

December 10, 2015

VIA ELECTRONIC MAIL

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

*RE: MSRB Notice 2015-22 (November 10, 2015): Request for Comment on Changes to MSRB Rules to Facilitate Shortening of the Securities Settlement Cycle*

Dear Mr. Smith:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to Municipal Securities Rulemaking Board (“MSRB”) Notice 2015-22, on its proposed amendments (“Proposed Amendments”) to Rule G-12, on uniform practice, and Rule G-15 on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers. BDA is the only DC-based group representing middle-market securities dealers and banks focused on the U.S. fixed income markets. Accordingly, we believe that we offer insight into how the Proposed Amendments would impact middle-market securities dealers.

### **Rule Changes**

While the BDA agrees with the MSRB that the regular-way settlement cycle of municipal securities should be consistent with that of equity and corporate bond markets and that such alignment should improve overall market efficiencies, our members remain concerned with the implementation of the Proposed Amendments. BDA understands these regulatory changes are part of a broader, industry-wide initiative supported by the Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”) to shorten the settlement cycle by the third quarter of 2017. BDA believes this timeframe should allow the MSRB, SEC, and FINRA to make all the required conforming changes, while also permitting ample time to assess and address the comments BDA is asking the MSRB to consider in this letter.

We urge the MSRB to consider the impact that the Proposed Amendments will have on the municipal securities markets in two specific areas, which we expand upon below, 1) secondary transactions and new issue markets; and, 2) retail customers.

### **The T+2 Settlement Requirement Should Only Apply to Secondary Transactions**

Transactions occurring in the secondary market for municipal securities should follow the proposed T+2 settlement cycle as opposed to a “blanket” requirement for all transactions, including those for new issue markets. Strict application to only secondary transactions would ultimately allow for one harmonized settlement cycle under which ‘regular way’ municipal securities transactions would settle on parity with that of the equity and corporate bond markets.

New issues vary widely on a state-by-state basis and may have settlement dates that are up to 30 to 45 days after the first sales date. This is an important distinction to make. Ensuring that the Proposed Amendments explicitly apply within the context of existing rules related to municipal securities is essential. BDA believes that this rule should not alter the current market practices for settling a new issue municipal security. The application of this change to primary market transactions would impair the market severely.

### **Impact on Customers and Overall Regulatory Concerns**

BDA members have concerns regarding the impact that a shorter settlement cycle would have on investors. More specifically, the Federal Reserve Board’s Regulation T and SEC Rule 15c6-1, which does not apply to municipal securities, currently requires a broker-dealer to cancel or liquidate a cash account transaction if it has not been paid for within five business days (T+5) of the securities transaction. A shortened settlement cycle for these types of cash account transactions would adversely affect business in these types of transactions, resulting in negative consequences to BDA member firms transacting with retail customers particularly.

Many retail clients still rely on sending checks, which may not clear within a two-day window. Brokers who perform a large amount of retail business will undoubtedly require additional testing, on the front and back end, before the transition to a shorter settlement cycle takes place. The information from this testing will be beneficial in the dialogue going forward for the Proposed Amendments, especially as it relates to anticipated conversations our firms will be having especially with their retail clients. More time and education would naturally be required to get this particular client base up to speed for these changes. As a result of the safeguards afforded in the rules mentioned above, combined with the anticipated “learning curve” for retail clientele generally, we would request that the MSRB and other regulators work to preserve this T+5 settlement cycle.

### **Consider the Impact of Altering Timing per Other Regulations**

BDA believes the proposed rule will make clearing and settling transactions more efficient, which will reduce risk in the marketplace. However, the impact of shortening the settlement cycle will filter through to other regulations explicitly tied to the settlement date of a municipal security. In some instances, this will create new regulatory burdens for dealers.

For example, MSRB Rule G-32 requires underwriters to deliver offering documents to a customer ‘by no later than the settlement of the transaction’. The proposed rule would automatically shorten the timeframe associated with this requirement by a day. As such, underwriters will need to

change the systems and processes that are used to deliver offering documents. BDA urges the MSRB to consider leaving other regulatory requirements that are tied to the settlement date, like the requirements for delivering offering documents under G-32, unchanged. This will minimize the regulatory and compliance cost impact of the proposed rules without limiting the risk-reducing benefits of the shortened settlement cycle.

### **Additional Items to Consider**

We anticipate support for these Proposed Amendments will vary across the industry as a deeper dive is taken into the potential unintended consequences as it relates to the types of situations we described above and especially as our firms contemplate having to invest significantly in infrastructure. While the Depository Trust and Clearing Corporation (“DTCC”) conducted a cost study of transitioning to a shorter settlement cycle, we believe that the true costs for firms that only participate in the municipal securities market are unknown and will require additional time to gather beyond the one-month timeline given for this request for comment. The BDA and its members will continue to participate in this discussion, and gather any data needed specifically, on the Proposed Amendments and the anticipated impact on the municipal securities market.

Thank you again for the opportunity to submit these comments. BDA member firms are the dealers who will be most affected by the transition to a T+2 settlement cycle and the costs and potential compliance burdens this will bring. We believe that our input is valuable and that it provides the MSRB with additional insight regarding the municipal securities market for middle-market broker dealers. BDA is willing to provide additional comments and information regarding this issue if needed.

Sincerely,

A handwritten signature in blue ink that reads "Michael Nicholas". The signature is fluid and cursive, with the first name being more prominent.

Michael Nicholas  
Chief Executive Officer