I’ve been a registered representative for 30 years, exclusively in the municipal bond industry. The move to a T+2 settlement will have a big impact on retail municipal bond investors. The typical individual municipal bond investor is older, and as such, is investing in fixed income securities including municipal bonds. The average municipal bond investor is over 50. MSRB knows the demographic data on municipal bond investors and FINRA is very concerned about senior investors, so it is surprising they would want to establish a T+2 settlement which would be most harmful to those investors. Older investors are less tech savvy, and predominately pay for bond purchases by writing a check and sending payment in the mail. A T+2 settlement would impose a burden on the majority of municipal bond investors by requiring them to send money via expedited mail to avoid late fees charged to their account. This in itself will increase the cost of their investment. Those who send payments regular mail will incur late charges and have their trades be subject to liquidation when the remittance doesn’t arrive by settlement date.

Shortening the settlement cycle may work for purchasing equities, since purchases are mostly submitted online to firms like Schwab and Ameritrade. However, municipal bonds are still mostly traded via a phone conversation with a broker. The MSRB should know this.

The MSRB would put retail investors at a disadvantage by shortening the settlement cycle. It could discourage some retail investors from participating in the municipal bond market. Many retail brokers would have to cover late fees to motivate retail investors to overcome the hassle and cost of such a quick settlement cycle. This would dissuade brokers from offering one of the most conservative and safest investments available in the market. If fewer brokers participate, it could change the way municipal debt is sold and underwritten.

Also, all municipal issuers want to see retail investor participation; all issuers look for a retail order period for their new issues and for support by retail demand in the secondary market. For example: the State of California requires a retail order period for at least one or two days for every new issue. Though new issues would not be subject to T+2 settlement, such a short settlement cycle will make it more difficult for retail investors to purchase bonds on the secondary market issued by their own community. This would put institutional investors in control of the pricing and sale of the municipal bond market.

Is the motivation behind T+2 to push municipal bond trading and sales toward an institutional only market? Shortening the settlement cycle can have a huge negative effect on a sector of the investor market for municipal securities. What is the benefit of T+2 to investors and/or to the MSRB?