 1.01% of the PMP.

This example is generally how all corporate and agency transactions will be reflected on client confirmations. However, in many municipal bond and market-linked investment transactions where the firm is acting as market maker in the securities, the calculation is less straightforward as the determination of PMP and the mark-up or mark-down under the rule would also require disclosing, in addition to the financial advisor production credit, the amount earned by the trading desk.

### **Q4 Is the mark-up or mark-down that will be shown on the client's trade confirmation the amount charged by the financial advisor?**

Not in all cases. When the firm is acting as market maker, as is the case for secondary market transactions in municipal bonds and market-linked investments, the rule requires, in addition to the financial advisor production credit, the amount earned by the trading desk to be disclosed.



Merrill Lynch Wealth Management makes available products and services offered by Merrill Lynch, Pierce, Fenner & Smith Incorporated, a registered broker-dealer and Member SIPC, and other subsidiaries of Bank of America Corporation.

Investment products:

<b>Are Not FDIC Insured</b>	<b>Are Not Bank Guaranteed</b>	<b>May Lose Value</b>
-----------------------------	--------------------------------	-----------------------

## Q5 What is the new information required on client trade confirmations as a result of this new rule?

1. Mark-ups (for client purchases) and mark-downs (for client sales) expressed as a total dollar amount above or below the prevailing market price
2. Mark-ups and mark-downs expressed as a percentage of the prevailing market price
3. Hyperlink (if the confirmation is electronic) to EMMA or FINRA website that contains trading data and other information for the specific security traded
4. Execution time of the transaction expressed to the second for corporate and agency debt securities transactions (FINRA) or the minute for municipal securities transactions (MSRB)

## Q6 Will this new rule impact any bond transactions where the firm is effecting the transaction for the client in an agency capacity?

Not with respect to the new mark-up or mark-down disclosure. However, the trade confirmations that clients receive will include the time of execution and security-specific EMMA or FINRA website link for certain transactions.

## Q7 Does this rule impact any of the transactions that occur within a fee-based account (e.g., an account enrolled in the Merrill Lynch Investment Advisory Program (IAP) or other investment advisory program)?

Yes. For transactions executed by the firm in an agency capacity, the trade confirmation will include time of execution and security-specific EMMA or FINRA website link for certain transactions. For transactions executed by the firm in a principal capacity for client discretionary fee-based accounts, the trade confirmation will also include the new mark-up or mark-down disclosure.

## Q8 Why would there be a mark-up or mark-down for a transaction in a fee-based account?

When a municipal bond or market-linked investment transaction is executed on a principal basis for client discretionary fee-based accounts with the firm acting as a market maker in the security, the mark-up or mark-down may reflect what the trading desk earned.

**Neither Merrill Lynch nor any of its affiliates or financial advisors provide legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.**

© 2018 Bank of America Corporation. All rights reserved. | AR5VBPM8 | 472063PM-0318

To learn about Bank of America's environmental goals and initiatives, go to [bankofamerica.com/environment](http://bankofamerica.com/environment).  
Leaf icon is a registered trademark of Bank of America Corporation.

## Q9 Will this rule impact any of the fixed income transactions entered through the Merrill Edge platform?

Yes, only in municipal bond and market-linked investment secondary market transactions as these transactions may be executed on a principal basis with the firm acting as market maker in these securities. As such, in addition to any Merrill Edge fees, the rule requires the amount earned by the trading desk to be disclosed. See Q3.

## Q10 What products are impacted?

Corporate bonds, baby bonds (\$25 par, exchange listed), municipal securities, emerging market debt securities, agency debt securities, market-linked investments (MLIs), convertible bonds, and \$1,000 par preferred securities traded in the over-the-counter market are each subject to the new rules.

## Q11 How will this new disclosure be displayed on the client trade confirm?

See a sample of the revised trade confirmation below.

TRADE CONFIRMATION				Date:	May 22, 2018
We confirm the following transaction(s) subject to the agreement below.					
BOUGHT LEWIS WA PUD1 COWL1					
Quantity	15000	Price	100.00	Amount	15000.00
Processing Fee				Trade Date	05/22/18
Transaction Fee				Settle Date	05/25/18
Accrued Interest/Dividends				ML Symbol	
NET AMT			15000.00	Security #	PRAH8
				Cusip #	73358WWU4
				FA #	1618
				Execution Time:	11:30:00
MARKUP TOTAL IS \$300.00 WHICH REPRESENTS 2.04% OF PREVAILING MARKET PRICE (PMP). FOR MORE INFORMATION ON PMP AND HOW IT IMPACTS YOUR TRADE VISIT <a href="http://WWW.FINRA.ORG/CUSIP6789">WWW.FINRA.ORG/CUSIP6789</a> OR <a href="http://WWW.EMMA.MSRB.ORG/CUSIP6789">WWW.EMMA.MSRB.ORG/CUSIP6789</a>					
3.25 PCT 5/01/2033 YIELD 3.25% @ \$99.87 5/01/33 PRICED TO CALL. CALLABLE-MAY AFFECT YIELD. DETAILS UPON REQUEST WHEN AS AND IF ISSUED. NEXT CALL 05/01/25 @ 100.00. OFFICIAL STATEMENT AVAILABLE @ <a href="http://WWW.EMMA.MSRB.ORG">WWW.EMMA.MSRB.ORG</a> BY SETTLEMENT DATE. PLEASE CONTACT YOUR FINANCIAL ADVISOR FOR A PHYSICAL COPY. 008 DAYS INTEREST. ORIGINAL ISSUE DISCOUNT/INITIAL OFFERING PRICE 98.6540. INTEREST FROM 04/23/15. FIRST COUPON 11/01/15. BOOK ENTRY ONLY.					
ML ACTED AS PRINCIPAL					

## Q12 Where can I go for more information?

Click to view Frequently Asked Questions made available by [FINRA](#) and [MSRB](#).