

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 59	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2016 - * 04	Amendment No. (req. for Amendments *)
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Filing by Municipal Securities Rulemaking Board
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed Rule Change Consisting of Proposed Amendments to MSRB Rules G-12 and G-15 to Define Regular-Way Settlement for Municipal Securities Transactions as Occurring on a Two-Day Settlement Cycle and Technical Conforming Amendments

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Michael	Last Name * Cowart
Title * Assistant General Counsel	
E-mail * mcowart@msrb.org	
Telephone * (202) 838-1500	Fax <input type="text"/>

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,
Municipal Securities Rulemaking Board
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date 03/01/2016	Corporate Secretary
By Ronald W. Smith	<input type="text"/>
(Name *)	

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Persona Not Validated - 1453405662880,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”),¹ and Rule 19b-4 thereunder,² the Municipal Securities Rulemaking Board (“Board” or “MSRB”) is filing with the Securities and Exchange Commission (“Commission” or “SEC”) proposed amendments to MSRB Rules G-12, on uniform practice, and G-15, on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers, to define regular-way settlement for municipal securities transactions as occurring on a two-day settlement cycle (“T+2”) and technical conforming amendments (the “proposed rule change”).

(a) The text of the proposed rule change is attached as Exhibit 5. Material proposed to be added is underlined. Material proposed to be deleted is enclosed in brackets.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board at its January 27-28, 2016 meeting. Questions concerning this filing may be directed to Michael Cowart, Assistant General Counsel, or Barbara Vouté, Municipal Operations Advisor, at (202) 838-1500.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

Background

Following the financial crisis in 2008, regulators implemented additional rules and regulations designed to reduce risk in the markets, achieve greater transparency and improve efficiency in the financial industry. Consistent with those goals, the securities industry launched a voluntary initiative to shorten the settlement cycle for securities transactions to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands, and harmonize the settlement cycle globally. The industry-led initiative to shift from the current regular-way settlement cycle defined as a three-day settlement cycle (“T+3”) to a T+2 settlement cycle is being led by the Shortened Settlement Cycle Industry Steering Committee (“ISC”) which is jointly chaired by the Investment Company Institute (“ICI”) and the Securities Industry

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

and Financial Markets Association (“SIFMA”).³ The ISC announced its proposal in a white paper (the “white paper”), which outlined the timeline and activities required to move to a T+2 settlement cycle in the U.S. for equities, corporate and municipal bonds, and unit investment trust trades.⁴ The ISC’s white paper identified all SEC and self-regulatory organization (“SRO”) rule changes that it believed would be necessary to support a T+2 settlement cycle.

The ISC recommended a timeline calling for relevant regulatory organizations to confirm support for a reduced settlement cycle by the third quarter of 2015, propose rule changes by the fourth quarter of 2015 and adopt rule changes by the second quarter of 2016, followed by industry implementation of the T+2 settlement cycle occurring by the third quarter of 2017. In a press release announcing the Board’s actions at its July 2015 Board meeting, the MSRB publicly communicated its support of the industry’s initiative to shorten the settlement cycle to T+2.⁵ On November 10, 2015, the MSRB published a Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle (“Request for Comment”).⁶

On June 18, 2015, concurrent with the white paper, SIFMA and ICI jointly submitted a letter to SEC Chair Mary Jo White to express support for the industry’s efforts “to shorten the settlement cycle for equities, corporate and municipal bonds, unit investment trusts and financial instruments comprised of these products traded on the secondary market.”⁷ The ICI/SIFMA letter identified specific rules that the relevant securities regulators would need to consider amending in order to facilitate the move to T+2. In response to the ICI/SIFMA letter, Chair White stated that she “strongly support[s] [the] efforts to shorten the settlement cycle from the third business day after the trade date to no later than the second business day” and is “committed to considering regulatory changes necessary for this migration to proceed on a timetable that will permit the industry to complete its essential work by no later than the proposed goal of the third quarter of 2017.” Further, Chair White stated that she has “requested that the SROs finalize [schedules of rule changes necessary to support a T+2 settlement cycle] by

³ Shortening the Settlement Cycle: The Move to T+2, available at, <http://www.ust2.com/pdfs/ssc.pdf>. Other participating industry associations include: The Association of Global Custodians, The Association of Institutional Investors, The Securities Transfer Association, Inc., and The Depository Trust & Clearing Corporation (“DTCC”).

⁴ Id.

⁵ See Press Release, MSRB Holds Quarterly Meeting, (August, 3 2015), available at, <http://www.msrb.org/News-and-Events/Press-Releases/2015/MSRB-Holds-Quarterly-Meeting-July-2015.aspx>

⁶ [MSRB Notice 2015-22, Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle \(November 10, 2015\)](#).

⁷ See Letter from Paul Schott Stevens, President & CEO, ICI (“Stevens”), and Kenneth E. Bentsen, Jr., President and CEO, SIFMA (“Bentsen”), to Mary Jo White, Chair, SEC (June 18, 2015) (“ICI/SIFMA letter”).

October 31, 2015.”⁸ In light of Chair White’s support of the industry initiative and the timeline set forth in the ISC’s white paper, the MSRB is filing this proposed rule change.

Proposal

Two MSRB rules were identified in the ICI/SIFMA letter as essential to facilitate the move to T+2, Rule G-12(b)(ii)(B)-(D) and Rule G-15(b)(ii)(B)-(C), because these rules currently define regular-way settlement as occurring on T+3. The MSRB’s proposed rule change would amend Rules G-12(b)(ii)(B)-(D) and G-15(b)(ii)(B)-(C) to define regular-way settlement as occurring on T+2.

As generally noted in ISC’s white paper, the migration to T+2 settlement is expected to provide significant benefits to the financial industry broadly. The benefits to the industry include the mitigation of counterparty risk, a decrease in margin requirements for National Securities Clearing Corporation’s (“NSCC”) clearing members, a reduction in pro-cyclical margin and liquidity demands especially during periods of market volatility, and an increase in global settlement harmonization by aligning the U.S. markets with other major markets, such as the European Union.⁹ By shortening the time between trade and execution and settlement by one business day (from T+3 to T+2), the risk of counterparty default and the capital required to mitigate this risk would be reduced. Similarly, the ICI/SIFMA letter noted that “[a]mong other benefits, the shorter settlement cycle will result in process and procedural improvements that will help mitigate the operational risks that can be present between trade date and settlement date.”¹⁰ The MSRB believes the likely costs of the proposed rule change, including the changes in processes and technology as well as behavioral modifications by the industry and investors, are justified by the likely benefits associated with transitioning to T+2.

Both the ISC and the ICI/SIFMA letter identified Exchange Act Rule 15c6-1(a) as the primary SEC rule that would need to be amended to facilitate the transition to T+2. Exchange Act Rule 15c6-1 defines regular-way settlement as occurring on T+3 for equities and corporate bonds. Although Exchange Act Rule 15c6-1 does not apply to transactions in municipal securities, the MSRB has previously stated that the regular-way settlement cycle for municipal securities transactions in the secondary markets should be consistent with that for equity and corporate bond transactions.¹¹ Among other reasons, this ensures that investors will not

⁸ See Letter from Mary Jo White, Chair, SEC, to Bentsen and Stevens (September 16, 2015).

⁹ See Equity Settlement Cycle for Top 10 Exchanges by Market Capitalization, Figure 2, page 9 (depicting global settlement harmonization for equities pre- and post-migration to T+2), available at, <http://www.ust2.com/pdfs/ssc.pdf>.

¹⁰ See supra n.7.

¹¹ See, e.g., “T+3 Settlement, Amendments Filed: Rules G-12 and G-15,” MSRB Reports, Vol. 14, No. 4 (August 1994) at 3; and “Report of the Municipal Securities Rulemaking Board on T+3 Settlement for the Municipal Securities Market” (March 17, 1994).

encounter differing settlement cycles when replacing equity or corporate bonds with municipal securities.

This consistency is currently reflected in MSRB Rules G-12(b)(ii) and G-15(b)(ii), which both define regular-way settlement as occurring on T+3. These rules were last modified in 1995 in coordination with the changes made to Exchange Act Rule 15c6-1 to facilitate shortening the settlement cycle from a five-day settlement cycle (“T+5”) to T+3. In order to maintain consistency across asset classes, the MSRB’s proposed rule change is necessary to support the current industry initiative to shift to a T+2 settlement cycle. The MSRB would coordinate implementation of a T+2 regular-way settlement cycle for municipal securities transactions with other securities regulators contingent on the SEC adopting amendments to Exchange Act Rule 15c6-1(a) establishing T+2 as the standard for regular-way settlement cycle for equities and corporate bonds.

Proposed Amendments to MSRB Rules G-12(b)(ii)(B)-(D) and G-15(b)(ii)(B)-(C)

MSRB Rule G-12, on uniform practice, establishes uniform industry practices for processing, clearance and settlement of transactions in municipal securities between a broker, dealer or municipal securities dealer and any other broker, dealer or municipal securities dealer. Rule G-12(b)(ii), on settlement dates, defines “regular way” settlement as occurring on a T+3 basis. The proposed rule change would amend Rule G-12(b)(ii)(B)-(D) to define “regular way” settlement as occurring on a T+2 basis.

MSRB Rule G-15, on confirmations, clearance, settlement and other uniform practice requirements, requires municipal securities brokers and municipal securities dealers to provide customers with written confirmations of transactions, containing specified information; and prescribes certain uniform practice procedures for dealers that transact municipal securities business with customers. Rule G-15(b)(ii), on settlement dates, defines “regular way” settlement as occurring on a T+3 basis. The proposed rule change would amend Rule G-15(b)(ii)(B)-(C) to define “regular way” settlement as occurring on a T+2 basis.

Technical Amendments

The MSRB is also proposing technical changes to Rules G-12(b)(i)(B), G-15(b)(i)(B) and G-15(g)(ii)(B). Rules G-12(b)(i)(B) and G-15(b)(i)(B) would both be revised by replacing the reference to “National Association of Securities Dealers, Inc.” with the “Financial Industry Regulatory Authority.” Rule G-15(g)(ii)(B) would likewise be revised to replace the reference to “NASD Conduct Rule 2260(g),” which is retired, and replace it with the current relevant rule cite “FINRA Rule 2251(g).”

Compliance Date

The compliance date of the proposed rule change will be announced by the MSRB in a notice published on the MSRB website, which date would correspond with the industry’s transition to a T+2 regular-way settlement, which would include amendments by the SEC to Exchange Act Rule 15c6-1(a).

(b) Statutory Basis

The MSRB believes that the proposed rule change is consistent with Section 15B(b)(2)(C) of the Exchange Act,¹² which provides that the MSRB's rules shall:

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.

The MSRB believes that cooperating and coordinating with the various regulators, identified by the ISC, and the industry, shortening the time between trade execution and settlement by one business day will serve to reduce the risk of counterparty default, subsequent mandatory closeouts and, as a result, capital required to mitigate these risks would be reduced. Additionally, the MSRB believes the move to a shortened settlement cycle, as facilitated by the proposed rule change, will improve the overall efficiency of the securities markets, promote financial stability and better align U.S. securities markets with global markets.

4. Self-Regulatory Organization's Statement on Burden on Competition

Section 15B(b)(2)(C) of the Exchange Act¹³ requires that MSRB rules not be designed to impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

In determining whether these standards have been met, the MSRB was guided by the Board's Policy on the Use of Economic Analysis in MSRB Rulemaking.¹⁴ In accordance with this policy, the Board has evaluated the potential impacts on competition of the proposed rule change, including in comparison to reasonable alternative regulatory approaches, relative to the baseline. The MSRB also considered other economic impacts of the proposed rule change and has addressed any comments relevant to these impacts in other sections of this document.

¹² 15 U.S.C. 78o-4(b)(2)(C).

¹³ Id.

¹⁴ Policy on the Use of Economic Analysis in MSRB Rulemaking, available at, <http://msrb.org/Rules-and-Interpretations/Economic-Analysis-Policy.aspx>.

Based on the DTCC's Cost Benefit Analysis of Shortening the Settlement Cycle,¹⁵ which is the only quantitative analysis of this subject of which the MSRB is aware, the MSRB believes that the cost of the systems changes that may be required to shift from a T+3 to T+2 settlement cycle may be significant. Firms with relatively smaller revenue bases and/or firms that only participate in the municipal securities market may be disproportionately impacted by changes that require significant investments.

Nonetheless, the MSRB believes that the changes are necessary or appropriate in furtherance of the purposes of the Exchange Act and yield important benefits for a range of market participants including, but not limited to, operational cost savings, reduced counterparty risk, decreasing clearing capital requirements, reduce pro-cyclical margin and liquidity demands and increased global securities settlement harmonization.

Therefore, the MSRB does not believe that the proposed rule change will impose any additional burdens on competition, relative to the baseline, that are not necessary or appropriate in furtherance of the purposes of the Exchange Act.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The MSRB received nine comment letters¹⁶ in response to the Request for Comment on the draft amendments to Rules G-12 and G-15.¹⁷ Seven of the nine commenters provided comments in support of the transition to T+2, agreeing that the move to a shortened settlement cycle would improve the overall efficiency of the securities markets, promote financial stability

¹⁵ Cost Benefit Analysis of Shortening the Settlement Cycle (October 2012), available at, http://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA_BCG_Shortening_the_Settlement_Cycle_October2012.pdf.

¹⁶ Comment letters were received in response to the Request for Comment from: Bernardi Securities, Inc., Letter from Eric Bederman, SVP, Chief Operating & Compliance Officer, dated November 17, 2015 ("Bernardi"); Bond Dealers of America, Letter from Michael Nicholas, Chief Executive Officer, dated December 10, 2015 ("BDA"); Brandis Tallman LLC, Letter from Richard Brandis, ("Brandis"); Castle Advisory Company, E-mail from Garth Schulz, dated November 10, 2015 ("Castle"); Coastal Securities, E-mail from Chris Melton, Executive Vice President, dated December 10, 2015 ("Coastal"); Financial Services Institute, Letter from David T. Bellaire, Executive Vice President & General Counsel, dated December 10, 2015 ("FSI"); Geraldine Lettieri, E-mail dated November 10, 2015 ("Lettieri"); Investment Company Institute, Letter from Martin A. Burns, Chief Industry Operations Officer, dated December 1, 2015 ("ICI"); and Securities Industry and Financial Markets Association, Letter from Leslie M. Norwood, Managing Director and Associate General Counsel, dated December 10, 2015 ("SIFMA").

¹⁷ See supra n.6.

and better align U.S. securities markets with global markets.¹⁸ Four of the nine commenters expressed concerns about the impact the shortened settlement cycle would have on investors – particularly senior investors – who, the commenters note, often pay for municipal securities purchases by writing a check and sending it through the mail. Several commenters requested the Board consider the impact the proposal may have on the customer disclosure obligations of brokers, dealers and municipal securities dealers (“dealers”) pursuant to MSRB Rule G-32. Finally, BDA, FSI, ICI and SIFMA encouraged the MSRB to work with other regulators on the T+2 initiative and to file any necessary rule changes by the second quarter of 2016 in order to finalize the necessary amendments and implement the change to T+2 in accordance with ISC’s timeline, which called for completing the transition to T+2 by the third quarter of 2017.

The impact of T+2 on certain retail investors

BDA, Bernardi, Brandis and Coastal each commented that retail municipal securities investors that do not utilize payment mechanisms to ensure funds are good/cleared and available for settlement would be negatively impacted by the proposed rule change. Bernardi stated that the move to T+2 would specifically impact “1. Customer purchases with longer settlements (i.e., 5-10 days) designed to coincide with another bond’s redemption. 2. Customers who do not hold cash balances and send payment via the US Postal System. 3. Customer trades which are booked to settle on the same date as the corresponding firm street trade, if not done ‘regular way.’” Brandis stated that many of the investors associated with his firm who invest in municipal securities are over the age of 50, are less tech savvy, and predominantly pay for bond purchases by writing a check and sending payment through the mail. Coastal stated, “This proposal . . . will all but require retail clients that cannot settle DVP to transact business only with the firm that holds their assets, effectively eliminating any competition for the municipal business of many clients . . . [s]hortening of the settlement cycle should be delayed until retail commercial banking can provide investors with a cost effective manner of immediate fund transfer.” Similarly, BDA stated that “many retail clients still rely on sending checks, which may not clear within a two-day window.”

The MSRB recognizes that it may be difficult for certain investors to make the behavioral changes necessary for a successful transition to a T+2 settlement cycle. The MSRB believes that the vast majority of firms have access to technology that would enable their clients to deliver funds in order to settle their municipal securities trades on a T+2 basis and firms should encourage their customers to leverage electronic funds payment to streamline payment processing. Dealers with customers that fund their trade settlement using checks or ACH payments may wish to consider updating their internal control processes and educating customers to ensure that funds are available to settle a transaction on T+2, as proposed.

T+2 and the implications for Rule G-32

Two commenters, BDA and SIFMA, commented that a shortened settlement cycle bears on other MSRB rules, including Rule G-32, which governs the delivery of official documents to

¹⁸ The following commenters were supportive of the amendments contained in the Request for Comment: Bernardi, BDA, Castle, FSI, ICI, Lettierie and SIFMA.

customers in connection with primary offerings. SIFMA stated that “[c]oncerning the baseline legal requirement of Rule G-32, for dealers delivering paper official statements to customers, the move to T+2 will compress the timeframe dealers have to complete the delivery of offering documents in fulfillment of this disclosure obligation.”¹⁹ SIFMA suggested the Board consider clarifying previous guidance with respect to the electronic delivery of official statements, but recognized that revisiting the prior guidance was not critical to transitioning to T+2 and should not impede the proposed rule change.²⁰ BDA also recognized that the proposed rule would automatically shorten the timeframe associated with the requirement to deliver offering documents by no later than the settlement of the transaction. BDA urged the Board to address the amendments to Rules G-12 and G-15, but leave all other requirements under MSRB rules tied to the settlement date, such as Rule G-32, unchanged.

Timing and implementation of the proposed rule change

BDA, FSI, ICI and SIFMA encouraged the Board to move forward with the T+2 initiative within ISC’s proposed timeline, which outlines the activities that would be required to complete the transition to T+2 by the third quarter of 2017. The MSRB stated in the Request for Comment that the draft amendments to facilitate the transition to T+2 settlement cycle will be dependent on the SEC amendments to Exchange Act Rule 15c6-1(a), which would establish T+2 as the standard regular-way settlement cycle for equities and corporate bonds. Although, Exchange Act Rule 15c6-1 does not apply to municipal securities, the MSRB has previously stated that the regular-way settlement cycle of municipal securities transactions should be consistent with that for transactions in the equity and corporate bond markets.²¹ ICI and SIFMA both commented that the Board should not consider amendments to Exchange Act Rule 15c6-1(a) to be a “precondition” of filing the MSRB’s proposed changes to Rules G-12 and G-15 with the SEC. SIFMA noted that the MSRB rule change will afford sufficient time, prior to the move to T+2, to implement any system and process changes and fully test those internally and with other industry participants. The MSRB agrees that the adoption of amendments to Exchange Act Rule 15c6-1(a) should not be a precondition to the Board filing proposed amendments to applicable MSRB rules. However, the MSRB will announce the compliance date of amended Rules G-12 and G-15 to correspond with applicable amendments to rules of other self-regulatory organizations as well as the SEC’s implementation of changes to Exchange Act Rule 15c6-1(a). The MSRB intends to ensure that the settlement cycle for municipal securities remains consistent with the settlement cycle for equities and corporate bonds.

¹⁹ SIFMA comment letter.

²⁰ SIFMA requested that the Board consider clarifying definitively that “access equals delivery” under Rule G-32(a)(ii) and (iii) applies to all dealers and in order to harmonize Rule G-32 with SEC Rules 172, 173 and 174 of the Securities Act of 1933, revisiting the guidance that a customer’s standing request for copies of official statements applies to all municipal transactions with that dealer. The MSRB may consider SIFMA’s suggested clarifications in the future.

²¹ See supra n.11.

The MSRB believes that shortening the time between trade execution and settlement by one business day will serve to reduce the risk of counterparty default, subsequent mandatory closeouts and, as a result, capital required to mitigate these risks would be reduced. Additionally, the MSRB believes the move to a shortened settlement cycle will improve the overall efficiency of the securities markets, promote financial stability and better align U.S. securities markets with global markets.

The majority of the commenters were supportive of the draft amendments in the Request for Comment, generally in agreement that the move to T+2 would mitigate counterparty risk, provide for more liquidity in the market and increase global harmonization. Commenters recognized that shortening the time between trade execution and settlement by one business day will reduce the risk of counterparty default, subsequent mandatory closeouts and capital required to mitigate these risks would be reduced. Several commenters stated that the move to T+2 would require process, technological and behavioral (business and client) modifications as well as coordination among regulators in order to transition to the T+2 settlement cycle.

6. Extension of Time Period for Commission Action

The MSRB declines to consent to an extension of the time period specified in Section 19(b)(2) of the Exchange Act or Section 19(b)(7)(D) of the Exchange Act.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1 Completed Notice of Proposed Rule Change for Publication in the Federal Register

Exhibit 2 Notice Requesting Comments and Comment Letters

Exhibit 5 Text of Proposed Rule Change

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____ ; File No. SR-MSRB-2016-04)

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing of a Proposed Rule Change Consisting of Proposed Amendments to Rules G-12 and G-15 to Define Regular-Way Settlement for Municipal Securities Transactions as Occurring on a Two-Day Settlement Cycle and Technical Conforming Amendments

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Exchange Act” or “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on _____ the Municipal Securities Rulemaking Board (the “MSRB” or “Board”) filed with the Securities and Exchange Commission (the “SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The MSRB filed with the Commission a proposed rule change consisting of 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, to define regular-way settlement for municipal securities transactions as occurring on a two-day settlement cycle (“T+2”) and technical conforming amendments (“proposed rule change”). The compliance date of the proposed rule change will be announced by the MSRB in a notice published on the MSRB website, which date would correspond with the industry’s transition to a

¹ 15 U.S.C. 78s(b)(i).

² 17 CFR 240.19b-4.

T+2 regular-way settlement, which would include amendments by the SEC to Exchange Act Rule 15c6-1(a).

The text of the proposed rule change is available on the MSRB's website at www.msrb.org/Rules-and-Interpretations/SEC-Filings/2016-Filings.aspx, at the MSRB's principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the MSRB included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The MSRB has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Background

Following the financial crisis in 2008, regulators implemented additional rules and regulations designed to reduce risk in the markets, achieve greater transparency and improve efficiency in the financial industry. Consistent with those goals, the securities industry launched a voluntary initiative to shorten the settlement cycle for securities transactions to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands, and harmonize the settlement cycle globally. The industry-led initiative to shift from the current regular-way settlement cycle defined as a three-day settlement cycle ("T+3") to a T+2 settlement cycle is being led by the Shortened Settlement Cycle Industry Steering Committee ("ISC")

which is jointly chaired by the Investment Company Institute (“ICI”) and the Securities Industry and Financial Markets Association (“SIFMA”).³ The ISC announced its proposal in a white paper (the “white paper”), which outlined the timeline and activities required to move to a T+2 settlement cycle in the U.S. for equities, corporate and municipal bonds, and unit investment trust trades.⁴ The ISC’s white paper identified all SEC and self-regulatory organization (“SRO”) rule changes that it believed would be necessary to support a T+2 settlement cycle.

The ISC recommended a timeline calling for relevant regulatory organizations to confirm support for a reduced settlement cycle by the third quarter of 2015, propose rule changes by the fourth quarter of 2015 and adopt rule changes by the second quarter of 2016, followed by industry implementation of the T+2 settlement cycle occurring by the third quarter of 2017. In a press release announcing the Board’s actions at its July 2015 Board meeting, the MSRB publicly communicated its support of the industry’s initiative to shorten the settlement cycle to T+2.⁵ On November 10, 2015, the MSRB published a Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle (“Request for Comment”).⁶

On June 18, 2015, concurrent with the white paper, SIFMA and ICI jointly submitted a letter to SEC Chair Mary Jo White to express support for the industry’s efforts “to shorten the

³ Shortening the Settlement Cycle: The Move to T+2, available at, <http://www.ust2.com/pdfs/ssc.pdf>. Other participating industry associations include: The Association of Global Custodians, The Association of Institutional Investors, The Securities Transfer Association, Inc., and The Depository Trust & Clearing Corporation (“DTCC”).

⁴ Id.

⁵ See Press Release, MSRB Holds Quarterly Meeting, (August, 3 2015), available at, <http://www.msrb.org/News-and-Events/Press-Releases/2015/MSRB-Holds-Quarterly-Meeting-July-2015.aspx>.

⁶ [MSRB Notice 2015-22, Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle \(November 10, 2015\)](#).

settlement cycle for equities, corporate and municipal bonds, unit investment trusts and financial instruments comprised of these products traded on the secondary market.”⁷ The ICI/SIFMA letter identified specific rules that the relevant securities regulators would need to consider amending in order to facilitate the move to T+2. In response to the ICI/SIFMA letter, Chair White stated that she “strongly support[s] [the] efforts to shorten the settlement cycle from the third business day after the trade date to no later than the second business day” and is “committed to considering regulatory changes necessary for this migration to proceed on a timetable that will permit the industry to complete its essential work by no later than the proposed goal of the third quarter of 2017.” Further, Chair White stated that she has “requested that the SROs finalize [schedules of rule changes necessary to support a T+2 settlement cycle] by October 31, 2015.”⁸ In light of Chair White’s support of the industry initiative and the timeline set forth in the ISC’s white paper, the MSRB is filing this proposed rule change.

Proposal

Two MSRB rules were identified in the ICI/SIFMA letter as essential to facilitate the move to T+2, Rule G-12(b)(ii)(B)-(D) and Rule G-15(b)(ii)(B)-(C), because these rules currently define regular-way settlement as occurring on T+3. The MSRB’s proposed rule change would amend Rules G-12(b)(ii)(B)-(D) and G-15(b)(ii)(B)-(C) to define regular-way settlement as occurring on T+2.

As generally noted in ISC’s white paper, the migration to T+2 settlement is expected to provide significant benefits to the financial industry broadly. The benefits to the industry include

⁷ See Letter from Paul Schott Stevens, President & CEO, ICI (“Stevens”), and Kenneth E. Bentsen, Jr., President and CEO, SIFMA (“Bentsen”), to Mary Jo White, Chair, SEC (June 18, 2015) (“ICI/SIFMA letter”).

⁸ See Letter from Mary Jo White, Chair, SEC, to Bentsen and Stevens (September 16, 2015).

the mitigation of counterparty risk, a decrease in margin requirements for National Securities Clearing Corporation's ("NSCC") clearing members, a reduction in pro-cyclical margin and liquidity demands especially during periods of market volatility, and an increase in global settlement harmonization by aligning the U.S. markets with other major markets, such as the European Union.⁹ By shortening the time between trade and execution and settlement by one business day (from T+3 to T+2), the risk of counterparty default and the capital required to mitigate this risk would be reduced. Similarly, the ICI/SIFMA letter noted that "[a]mong other benefits, the shorter settlement cycle will result in process and procedural improvements that will help mitigate the operational risks that can be present between trade date and settlement date."¹⁰ The MSRB believes the likely costs of the proposed rule change, including the changes in processes and technology as well as behavioral modifications by the industry and investors, are justified by the likely benefits associated with transitioning to T+2.

Both the ISC and the ICI/SIFMA letter identified Exchange Act Rule 15c6-1(a) as the primary SEC rule that would need to be amended to facilitate the transition to T+2. Exchange Act Rule 15c6-1 defines regular-way settlement as occurring on T+3 for equities and corporate bonds. Although Exchange Act Rule 15c6-1 does not apply to transactions in municipal securities, the MSRB has previously stated that the regular-way settlement cycle for municipal securities transactions in the secondary markets should be consistent with that for equity and

⁹ See Equity Settlement Cycle for Top 10 Exchanges by Market Capitalization, Figure 2, page 9 (depicting global settlement harmonization for equities pre- and post-migration to T+2), available at, <http://www.ust2.com/pdfs/ssc.pdf>.

¹⁰ See supra n.7.

corporate bond transactions.¹¹ Among other reasons, this ensures that investors will not encounter differing settlement cycles when replacing equity or corporate bonds with municipal securities.

This consistency is currently reflected in MSRB Rules G-12(b)(ii) and G-15(b)(ii), which both define regular-way settlement as occurring on T+3. These rules were last modified in 1995 in coordination with the changes made to Exchange Act Rule 15c6-1 to facilitate shortening the settlement cycle from a five-day settlement cycle (“T+5”) to T+3. In order to maintain consistency across asset classes, the MSRB’s proposed rule change is necessary to support the current industry initiative to shift to a T+2 settlement cycle. The MSRB would coordinate implementation of a T+2 regular-way settlement cycle for municipal securities transactions with other securities regulators contingent on the SEC adopting amendments to Exchange Act Rule 15c6-1(a) establishing T+2 as the standard for regular-way settlement cycle for equities and corporate bonds.

Proposed Amendments to MSRB Rules G-12(b)(ii)(B)-(D) and G-15(b)(ii)(B)-(C)

MSRB Rule G-12, on uniform practice, establishes uniform industry practices for processing, clearance and settlement of transactions in municipal securities between a broker, dealer or municipal securities dealer and any other broker, dealer or municipal securities dealer. Rule G-12(b)(ii), on settlement dates, defines “regular way” settlement as occurring on a T+3 basis. The proposed rule change would amend Rule G-12(b)(ii)(B)-(D) to define “regular way” settlement as occurring on a T+2 basis.

¹¹ See, e.g., “T+3 Settlement, Amendments Filed: Rules G-12 and G-15,” MSRB Reports, Vol. 14, No. 4 (August 1994) at 3; and “Report of the Municipal Securities Rulemaking Board on T+3 Settlement for the Municipal Securities Market” (March 17, 1994).

MSRB Rule G-15, on confirmations, clearance, settlement and other uniform practice requirements, requires municipal securities brokers and municipal securities dealers to provide customers with written confirmations of transactions, containing specified information; and prescribes certain uniform practice procedures for dealers that transact municipal securities business with customers. Rule G-15(b)(ii), on settlement dates, defines “regular way” settlement as occurring on a T+3 basis. The proposed rule change would amend Rule G-15(b)(ii)(B)-(C) to define “regular way” settlement as occurring on a T+2 basis.

Technical Amendments

The MSRB is also proposing technical changes to Rules G-12(b)(i)(B), G-15(b)(i)(B) and G-15(g)(ii)(B). Rules G-12(b)(i)(B) and G-15(b)(i)(B) would both be revised by replacing the reference to “National Association of Securities Dealers, Inc.” with the “Financial Industry Regulatory Authority.” Rule G-15(g)(ii)(B) would likewise be revised to replace the reference to “NASD Conduct Rule 2260(g),” which is retired, and replace it with the current relevant rule cite “FINRA Rule 2251(g).”

Compliance Date

The compliance date of the proposed rule change will be announced by the MSRB in a notice published on the MSRB website, which date would correspond with the industry’s transition to a T+2 regular-way settlement, which would include amendments by the SEC to Exchange Act Rule 15c6-1(a).

2. Statutory Basis

The MSRB believes that the proposed rule change is consistent with Section 15B(b)(2)(C) of the Exchange Act,¹² which provides that the MSRB’s rules shall:

¹² 15 U.S.C. 78o-4(b)(2)(C).

be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in municipal securities and municipal financial products, to remove impediments to and perfect the mechanism of a free and open market in municipal securities and municipal financial products, and, in general, to protect investors, municipal entities, obligated persons, and the public interest.

The MSRB believes that cooperating and coordinating with the various regulators, identified by the ISC, and the industry, shortening the time between trade execution and settlement by one business day will serve to reduce the risk of counterparty default, subsequent mandatory closeouts and, as a result, capital required to mitigate these risks would be reduced. Additionally, the MSRB believes the move to a shortened settlement cycle, as facilitated by the proposed rule change, will improve the overall efficiency of the securities markets, promote financial stability and better align U.S. securities markets with global markets.

B. Self-Regulatory Organization's Statement on Burden on Competition

Section 15B(b)(2)(C) of the Exchange Act¹³ requires that MSRB rules not be designed to impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

In determining whether these standards have been met, the MSRB was guided by the Board's Policy on the Use of Economic Analysis in MSRB Rulemaking.¹⁴ In accordance with this policy, the Board has evaluated the potential impacts on competition of the proposed rule change, including in comparison to reasonable alternative regulatory approaches, relative to the

¹³ Id.

¹⁴ Policy on the Use of Economic Analysis in MSRB Rulemaking, available at, <http://msrb.org/Rules-and-Interpretations/Economic-Analysis-Policy.aspx>.

baseline. The MSRB also considered other economic impacts of the proposed rule change and has addressed any comments relevant to these impacts in other sections of this document.

Based on the DTCC's Cost Benefit Analysis of Shortening the Settlement Cycle,¹⁵ which is the only quantitative analysis of this subject of which the MSRB is aware, the MSRB believes that the cost of the systems changes that may be required to shift from a T+3 to T+2 settlement cycle may be significant. Firms with relatively smaller revenue bases and/or firms that only participate in the municipal securities market may be disproportionately impacted by changes that require significant investments.

Nonetheless, the MSRB believes that the changes are necessary or appropriate in furtherance of the purposes of the Exchange Act and yield important benefits for a range of market participants including, but not limited to, operational cost savings, reduced counterparty risk, decreasing clearing capital requirements, reduce pro-cyclical margin and liquidity demands and increased global securities settlement harmonization.

Therefore, the MSRB does not believe that the proposed rule change will impose any additional burdens on competition, relative to the baseline, that are not necessary or appropriate in furtherance of the purposes of the Exchange Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The MSRB received nine comment letters¹⁶ in response to the Request for Comment on

¹⁵ Cost Benefit Analysis of Shortening the Settlement Cycle (October 2012), available at, http://www.dtcc.com/~media/Files/Downloads/WhitePapers/CBA_BCG_Shortening_the_Settlement_Cycle_October2012.pdf.

¹⁶ Comment letters were received in response to the Request for Comment from: Bernardi Securities, Inc., Letter from Eric Bederman, SVP, Chief Operating & Compliance Officer, dated November 17, 2015 ("Bernardi"); Bond Dealers of America, Letter from Michael Nicholas, Chief Executive Officer, dated December 10, 2015 ("BDA"); Brandis Tallman LLC, Letter from Richard Brandis, ("Brandis"); Castle Advisory Company, E-

the draft amendments to Rules G-12 and G-15.¹⁷ Seven of the nine commenters provided comments in support of the transition to T+2, agreeing that the move to a shortened settlement cycle would improve the overall efficiency of the securities markets, promote financial stability and better align U.S. securities markets with global markets.¹⁸ Four of the nine commenters expressed concerns about the impact the shortened settlement cycle would have on investors – particularly senior investors – who, the commenters note, often pay for municipal securities purchases by writing a check and sending it through the mail. Several commenters requested the Board consider the impact the proposal may have on the customer disclosure obligations of brokers, dealers and municipal securities dealers (“dealers”) pursuant to MSRB Rule G-32. Finally, BDA, FSI, ICI and SIFMA encouraged the MSRB to work with other regulators on the T+2 initiative and to file any necessary rule changes by the second quarter of 2016 in order to finalize the necessary amendments and implement the change to T+2 in accordance with ISC’s timeline, which called for completing the transition to T+2 by the third quarter of 2017.

The impact of T+2 on certain retail investors

BDA, Bernardi, Brandis and Coastal each commented that retail municipal securities investors that do not utilize payment mechanisms to ensure funds are good/cleared and available

mail from Garth Schulz, dated November 10, 2015 (“Castle”); Coastal Securities, E-mail from Chris Melton, Executive Vice President, dated December 10, 2015 (“Coastal”); Financial Services Institute, Letter from David T. Bellaire, Executive Vice President & General Counsel, dated December 10, 2015 (“FSI”); Geraldine Lettieri, E-mail dated November 10, 2015 (“Lettieri”); Investment Company Institute, Letter from Martin A. Burns, Chief Industry Operations Officer, dated December 1, 2015 (“ICI”); and Securities Industry and Financial Markets Association, Letter from Leslie M. Norwood, Managing Director and Associate General Counsel, dated December 10, 2015 (“SIFMA”).

¹⁷ See supra n.6.

¹⁸ The following commenters were supportive of the amendments contained in the Request for Comment: Bernardi, BDA, Castle, FSI, ICI, Lettierie and SIFMA.

for settlement would be negatively impacted by the proposed rule change. Bernardi stated that the move to T+2 would specifically impact “1. Customer purchases with longer settlements (i.e., 5-10 days) designed to coincide with another bond’s redemption. 2. Customers who do not hold cash balances and send payment via the US Postal System. 3. Customer trades which are booked to settle on the same date as the corresponding firm street trade, if not done ‘regular way.’”

Brandis stated that many of the investors associated with his firm who invest in municipal securities are over the age of 50, are less tech savvy, and predominantly pay for bond purchases by writing a check and sending payment through the mail. Coastal stated, “This proposal . . . will all but require retail clients that cannot settle DVP to transact business only with the firm that holds their assets, effectively eliminating any competition for the municipal business of many clients . . . [s]hortening of the settlement cycle should be delayed until retail commercial banking can provide investors with a cost effective manner of immediate fund transfer.”

Similarly, BDA stated that “many retail clients still rely on sending checks, which may not clear within a two-day window.”

The MSRB recognizes that it may be difficult for certain investors to make the behavioral changes necessary for a successful transition to a T+2 settlement cycle. The MSRB believes that the vast majority of firms have access to technology that would enable their clients to deliver funds in order to settle their municipal securities trades on a T+2 basis and firms should encourage their customers to leverage electronic funds payment to streamline payment processing. Dealers with customers that fund their trade settlement using checks or ACH payments may wish to consider updating their internal control processes and educating customers to ensure that funds are available to settle a transaction on T+2, as proposed.

T+2 and the implications for Rule G-32

Two commenters, BDA and SIFMA, commented that a shortened settlement cycle bears on other MSRB rules, including Rule G-32, which governs the delivery of official documents to customers in connection with primary offerings. SIFMA stated that “[c]oncerning the baseline legal requirement of Rule G-32, for dealers delivering paper official statements to customers, the move to T+2 will compress the timeframe dealers have to complete the delivery of offering documents in fulfillment of this disclosure obligation.”¹⁹ SIFMA suggested the Board consider clarifying previous guidance with respect to the electronic delivery of official statements, but recognized that revisiting the prior guidance was not critical to transitioning to T+2 and should not impede the proposed rule change.²⁰ BDA also recognized that the proposed rule would automatically shorten the timeframe associated with the requirement to deliver offering documents by no later than the settlement of the transaction. BDA urged the Board to address the amendments to Rules G-12 and G-15, but leave all other requirements under MSRB rules tied to the settlement date, such as Rule G-32, unchanged.

Timing and implementation of the proposed rule change

BDA, FSI, ICI and SIFMA encouraged the Board to move forward with the T+2 initiative within ISC’s proposed timeline, which outlines the activities that would be required to complete the transition to T+2 by the third quarter of 2017. The MSRB stated in the Request for Comment that the draft amendments to facilitate the transition to T+2 settlement cycle will be

¹⁹ SIFMA comment letter.

²⁰ SIFMA requested that the Board consider clarifying definitively that “access equals delivery” under Rule G-32(a)(ii) and (iii) applies to all dealers and in order to harmonize Rule G-32 with SEC Rules 172, 173 and 174 of the Securities Act of 1933, revisiting the guidance that a customer’s standing request for copies of official statements applies to all municipal transactions with that dealer. The MSRB may consider SIFMA’s suggested clarifications in the future.

dependent on the SEC amendments to Exchange Act Rule 15c6-1(a), which would establish T+2 as the standard regular-way settlement cycle for equities and corporate bonds. Although, Exchange Act Rule 15c6-1 does not apply to municipal securities, the MSRB has previously stated that the regular-way settlement cycle of municipal securities transactions should be consistent with that for transactions in the equity and corporate bond markets.²¹ ICI and SIFMA both commented that the Board should not consider amendments to Exchange Act Rule 15c6-1(a) to be a “precondition” of filing the MSRB’s proposed changes to Rules G-12 and G-15 with the SEC. SIFMA noted that the MSRB rule change will afford sufficient time, prior to the move to T+2, to implement any system and process changes and fully test those internally and with other industry participants. The MSRB agrees that the adoption of amendments to Exchange Act Rule 15c6-1(a) should not be a precondition to the Board filing proposed amendments to applicable MSRB rules. However, the MSRB will announce the compliance date of amended Rules G-12 and G-15 to correspond with applicable amendments to rules of other self-regulatory organizations as well as the SEC’s implementation of changes to Exchange Act Rule 15c6-1(a). The MSRB intends to ensure that the settlement cycle for municipal securities remains consistent with the settlement cycle for equities and corporate bonds.

The MSRB believes that shortening the time between trade execution and settlement by one business day will serve to reduce the risk of counterparty default, subsequent mandatory closeouts and, as a result, capital required to mitigate these risks would be reduced. Additionally, the MSRB believes the move to a shortened settlement cycle will improve the overall efficiency of the securities markets, promote financial stability and better align U.S. securities markets with global markets.

²¹ See supra n.11.

The majority of the commenters were supportive of the draft amendments in the Request for Comment, generally in agreement that the move to T+2 would mitigate counterparty risk, provide for more liquidity in the market and increase global harmonization. Commenters recognized that shortening the time between trade execution and settlement by one business day will reduce the risk of counterparty default, subsequent mandatory closeouts and capital required to mitigate these risks would be reduced. Several commenters stated that the move to T+2 would require process, technological and behavioral (business and client) modifications as well as coordination among regulators in order to transition to the T+2 settlement cycle.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period of up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-MSRB-

2016-04 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-MSRB-2016-04. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of the MSRB. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-MSRB-2016-04 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, pursuant to delegated authority.²²

Secretary

²² 17 CFR 200.30-3(a)(12).

Regulatory Notice

2015-22

Publication Date

November 10, 2015

Stakeholders

Municipal Securities
Dealers, Municipal
Advisors, Issuers,
Investors, General
Public

Notice Type

Request for Comment

Comment Deadline

December 10, 2015

Category

Uniform Practice;
Market Transparency;

Affected Rules

[Rule G-12](#); [Rule G-15](#)

Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle

Overview

The Municipal Securities Rulemaking Board (MSRB) is seeking comment on draft amendments to MSRB Rules G-12, on uniform practice, and G-15, on confirmation, clearance, settlement and other uniform practice requirements with respect to transactions with customers. The purpose of these draft amendments is to facilitate shortening the settlement cycle for transactions in municipal securities. The draft amendments are being proposed in response to a securities industry-led initiative to shift from the current T+3 (trade date plus three days) regular-way settlement cycle to a T+2 (trade date plus two days) regular-way settlement cycle. This initiative is being led by the Industry Steering Committee (ISC) jointly chaired by the Investment Company Institute (ICI) and the Securities Industry and Financial Markets Association (SIFMA).

Comments to this request for comment should be submitted to the MSRB no later than December 10, 2015, and may be submitted in electronic or paper form. [Comments may be submitted electronically by clicking here.](#) Comments submitted in paper form should be sent to Ronald W. Smith, Corporate Secretary, Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. All comments will be available for public inspection on MSRB's website.¹

Questions about this notice should be directed to Barbara Vouté, Municipal Operations Advisor, Justin Pica, Director of Product Management, or Michael B. Cowart, Assistant General Counsel, at 703-797-6600.

¹ Comments generally are posted on the MSRB's website without change. For example, personal identifying information such as name, address, telephone number, or email address will not be redacted from submissions. Therefore, commenters should only submit information that they wish to make available publicly.



Receive emails about MSRB regulatory notices.

Background

The “regular-way” settlement cycle for U.S. equities, corporate bonds and municipal bonds currently is defined in the Securities and Exchange Commission (SEC) and MSRB rules as T+3 and has been unchanged since the shortening of the T+5 (trade date plus five days) settlement cycle in 1995.

In 2012, the Depository Trust and Clearing Corporation (DTCC) initiated an effort to shorten the U.S. settlement cycle and sponsored a cost-benefit analysis of shortening the settlement cycle to T+2 or T+1.² Following the results of this analysis, DTCC determined to pursue a change to a T+2 settlement cycle as an interim step before pursuing a change to T+1. In early 2014, DTCC received endorsements from the ICI and SIFMA for shortening the settlement cycle from T+3 to T+2. In April 2014, DTCC published a white paper stating its rationale for shortening the settlement cycle to T+2.³

In October 2014, DTCC formed the ISC to oversee the T+2 settlement cycle initiative. Supporting the efforts of the steering committee is a working group and sub-working group structure comprised of industry subject matter experts charged with identifying the technological, behavioral and regulatory changes that would be required to facilitate a transition to T+2.

In a letter to the SEC, the ISC identified both SEC and self-regulatory organization (SRO) rule changes that it believes would be necessary to support a T+2 settlement cycle.⁴ The ISC recommended that the relevant regulatory organizations be able to confirm support of the transition to T+2 by the third quarter of 2015 and adopt applicable rule changes by the second quarter of 2016. The ISC expects this timeline to permit a securities industry-wide transition to T+2 by the third quarter of 2017. The MSRB announced its support of this initiative and its willingness to consider necessary rule changes, consistent with the decisions of other regulators.⁵

² Cost Benefit Analysis of Shortening the Settlement Cycle (October 2012), <http://www.dtcc.com/news/2012/october/01/cost-benefit-analysis-of-shortening-the-settlement-cycle>.

³ DTCC Recommends Shortening the U.S. Trade Settlement Cycle (April 2014), <http://www.dtcc.com/~media/Files/Downloads/WhitePapers/T2-Shortened-Cycle-WP.pdf>.

⁴ Letter from Paul Schott Stevens, President and CEO, Investment Company Institute, and Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association, to Mary Jo White, Chair, Securities and Exchange Commission (June 18, 2015).

⁵ See e.g., MSRB Press Release: MSRB Holds Quarterly Meeting (August 3, 2015).

In June 2015, ISC sent a letter to the SEC, and copied the MSRB and other SROs, describing the ISC's recommendation and requesting that the SEC support the T+2 initiative.⁶ In response to this letter, SEC Commissioners Michael S. Piwowar and Kara M. Stein released a statement in support of the T+2 initiative noting that "the Commission's Investor Advisory Committee encouraged the Commission and market participants to move forward on reducing the settlement cycle, which would improve investor protections and reduce systemic risks" and citing an interest in having the settlement cycle shortened "as soon as possible."⁷

On September 16, 2015, SEC Chair Mary Jo White sent a letter in response to the ISC letter noting she "strongly support[s] [the ISC's] efforts to shorten the settlement cycle from the third business day after the trade date to no later than the second business day ("T+2")."⁸ Chair White stated that she supports the ISC's recommended implementation timeline and noted that she is "committed to considering regulatory changes necessary for this migration to proceed on a timetable that will permit the industry to complete its essential work by no later than the proposed goal of the third quarter of 2017." Further, Chair White stated that she has "requested that the SROs finalize [schedules of rule changes necessary to support a T+2 settlement cycle] by October 31, 2015." The MSRB developed such a schedule and believes requesting comment at this time will enable it to consider necessary rule changes within the timetable proposed by the ISC.

MSRB Rule Changes

SEC Rule 15c6-1 currently defines regular-way settlement as occurring on T+3 for equities and corporate bonds. Although SEC Rule 15c6-1 does not apply to municipal securities, the MSRB has previously stated that the regular-way settlement cycle of municipal securities should be consistent with that of the

⁶ *Id.*

⁷ Commissioners Michael S. Piwowar and Kara M. Stein, Public Statement Regarding Proposals to Shorten the Trade Settlement Cycle (June 29, 2015), <http://www.sec.gov/news/statement/statement-on-proposals-to-shorten-the-trade-settlement-cycle.html>.

⁸ Letter from Mary Jo White, Chair, Securities and Exchange Commission, to Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association, and Paul Schott Stevens, President and CEO, Investment Company Institute (September 16, 2015).

equity and corporate bond markets.⁹ Among other reasons, this ensures that investors will not be faced with different settlement cycles when replacing equity or corporate debt with municipal securities.

This regulatory consistency is currently reflected in MSRB Rules G-12(b)(ii) and G-15(b)(ii), which define T+3 as the regular-way settlement cycle for municipal securities transactions. These rules were last changed in 1995 in coordination with changes made to SEC Rule 15c6-1 to facilitate the industry's initiative to shorten the settlement cycle from T+5 to T+3. The MSRB now proposes to amend MSRB Rules G-12(b)(ii)(B), G-12(b)(ii)(C), G-12(b)(ii)(D) and G-15(b)(ii)(B), G-15(b)(ii)(C) to define regular-way settlement as occurring on T+2. The draft amendments to MSRB Rules G-12 and G-15 are based on the ISC's recommendation and the SEC's support of a shift to a T+2 settlement cycle. The MSRB notes that the MSRB draft amendments to facilitate the transition to a T+2 settlement cycle will be dependent on SEC amendments to SEC Rule 15c6-1(a), which would establish T+2 as the standard for regular-way settlement cycle for equities and corporate bonds.

Economic Analysis

1. The need for the draft amendments to Rules G-12 and G-15.

The need for the draft amendments arises from the industry-led initiative to shift from the current T+3 regular-way settlement cycle to a T+2 settlement cycle. The MSRB understands that the SEC intends to make regulatory changes necessary to support this shift by the third quarter of 2017¹⁰ and that Financial Industry Regulatory Authority (FINRA) also intends to make conforming changes. Absent changes to MSRB Rules G-12(b)(ii) and G-15(b)(ii) to make these rules consistent with the changes the MSRB anticipates the SEC and FINRA will make, municipal security market participants would have to utilize a different settlement cycle than what will be used for equity securities and corporate bonds. The MSRB believes that all market participants benefit from a consistent settlement cycle across equity securities, corporate bonds and municipal securities—an outcome that the MSRB draft amendments would support.

⁹ See, e.g., "T+3 Settlement, Amendments Filed: Rules G-12 and G-15," MSRB Reports, Vol. 14, No. 4 (August 1994) at 3; and "Report of the Municipal Securities Rulemaking Board on T+3 Settlement for the Municipal Securities Market" (March 17, 1994).

¹⁰ *Supra* note 7.

2. Relevant baselines against which the likely economic impact of elements of the draft amendments to Rules G-12 and G-15 can be considered.

The relevant baseline against which the likely economic impact of the draft amendments to Rules G-12 and G-15 should be considered is the settlement cycle used for equity securities and corporate bonds. This cycle is regulated by SEC Rule 15c6-1 and other FINRA rules. MSRB Rules G-12(b)(ii) and G-15(b)(ii) have historically been amended to remain consistent with SEC Rule 15c6-1.

Because the draft amendments are contingent on anticipated changes to SEC Rule 15c6-1, which would shorten the settlement cycle for equity securities and corporate bonds to T+2, the relevant baseline is a regulatory environment in which those financial products are subject to the industry-recommended shortened settlement time.

3. Identifying and evaluating reasonable alternative regulatory approaches.

Rather than conforming to the anticipated future settlement cycle for equity securities and corporate bonds, the MSRB could either continue to define regular-way settlement as T+3 or propose to shorten the settlement cycle even further. The MSRB believes that all market participants benefit from a consistent settlement cycle across equity securities, corporate bonds, and municipal securities and identifies this consistency as the primary need for the draft amendments. Given the likely benefits of consistency and likely costs of inconsistency, it is unclear whether having a longer or shorter settlement cycle than equity securities and corporate bonds would qualify as a reasonable alternative.

In addition, when comparing a T+2 settlement cycle to a T+1 settlement cycle, the MSRB relied on the detailed cost-benefit analysis conducted by DTCC ("DTCC cost-benefit analysis")¹¹ which concluded that the "payback period"—the time period after which the benefits would outweigh the costs—was considerably shorter for the T+2 settlement cycle due to significantly higher upfront costs associated with the T+1 settlement cycle.

¹¹ *Supra* note 2.

4. Assessing the benefits and costs of the draft amendments to Rules G-12 and G-15.

The MSRB policy on economic analysis in rulemaking addresses consideration of the likely costs and benefits of the rule with the draft amendments fully implemented against the context of the economic baseline discussed above. To address this consideration, the MSRB relied significantly on the DTCC cost-benefit analysis.¹² The MSRB is seeking, as part of this request for comment, additional data or studies relevant to a shortened settlement cycle, particularly in the municipal securities market, the costs of implementing the systems and processes necessary to comply with the draft amendments, and the potential unintended or indirect economic consequences of the draft amendments.

Benefits

Consistent with the DTCC cost-benefit analysis¹³ and the Recommendation of the SEC Investor Advisory Committee,¹⁴ the MSRB believes that a shift to a T+2 settlement cycle may yield important benefits for market participants, including operational costs savings, reduced counterparty risk, decreased clearing capital requirements, reduced pro-cyclical margin and liquidity demands and increased global securities settlement harmonization. The MSRB believes that the draft amendments would allow for these outcomes in the municipal securities market and ensure that municipal securities market participants are not at a disadvantage related to settlement cycle compared to equity security and corporate bond market participants.

Costs

The DTCC cost-benefit analysis identified operational changes to certain industry practices, technological and infrastructure investments, and changes to the securities market infrastructure that would be required to achieve a shorter settlement cycle. DTCC estimated these costs for several types of market participants involved in equity, corporate bond, and municipal bond markets.¹⁵ While the DTCC cost-benefit analysis did estimate the levels of investment that would be potentially required based on the function

¹² *Supra* note 2.

¹³ *Supra* note 2, pp. 32-35.

¹⁴ Recommendation of the Investor Advisory Committee: Shortening the Trade Settlement Cycle in U.S. Financial Markets (February 12, 2015), <https://www.sec.gov/spotlight/investor-advisory-committee-2012/settlement-cycle-recommendation-final.pdf>.

¹⁵ *Supra* note 2, p. 40.

performed by market participants (*e.g.*, broker-dealers vs. buy side firms), it did not attempt to allocate the investment costs by market.

These operational, technological, and infrastructure changes would be necessitated by the anticipated amendments to SEC Rule 15c6-1, the baseline against which the MSRB draft amendments are measured. The MSRB assumes the changes necessary to comply with SEC Rule 15c6-1 and achieve a shorter settlement cycle for equities and corporate bonds are identical to those necessary to support a shorter settlement cycle for municipal securities. Therefore, for those firms that participate in both the municipal securities market and the corporate bond or equity market—the majority of affected market participants—the MSRB estimates that the additional cost of the draft amendments relative to the baseline would be relatively small. The MSRB recognizes, however, that certain market participants only participate in the municipal securities market and will be required to make investments to achieve a T+2 settlement cycle. For those firms, the costs of transitioning to a T+2 settlement cycle will be associated with the draft amendments to Rules G-12 and G-15 and may, based on the DTCC cost-benefit analysis, amount to as much as \$4 million per firm.

The MSRB is unaware of any data that would support a quantitative estimate of the overall impact of a shortened settlement cycle specifically on municipal securities market participants or, if appropriate, an allocation of the costs estimated in the DTCC cost-benefit analysis across the affected markets. Thus, at this juncture, the MSRB can only make a qualitative assessment based on the assumptions stated above. The MSRB specifically seeks comments that would inform a quantitative estimate of the costs associated with the draft amendments that can be specifically attributed to the municipal securities market.

Effect on Competition, Efficiency, and Capital Formation

The MSRB believes that draft amendments to MSRB Rules G-12 and G-15, in their support of the industry-led transition to a T+2 settlement cycle, will improve efficiency and capital formation, consistent with the findings included in the DTCC cost-benefit analysis. The MSRB recognizes that both the benefits and the costs associated with the draft amendments may vary by participant and that, in general, regulatory changes that require infrastructure investments may have disparate impacts that could affect the competitive landscape.

Request for Comment

The MSRB seeks public comment on the following questions, as well as on any other topic raised in this request. The MSRB particularly welcomes statistical, empirical and other data from commenters that may support their views and/or support or refute the views, assumptions or issues raised in this request.

1. Would the draft amendments have an effect on conduct that is required for compliance with any other MSRB rule?
2. Are there any other MSRB rules that should be amended to support a shift to a T+2 settlement cycle?
3. Would a move to a T+2 settlement cycle have any impacts that are unique to transactions in municipal securities?
4. Would the draft amendments impose any cost or burdens, direct, indirect, or inadvertent, on investors or regulated entities? Are there data or other evidence including studies or research, that support commenters' cost or burden estimates?
5. What, if any, costs associated with a T+2 settlement cycle, are associated specifically with the draft amendments and are additional to those costs that make up the baseline?

November 10, 2015

* * * * *

Text of Draft Amendments¹⁶

Rule G-12: Uniform Practice

(a) *Scope and Notice.*

(i) – (iii) No change.

(b) *Settlement Dates.*

(i) No change.

¹⁶ Underlining indicates new language; strikethrough denotes deletions.

(ii) *Settlement Dates*. Settlement dates shall be as follows:

(A) for "cash" transactions, the trade date;

(B) for "regular way" transactions, the ~~third~~ second business day following the trade date;

(C) for "when, as and if issued" transactions, a date agreed upon by both parties, which date: (1) with respect to transactions required to be compared in an automated comparison system under rule G-12(f)(i), shall not be earlier than two business days after notification of initial settlement date for the issue is provided to the registered clearing agency by the managing underwriter for the issue as required by rule G-34(a)(ii)(D)(2); and (2) with respect to transactions not eligible for automated comparison, shall not be earlier than the ~~third~~ second business day following the date that the confirmation indicating the final settlement date is sent; and

(D) for all other transactions, a date agreed upon by both parties, *provided, however*, that a broker, dealer or municipal securities dealer shall not effect or enter into a transaction for the purchase or sale of a municipal security (other than a "when, as and if issued" transaction) that provides for payment of funds and delivery of securities later than the ~~third~~ second business day after the date of the transaction unless expressly agreed to by the parties, at the time of the transaction.

(c) – (j) No change.

* * * * *

Rule G-15: Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers

(a) *Customer Confirmations*.

(i) - (viii) No change.

(b) *Settlement Dates*.

(i) No change.

(ii) *Settlement Dates*. Settlement dates shall be as follows:

(A) for "cash" transactions, the trade date;

(B) for "regular way" transactions, the ~~third~~ second business day following the trade date;

(C) for all other transactions, a date agreed upon by both parties; *provided, however*, that a broker, dealer or municipal securities dealer shall not effect or enter into a transaction for the purchase or sale of a municipal security (other than a "when, as and if issued" transaction)

that provides for payment of funds and delivery of securities later than the ~~third~~ second business day after the date of the transaction unless expressly agreed to by the parties, at the time of the transaction.

(c) – (g) No change.

**ALPHABETICAL LIST OF COMMENT LETTERS ON MSRB NOTICE 2015-22
(NOVEMBER 10, 2015)**

1. Bernardi Securities, Inc.: Letter from Eric Bederman, SVP, Chief Operating & Compliance Officer, dated November 17, 2015
2. Bond Dealers of America: Letter from Michael Nicholas, Chief Executive Officer, dated December 10, 2015
3. Brandis Tallman LLC: Letter from Richard Brandis
4. Castle Advisory Company: E-mail from Garth Schulz dated November 10, 2015
5. Coastal Securities: E-mail from Chris Melton, Executive Vice President, dated December 10, 2015
6. Financial Services Institute: Letter from David T. Bellaire, Executive Vice President & General Counsel, dated December 10, 2015
7. Geraldine Lettieri: E-mail dated November 10, 2015
8. Investment Company Institute: Letter from Martin A. Burns, Chief Industry Operations Officer, dated December 1, 2015
9. Securities Industry and Financial Markets Association: Letter from Leslie M. Norwood, Managing Director and Associate General Counsel, dated December 10, 2015

BERNARDISECURITIES

MUNICIPAL BOND SPECIALISTS

Submitted Electronically

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

Re: Shortened Settlement Cycle—Regulatory Notice 2015-22

November 17, 2015

Dear Mr. Smith:

Founded in 1984, Bernardi Securities, Inc. (BSI) is a municipal securities dealer providing underwriting, secondary market trading, brokerage, and portfolio management services to our institutional and retail customer base. We appreciate the opportunity to provide the Municipal Securities Rulemaking Board (MSRB) with comments related to the above referenced proposed rule.

BSI supports the shortened settlement cycle, from T+3 to T+2 for regular way settlements. We do wish to remind the MSRB that municipal bond customers quite often request settlement periods longer than the “standard settlement period.” Reasons for this include:

1. Customer purchases with longer settlements (i.e. 5-10 days) designed to coincide with another bond’s redemption.
2. Customers who do not hold cash balances and send payment via the US Postal System.
3. Customer trades which are booked to settle on the same date as the corresponding firm street trade, if not done “regular way.”

For these and other reasons that require settlements longer than “standard settlement,” we request that MSRB continue to preserve Rule G-12(b)(ii)(D) which allows a dealer and customer to agree upon the settlement date at the time of the transaction.

BSI appreciates the opportunity to comment on this proposed rule and we look forward to providing additional feedback that will help the MSRB and the greater municipal bond marketplace.

Sincerely yours,



Eric Bederman
SVP, Chief Operating & Compliance Officer



1909 K Street NW • Suite 510
Washington, DC 20006
202.204.7900
www.bdamerica.org

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

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?

Comment on Notice 2015-22

from Garth Schulz, Castle Advisory Company

on Tuesday, November 10, 2015

Comment:

T+2 makes sense for all stated reasons but the cost is high.
Make sure only those who benefit pay and that those of us who dont benefit dont pay. Thanks

Comment on Notice 2015-22

from Chris Melton,

on Thursday, December 10, 2015

Comment:

Thank you for the opportunity to comment on proposed changes to Rule G-12 and G-15 to reflect the shortening of the regular way settlement cycle to T + 2. Although shortening the settlement cycle will reduce systemic risk, I believe the benefit that reduced risk creates will be outweighed by the resultant increased pricing disadvantage experienced by retail clients.

Several new or proposed MSRB rules (best ex, confirmation disclosures) have been designed to improve pricing obtained by retail investors. This proposal will do just the opposite in that it will all but require retail clients that cannot settle DVP to transact business only with the firm that holds their assets, effectively eliminating any competition for the municipal business of many clients. (I realize that there are some broker-dealer firms that permit next day transfer of funds to other dealers) This flies in the face of the stated goals of multiple regulators when it comes to retail pricing.

Admittedly, as an employee of a firm that routinely competes for, rather than captures, business; one could argue that my position is dictated by where my bread is buttered. However, one does not need a terminal degree in economics to understand that the absence of competition breeds pricing anomalies. Nevertheless, regulation appears to be headed in a general direction favoring that very thing. It is inconsistent to argue that regulators should require municipal dealers to utilize a best ex standard designed for the two sided equity market in order to improve retail pricing and at the same time argue that the settlement cycle should be shortened to reduce, or in some cases eliminate, competition for retail business.

I believe that further shortening of the settlement cycle should be delayed until retail commercial banking can provide investors with a cost effective manner of immediate funds transfer. Thank you again for the opportunity to comment on the proposal.

Sincerely,

Chris Melton
Executive Vice President
Coastal Securities



VIA ELECTRONIC MAIL

December 10, 2015

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

Re: Regulatory Notice 2015-22: Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle

Dear Mr. Smith:

On November 10, 2015, the Municipal Securities Rulemaking Board (MSRB) published its request for public comment on proposed amendments to facilitate shortening the settlement cycle for transactions in municipal securities (Proposed Amendments).¹ The Proposed Amendments are in response to an industry-led initiative to shorten the regular-way settlement cycle for equities, corporate bonds, municipal bonds, and unit investment trusts from the current T+3 (trade date plus three days) to T+2 (trade date plus two days).

The Financial Services Institute² (FSI) appreciates the opportunity to comment on this important proposal. A shorter settlement cycle has the potential to improve the efficiency of the securities markets through operational cost savings, reduced counterparty risk, and a reduction in capital required to be maintained by clearing firms to mitigate such risk. The move to T+2 will necessitate significant operational and behavioral changes for both firms and investors. Therefore, we request that the MSRB work with fellow regulatory bodies, industry stakeholders, and the Depository Trust and Clearing Corporation (DTCC) to ensure consistent implementation and robust education for market participants.

Background on FSI Members

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the U.S., there are approximately 167,000 independent financial advisors, which account for approximately 64.5% percent of all producing registered representatives. These financial advisors are self-employed independent contractors, rather than employees of Independent Broker-Dealers (IBD).

¹ Regulatory Notice 2015-22, Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle (Nov. 10, 2015).

² The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

FSI member firms provide business support to financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners who typically have strong ties to their communities and know their clients personally. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations and retirement plans with financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide middle-class Americans with the financial advice, products, and services necessary to achieve their investment goals.

Discussion

SEC Rule 15c6-1 defines regular-way settlement as occurring no later than T+3 for equities and corporate bonds. While the rule does not apply to municipal securities, the MSRB has stated that it believes regular-way settlement of municipal bonds should be consistent with that of equities and corporate bonds. To ensure such consistency, MSRB Rules G-1.2(b)(iii), on uniform practice, and G-1.5(b)(ii), on confirmation, clearance, settlement, and other uniform practice requirements define T+3 as the regular-way settlement cycle for municipal securities transactions.

Earlier this year, in a letter responding to a request from the Industry Steering Committee, SEC Chair Mary Jo White stated that she strongly supports shortening the settlement cycle to T+2.³ She indicated that she was committed to ensuring the necessary regulatory changes, including amending SEC Rule 15c6-1, and requested that the self-regulatory organizations (SROs) finalize schedules of necessary rule changes by October 31, 2015.⁴ The MSRB issued the Proposed Amendments in response to that request. The MSRB notes that the Proposed Amendments are contingent upon the SEC amending Rule 15c6-1 to establish a T+2 settlement cycle for equities and corporate bonds.

We support the efforts of the Industry Steering Committee and regulators to enhance the efficiency and stability of the financial system by shortening the securities settlement cycle. We believe close coordination between all government agencies, SROs, industry stakeholders, and DTCC is critical to ensuring effective implementation of this important initiative. We request the MSRB continue to coordinate with all agencies closely and ensure that regulatory changes are finalized in accordance with the proposed goal of implementation by third quarter 2017.

Additionally, we request that the MSRB, in coordination with other regulatory agencies and the Industry Steering Committee develop a comprehensive educational plan to ensure market participants and retail investors are well informed about the impacts of shortening the settlement cycle. In order to minimize any detrimental impacts to investors, it is critical for broker-dealers to educate their personnel as well as their retail clients on the behavioral changes required by shortening the payment period for a securities purchase. Failure to pay for a securities purchase within the payment period may result in increased trading costs due to an extension request or a “close out” of the investor’s purchase.⁵ Comprehensive education and training undertaken in

³ See Letter from Mary Jo White, Chair, SEC, to Kenneth E. Bentsen, Jr., President & CEO, SIFMA and Paul Schott Stevens, President & CEO, ICI (Sept. 16, 2015).

⁴ *Id.*

⁵ Federal Reserve Board Regulation T, 12 C.F.R. § 220.8(b)(i) & (d).

advance of the T+2 implementation date is critical to minimizing the potential for such impacts. We stand ready to work with any interested parties to assist in such education and training efforts.

Conclusion

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with the MSRB on this and other important regulatory efforts

Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 803-6061.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" followed by "Bellaire".

David T. Bellaire, Esq.
Executive Vice President & General Counsel

Comment on Notice 2015-22

from Geraldine Lettieri,

on Tuesday, November 10, 2015

Comment:

As a fixed income trader and investor since 1982, without a doubt T+ 2 is enormously better because it provides extra liquidity for the investor/trader.

By fostering liquidity, wealth is preserved and increased for the investor/trader.



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

December 1, 2015

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

Re: Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle (MSRB Notice 2015-22)

Dear Mr. Smith:

The Investment Company Institute¹ is pleased to provide its strong support for the Municipal Securities Rulemaking Board's proposed amendments to facilitate shortening the settlement cycle for transactions in municipal securities.² The draft amendments are in response to a financial services industry-led initiative to shorten the regular way settlement for equities, corporate bonds, municipal bonds, and unit investment trusts from T+3 (trade date plus three days) to T+2 (trade date plus two days).³ We believe a shorter settlement cycle will help improve the overall efficiency of securities markets, align the United States with other global markets, and promote financial stability.

¹ The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of \$17.9 trillion and serve more than 90 million U.S. shareholders.

² *Request for Comment on Changes to MSRB Rules to Facilitate Shortening the Securities Settlement Cycle*, MSRB Notice 2015-22 (November 10, 2015), available at <http://www.msrb.org/~media/Files/Regulatory-Notices/RFCs/2015-22.ashx>.

³ For background on the T+2 industry-led initiative and its benefits, see <http://www.ust2.com/>. See also Letter from Paul Schott Stevens, President and CEO, Investment Company Institute, and Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association, to Mary Jo White, Chair, Securities and Exchange Commission (June 18, 2015) (identifying the SEC and self-regulatory organization rule changes that the industry believes would be necessary to support a T+2 settlement cycle). In August 2015, the MSRB announced its support of this initiative and its willingness to consider necessary rule changes, consistent with the decisions of other regulators. See MSRB Press Release: MSRB Holds Quarterly Meeting (August 3, 2015). In September, SEC Chair Mary Jo White sent a letter to ICI and SIFMA noting her strong support for the industry's efforts to shorten the settlement cycle. See Letter from Mary Jo White, Chair, Securities and Exchange Commission, to Kenneth E. Bentsen, Jr., President and CEO, Securities Industry and Financial Markets Association, and Paul Schott Stevens, President and CEO, Investment Company Institute (September 16, 2015) ("Chair White Letter").

Mr. Ronald W. Smith

December 1, 2015

Page 2 of 2

SEC Rule 15c6-1 currently defines regular-way settlement as occurring no later than T+3 for equities and corporate bonds. To ensure that the regular-way settlement cycle of municipal securities is consistent with that of the equity and corporate bond markets, MSRB Rules G-12(b)(iii), on uniform practice, and G-15(b)(ii), on confirmation, clearance, settlement, and other uniform practice requirements with respect to transactions with customers, define T+3 as the regular-way settlement cycle for municipal securities transactions. The MSRB now proposes to amend these rules to define regular-way settlement as occurring on T+2. The MSRB notes that proposed amendments to MSRB Rules G-12 and G-15 will be dependent on SEC amendments to SEC Rule 15c6-1(a), which will establish T+2 as the standard for regular-way settlement for equities and corporate bonds.

The industry has proposed a migration timeline outlining the necessary activities required to complete a move to T+2 by the third quarter of 2017. Regulatory action is a critical prerequisite to achieving a shortened settlement cycle. Indeed, SEC Chair White recognized that amendments to the various rules of the self-regulatory organizations that specifically mandate T+3 (or that are keyed to the settlement date and require pre-settlement actions) are the most significant regulatory changes necessary to support the industry's move to T+2.⁴ As such, although it may be preferable for the SEC to act first, amendments to SEC Rule 15c6-1(a) should not be seen as a precondition to the MSRB's proposed amendments to shorten the settlement cycle for transactions in municipal securities.

* * * *

We look forward to working with the MSRB as it continues its efforts to support a T+2 regular way settlement for municipal securities. In the meantime, if you have any questions, please feel free to contact me directly at (202) 326-5980 or Jane Heinrichs, Associate General Counsel, at (202) 371-5410.

Sincerely,

/s/ Martin A. Burns

Chief Industry Operations Officer

cc: Lynnette Kelly, Executive Director
Municipal Securities Rulemaking Board

⁴ See Chair White Letter.



December 10, 2015

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

**Re: MSRB Notice 2015-22: Request for Comment on Changes to
MSRB Rules to Facilitate Shortening the Securities Settlement
Cycle**

Dear Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)¹ appreciates this opportunity to respond to Notice 2015-22² (the “Notice”) issued by the Municipal Securities Rulemaking Board (the “MSRB”) in which the MSRB is requesting comment on changes to MSRB rules to facilitate shortening the securities settlement cycle. The draft amendments are in response to a financial services industry-led initiative to shorten the regular way settlement for equities, corporate bonds, municipal bonds, and unit investment trusts from T+3 (trade date plus three days) to T+2 (trade date plus two days).³

¹ SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over \$2.4 trillion for businesses and municipalities in the U.S., serving clients with over \$16 trillion in assets and managing more than \$62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² MSRB Notice 2015-22 (November 15, 2015).

³ See, Letter from Paul Schott Stevens, President and CEO, Investment Company Institute, and Kenneth E. Bentsen, Jr., President and CEO, SIFMA, to Mary Jo White, Chair, Securities and Exchange Commission (June 18, 2015).

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I. Support for Shortening the Settlement Cycle

SIFMA and its members support the industry-led move to T+2 regular way settlement for municipal securities. We feel that it is important for the regular way settlement cycle for municipal securities to be consistent with that of the equity and corporate bond markets. We agree that MSRB Rules G-12 and G-15, as identified in the Notice, are the two key rules that need to be modified to effect this change for municipal securities, as they cover the mechanics of clearance, settlement and delivery for these securities. SIFMA and its members support the necessary changes to these rules, in conjunction with SEC amendments to SEC Rule 15c6-1(a), which will set T+2 as the standard for regular way settlement for equities and corporate bonds. We support the industry's proposed migration timeline to complete the move to T+2 by the third quarter of 2017.

As it relates to the timing of the changes to MSRB Rules G-12 and G-15, SIFMA respectfully requests that the MSRB finalize the necessary changes to these rules no later than the second quarter of 2016. The issuance of final rules no later than the second quarter of 2016 is necessary to provide market participants sufficient time to implement necessary system and process changes, and fully test internally and with other industry participants prior to the move to T+2 in the third quarter of 2017.⁴

II. Supplemental Rulemaking to Consider

Separately, this may be an opportune time to review customer disclosure requirements of brokers, dealers and municipal securities dealers ("dealers") pursuant to MSRB Rule G-32. However, SIFMA requests that the MSRB's consideration of any changes to Rule G-32 not impede the proposed changes to Rules G-12 and G-15, which are critical to achieving T+2 by the third quarter of 2017.

MSRB Rule G-32 governs disclosures in connection with primary offerings. Pursuant to Rule G-32(a)(i):

No broker, dealer or municipal securities dealer shall sell, whether as an underwriter or otherwise, any offered municipal securities⁵ to a

⁴ See SHORTENING THE SETTLEMENT CYCLE: THE MOVE TO T+2, pages 11-12 (Jun. 18, 2015), available at <http://www.ust2.com/pdfs/ssc.pdf> (outlining the need for regulatory certainty including final self-regulatory organization rule changes by the second quarter of 2016).

⁵ The term "offered municipal securities" is defined to mean municipal securities that are sold by a dealer during the securities' primary offering disclosure period, including but not limited to municipal securities reoffered

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customer unless such broker, dealer or municipal securities dealer delivers to the customer by no later than the settlement of the transaction a copy of the official statement or, if an official statement is not being prepared, a written notice to that effect together with a copy of a preliminary official statement, if any. (emphasis added)

Concerning the baseline legal requirement of Rule G-32, for dealers delivering paper official statements to customers, the move to T+2 will compress the timeframe dealers have to complete the delivery of offering documents in fulfillment of this disclosure obligation. Although the Rule G-32 amendments of 2009, reflected in Rule G-32(a)(ii) and (iii), largely ameliorate this timing issue, we believe the MSRB should consider clarifying certain aspects of Rule G-32. For instance, it would be helpful to specifically express in the text of Rule G-32(a)(ii) that such provision deems the delivery obligation satisfied for all customer sales by all dealers, other than sales of municipal fund securities. The general applicability of this provision to all dealers, not just underwriters, selling offered municipal securities (other than municipal fund securities) was clearly intended by the MSRB, as expressed in its 2009 filing with the SEC. Nevertheless, the lack of express language of such general applicability in the text of Rule G-32(a)(ii) may lead some market participants to believe that it applies solely to underwriters.⁶ Thus, clarification on this point would be helpful.

In addition, under Rule G-32(a)(iii), all dealers entitled to rely on the provisions of Rule G-32(a)(ii) have the obligation to send to the customer by settlement either the paper official statement, or a notice advising customers how to access the official statement on the MSRB's Electronic Municipal Market Access system and that a copy of the official statement will be provided by the dealer upon

(Continued)

in a remarketing that constitutes a primary offering and municipal securities sold in a primary offering but designated as not reoffered. The term "primary offering disclosure period" shall mean, with respect to any primary offering, the period commencing with the first submission to an underwriter of an order for the purchase of offered municipal securities or the purchase of such securities from the issuer, whichever first occurs, and ending 25 days after the final delivery by the issuer or its agent of all securities of the issue to or through the underwriting syndicate or sole underwriter. Therefore, official statements need to be delivered, or have the requirement to deliver deemed satisfied, for customer transactions entered into up through 25 days after final delivery of the bonds by the issuer to the underwriter.

⁶ See Proposed Rule Change by the Municipal Securities Rulemaking Board Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934, File No. SR-2009-02 (March 23, 2009), available at: <http://www.msrb.org/~media/Files/SEC-Filings/2009/SR-MSRB-2009-02.ashx?la=en>, at page 53.SR-MSRB-2009-02 (March 23, 2009) (the "Rule Filing") at page 51.

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request.⁷ However, there is a policy statement in the MSRB's Rule Filing,⁸ and repeated in the SEC approval order,⁹ which provides that dealers are required to honor any customer's explicit standing request for copies of official statements for all of his or her transactions with the dealer.¹⁰ This gloss on the rule differs from how "access equals delivery" is implemented under the SEC rule paradigm as set forth in Rules 172, 173 and 174 of the Securities Act of 1933, which merely mandate a dealer send a customer an offering document upon each request.¹¹ Dealers thus face operational challenges with respect to municipal securities, but for no other classes of securities, due to the process they must undertake to ensure that they properly honor standing orders for paper offering documents. The shortening of the settlement cycle by one day will only increase these challenges.

SIFMA and its members believe that internet use is now almost ubiquitous, and has increased dramatically since 2009, thereby reducing the concerns that investors in municipal securities may face greater barriers in accessing electronic offering documents than do investors in other markets. Thus, although we feel it is not a pre-condition to moving forward with shortening the settlement cycle, we petition the MSRB to take this opportunity to put on its agenda a plan to update its approach to this issue under Rule G-32 and to harmonize its "access equals delivery" rule to the SEC model, and only require paper official statements on a transaction by transaction basis upon customer request. Again, we feel strongly that

⁷ MSRB Rule G-32(a)(iii). The MSRB noted in the Rule Filing that its 2009 amendments shifted the timing of the requirements under Rule G-32(a) from delivery of the official statement to the customer by settlement as required prior to the amendments to sending of either the official statement or the required notice of availability of the official statement as required after the amendments were implemented. *See* the Rule Filing at page 52, footnote 48.

⁸ *See*, the Rule Filing at page 53. *See also*, MSRB Notice 2009-28: MSRB Establishes Electronic Official Statement Dissemination Standard Under Rule G-32 and Launches Permanent Primary Market Disclosure Service of the Electronic Municipal Market Access System ("EMMA") (June 1, 2009), available at: <http://www.msrb.org/Rules-and-Interpretations/Regulatory-Notices/2009/2009-28.aspx?n=1>.

⁹ *See*, SEC Order Granting Approval of Proposed Rule Change Relating to the Establishment of a Primary Market Disclosure Service and Trade Price Transparency Service of the Electronic Municipal Market Access System (EMMA®) and Amendments to MSRB Rules G-32 and G-36 (May 21, 2009), available at: <https://www.sec.gov/rules/sro/msrb/2009/34-59966.pdf>, at page 7.

¹⁰ Under the MSRB Rules, dealers have one business day from the time of the customer request for a paper copy of the official statement to send the document by first class mail or other equally prompt means.

¹¹ *See also*, Final Rule on Securities Offering Reform, File No. S7-38-04, available at: <https://www.sec.gov/rules/final/33-8591.pdf>, at page 245. Thus, it is the norm in the registered market for customers to make a specific request for a copy of the offering document individually with each transaction, and standing orders are not used.

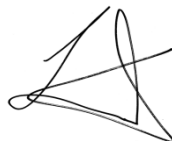
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consideration of any changes to Rule G-32 should not impede the proposed changes to Rules G-12 and G-15, which are critical to achieving T+2 by the third quarter of 2017.

III. Conclusion

Again, SIFMA and its members support the industry's move to T+2 regular way settlement for municipal securities and unequivocally support the MSRB's proposed rule changes to Rules G-12 and G-15. We also do believe this may be a good time to separately revisit the timing of dealers' offering document disclosure requirements, and would like the opportunity to continue the dialog with you on this point. We would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at (212) 313-1130.

Sincerely yours,



Leslie M. Norwood
Managing Director and
Associate General Counsel

cc: ***Municipal Securities Rulemaking Board***
Lynnette Kelly, Executive Director
Robert Fippinger, Chief Legal Officer
Michael B. Cowart, Assistant General Counsel
Justin Pica, Director of Product Management
Barbara Vouté, Municipal Operations Advisor

Rule G-12 Uniform Practice

(a) No change.

(b) *Settlement Dates.*

(i) *Definitions.* For purposes of this rule, the following terms shall have the following meanings:

(A) *Settlement Date.* The term "settlement date" shall mean the day used in price and interest computations, which shall also be the day delivery is due unless otherwise agreed by the parties.

(B) *Business Day.* The term "business day" shall mean a day recognized by the [National Association of Securities Dealers, Inc.] Financial Industry Regulatory Authority as a day on which securities transactions may be settled.

(ii) *Settlement Dates.* Settlement dates shall be as follows:

(A) for "cash" transactions, the trade date;

(B) for "regular way" transactions, the [third] second business day following the trade date;

(C) for "when, as and if issued" transactions, a date agreed upon by both parties, which date: (1) with respect to transactions required to be compared in an automated comparison system under rule G-12(f)(i), shall not be earlier than two business days after notification of initial settlement date for the issue is provided to the registered clearing agency by the managing underwriter for the issue as required by rule G-34(a)(ii)(D)(2); and (2) with respect to transactions not eligible for automated comparison, shall not be earlier than the [third] second business day following the date that the confirmation indicating the final settlement date is sent; and

(D) for all other transactions, a date agreed upon by both parties, *provided, however,* that a broker, dealer or municipal securities dealer shall not effect or enter into a transaction for the purchase or sale of a municipal security (other than a "when, as and if issued" transaction) that provides for payment of funds and delivery of securities later than the [third] second business day after the date of the transaction unless expressly agreed to by the parties, at the time of the transaction.

(c) – (j) No change.

Rule G-15 Confirmation, Clearance, Settlement and Other Uniform Practice Requirements with Respect to Transactions with Customers

(a) No change.

(b) *Settlement Dates.*

(i) Definitions. For purposes of this rule, the following terms shall have the following meanings:

(A) Settlement Date. The term "settlement date" shall mean the day used in price and interest computations, which shall also be the day delivery is due unless otherwise agreed by the parties.

(B) Business Day. The term "business day" shall mean a day recognized by the [National Association of Securities Dealers, Inc.] Financial Industry Regulatory Authority as a day on which securities transactions may be settled.

(ii) Settlement Dates. Settlement dates shall be as follows:

(A) for "cash" transactions, the trade date;

(B) for "regular way" transactions, the [third] second business day following the trade date;

(C) for all other transactions, a date agreed upon by both parties; *provided, however,* that a broker, dealer or municipal securities dealer shall not effect or enter into a transaction for the purchase or sale of a municipal security (other than a "when, as and if issued" transaction) that provides for payment of funds and delivery of securities later than the [third] second business day after the date of the transaction unless expressly agreed to by the parties, at the time of the transaction.

(c) – (f) No change.

(g) *Forwarding Official Communications*

(i) No change.

(ii) In determining whether reasonable efforts have been made to retransmit official communications, the following considerations are relevant:

(A) No change.

(B) *Compensation.* A broker, dealer or municipal securities dealer shall not be required by this rule to retransmit official communications without an offer of

adequate compensation. If compensation is explicitly offered in or with the official communication, the broker, dealer or municipal securities dealer shall effect the retransmission and seek compensation concurrently; provided, however, that if total compensation would be more than \$500.00, the broker, dealer or municipal securities dealer may, in lieu of this procedure, promptly contact the party offering compensation, inform it of the amount of compensation required, obtain specific agreement on the amount of compensation and wait for receipt of such compensation prior to proceeding with the retransmission. In determining whether compensation is adequate, the broker, dealer or municipal securities dealer shall make reference to the suggested rates for similar document transmission services found in “Suggested Rates of Reimbursement” for expenses incurred in forwarding proxy material, annual reports, information statements and other material referenced in [NASD Conduct Rule 2260(g)] FINRA Rule 2251(g), taking into account revisions or amendments to such suggested rates as may be made from time to time.

(C) – (F) No change.

(iii) No change.