



**BDA** 10 *Years*  
Strong

# Year in Review 2017



The BDA was founded on March 3, 2008 with just 14 member firms who unanimously agreed on the need for a DC representative to advocate for securities dealers and banks most predominantly focused on the US fixed income markets. Essentially to recreate the old Public Securities Association of pre-1996 but with complete advocacy for members' taxable business, their municipal business, and both their institutional and retail activity.

Flash-forward to 2017 – our tenth year of operation – and the BDA unquestionably had its most impactful year on record. Thanks to an engaged membership, strong working relationships with DC based State and local groups, and a team of experienced and hard-working staff, the BDA led the charge during Federal Tax Reform in defense of the municipal bond tax exemption generally, and of Private Activity Bonds more specifically. While the industry lost the ability to advance refund municipal bonds, the BDA planted the seeds and is now hard at work to find a technical fix that would provide issuers more flexibility to manage outstanding debt – to the benefit of taxpayers nationwide.

Led by the BDA Board and chair Tom Dannenberg, CEO of Hutchinson, Shockey, Erley, the BDA continues to be the only DC based trade group advocating for fixed income dealers and the bond markets generally.

Since 2008 the BDA has hosted focused events meant to add tangible value, and in 2017, we hosted 11 events and saw record attendance at each. From our annual Roundtables for Heads of Sales, Legal and Compliance, Retail Fixed Income, Public Finance, and Institutional Fixed Income, the BDA continues to provide a venue for information sharing for fixed income leadership nationwide. The BDA's annual National Fixed Income Conference attracted over 200 attendees and dozens of industry sponsors and exhibitors to the one true conference for the U.S. fixed income sell-side.

As we roll into 2018 with now 70 member firms, I personally commit to you the BDA will work harder and smarter, expanding our DC and industry presence, and simply providing more tangible benefit to all member firms, large and small. Don't hesitate to get involved. We need more direct engagement from all member firms to ensure the BDA is effective and impactful.

Quick simply it's what you pay us to do.

In this document, you'll find a summary of 2017 and the carryover policy focus for 2018. You'll learn more about the many BDA events, which are structured to add tangible value to all member firms – while also providing the market and industry intelligence to BDA staff to be more impactful when representing your interests in Washington, DC.

The BDA is your DC advocate. I thank you for your support in 2017 and we look forward to an effective 2018 and beyond.

Michael Nicholas  
Chief Executive Officer  
Bond Dealers of America

# 2017 REGULATORY INITIATIVES

*In the past few years of massive financial regulatory change, BDA has remained focused on the highest priority regulatory issues impacting the U.S. fixed income markets and provided our members with valuable opportunities to engage directly with regulators, members and staff on Capitol Hill and to have a voice in Washington. Below is a recap of the regulatory issues we worked on in 2017 and a look ahead at 2018.*

## **FINRA and MSRB's Retail Confirmation Markup Disclosure Proposals**

In early September 2017, at request of Robert Cook of FINRA, a BDA working group submitted an amendment recommendation for the retail confirmation disclosure rule to both FINRA and MSRB. The group also submitted transition samples.

The policy recommendations BDA is advocating for are designed to reduce the competitive disadvantage and the potential for providing retail investors with a misleading disclosure of overall execution quality by introducing the concept of "general market liquidity provider" to allow dealers that provide liquidity and offer bonds in support of their network of financial advisors.

The BDA (along with SIFMA and FIF) met with FINRA, the MSRB and the SEC in November 2017 to push for a delay of the rule, as well for the BDA "general market liquidity provider amendment."

Throughout December 2017, BDA staff continued conversations with FINRA and reached out to SEC commissioners' staffs to discuss our concerns in depth after hearing that SEC commissioners were balking on a delay of the rule.

In January 2018, BDA members met with SEC Chairman Jay Clayton, SEC Commissioner Kara Stein, and senior staff to SEC Commissioner Mike Piwowar in support of a delay of the rule and to correctly detail to the SEC the numerous compliance problems small firms are facing with vendors,

etc. We also explained to the commissioners our “general market liquidity provider” amendment.

- As a follow-up to these meetings, BDA is working on a letter that will:
  - 1) Further explain and list in detail to SEC leadership (as well as SEC division staff, FINRA and MSRB) the compliance and technology issues small firms are facing; and
  - 2) Lay out to the SEC leadership the “general market liquidity provider” amendment we are suggesting.

### **FINRA Mortgage Security Margin Amendments**

In October 2015, FINRA filed proposed amendments with the SEC to Rule 4210 to establish margin requirements for transactions in TBA’s, specific pools and collateralized mortgage obligations.

After submitting comments to the SEC in 2015 and 2016, the BDA met with the SEC in January and May 2017 to discuss concerns and to advocate for changes, which were outlined in a [letter submitted](#) to FINRA in early August 2017. In September 2017, FINRA filed a proposed rule to delay the major effective date of the rule until June 25, 2018. **The rule is now delayed.**

BDA member firms met with FINRA CEO Robert Cook and senior FINRA staff in December 2017 to address BDA member concerns and put forth a new idea that would allow for dealers to take a capital charge in lieu of the margin requirement.

BDA staff has continued to stay in touch with FINRA staff on this issue, and also discussed 4210 with the SEC leadership (Clayton, Stein, Piwowar) during our January 2018 SEC meetings.

### **Fiduciary Duty**

In April 2016, under President Obama, the Department of Labor (DOL) approved a rule to amend the definition of “fiduciary” under ERISA. Throughout 2016-2017, BDA submitted numerous comment letters to DOL, as well as testified at a public DOL hearing – where we advocated for a coordinated effort with the DOL and the SEC. Additionally, BDA held a fiduciary duty roundtable in Chicago, featuring Morgan Lewis, as

well as and worked with a wide variety of industry associations impacted by the rule.

The DOL's rule has been partially implemented, but the Trump Administration has delayed parts of it as they examine if the DOL or SEC is best suited to take the lead on this issue.

In June 2017, the new SEC Chairman, Jay Clayton, issued a public release asking for comments on how the SEC might best approach a "fiduciary" standard. BDA met with the Chairman Clayton, Commissioner Stein, and staff to Commissioner Piwowar in January 2018, and let them know that BDA will submit comments to the SEC in the coming weeks.

### **MSRB Rule G-15 on Minimum Denominations**

The MSRB withdrew a proposed rule to amend its G-15 Rule after advocacy from the BDA with Dan Deaton from Nixon Peabody. Discussed with Mike Post, General Counsel for MSRB, was the purpose of the minimum denomination rule and minimum denomination language in issuer bond indentures for standard issuance and limited offerings.

The MSRB sought the BDA's input on minimum denominations and in early September, Sharon Zackula, Associative General Counsel for MSRB, and Mike Post engaged with several BDA members about the denomination rule, as it exists today.

The BDA will continue to stay in contact with Mike Post, as it seems the MSRB is committed to updating Rule G-15.

### **MSRB Request for Comment on Dealer and MA Advertising Rules**

In March 2017, BDA submitted a [comment letter](#) in response to the MSRB's request for comment on amendments to MSRB Rule G-21 (Advertising) and to establish an advertising standard for municipal advisors, (Rule G-40).

In that letter, the BDA urged the MSRB to harmonize its advertising regulations for dealers with existing FINRA regulations applicable to dealers. Additionally, the BDA argues that Rule G-40 should be tailored to the actualities of the municipal advisory business, which is modeled for the broker-dealer.

## **Private Placement Activity of Non-Dealer Municipal Advisors**

BDA remains concerned that non-dealer municipal advisors (MAs) may be in violation of securities law by denying investors the protections of the broker-dealer regulatory regime. BDA has [consistently encouraged](#) the SEC and MSRB to remind non-dealer MAs that soliciting investors and acting as a placement agent are considered registered broker-dealer activities.

## **SEC Proposed Amendments to Rule 15c2-12**

In February 2017, the SEC proposed two new amendments to Rule 15c2-12, which would add two new events to the existing material events that would be required to be disclosed under an issuer or obligated persons continuing disclosure agreement.

Specifically, the SEC proposed to add the incurrence of a material “financial obligation” or agreement to a material debt covenant or debt provision that would modify the priority rights of the issuers or obligated persons and existing debt holders as a material event under 15c2-12.

The BDA submitted a [comment letter](#) to the SEC in May 2017.

**The U.S. Department of Treasury’s [report](#)** on U.S. capital markets was published in October 2017. BDA contributed to the report.

## **SEC Fixed Income Market Structure Committee (FIMSAC)**

Three BDA members were included on the SEC’s FIMSAC when it was [formally announced](#) in November 2017. The [first FIMSAC meeting](#) was held on January 11, 2018 and focused primarily on liquidity in the corporate bond market. Kevin McPartland with Greenwich Associates, a BDA partner, was a featured speaker.

## **New SEC Commissioners**

On January 11, 2018 [the SEC swore in two new commissioners](#), Republican Hester Peirce and Democrat Robert Jackson. BDA looks forward to continuing our SEC outreach and will meet soon with the new commissioners.

# 2017 LEGISLATIVE INITIATIVES

*BDA provides its members with in-person access to key Capitol Hill policy makers on the Senate Finance Committee, the Senate Banking Committee, the House Financial Services Committee and the House Ways and Means Committee. The legislation developed by these committees directly impacts the fixed-income markets and our members.*

## **Protecting Tax-Exempt Bonds**

BDA was a key player in maintaining the tax-exempt status of both governmental municipal bonds and private-activity bonds. The BDA, along with the [Municipal Bonds for America](#) (MBFA) coalition, have worked tirelessly to protect all tax-exempt bonds and these efforts were rewarded when both chambers fully preserved the tax-exempt status of governmental municipal bonds in the Tax Cuts and Jobs Act.

The relationships built on Capitol Hill proved instrumental in the fight to protect private-activity bonds. The House fully eliminated PABs in the Tax Cuts and Jobs Act, while the Senate preserved the tool. The BDA and MBFA worked with champions in the Senate to become vocal leaders in the process and helped influence the House Municipal Finance Caucus to take action.

The BDA and MBFA have worked with Members of the bi-partisan House Municipal Finance Caucus since its creation in the spring of 2016 and helped the group grow to over 40 Members. Chaired by Representatives Hultgren (R-IL) and Ruppertsberger (D-MD), the caucus penned a [letter](#) to congressional leadership urging the reinstatement of private-activity bonds and municipal advance refundings in any conference committee tax legislation with the support of the BDA and MBFA.

The letter, which was signed by over 20 Members of Congress, along with support by key Senate leaders, such as Sen. John Cornyn (R-TX) and Sen.

Tim Scott (R-SC), sent a signal to the conference committee that PABs were non- negotiable.

The chairmen of the caucus also submitted an amendment to the House Rules Committee prior to the House vote on the package, which would have maintained the current law on municipal advance refundings. The amendment, which the BDA assisted in drafting, was rejected over a technical decision by the House leadership to not allow amendments during the floor debate.

While municipal advance refundings were repealed in the final tax package, groundwork was laid for potential fixes in 2018. The BDA continues to work with the MBFA and others in the issuer community on policy proposals in place of a full repeal. 2018 will be pivotal in this effort as Congress is expected to produce multiple technical fix packages in response to the passage of the Tax Cuts and Jobs Act.

In early December 2017, the BDA hosted a member “fly-in” where BDA member firms met directly with Members of Congress, senior staff from key congressional committees, and top market regulators. Topics discussed were the protection of private-activity bonds and working to find a solution in place of a full repeal of municipal advance refundings.

In addition to all hands on deck, grassroots advocacy efforts on the Hill, the BDA wrote [letters](#) to House and Senate leadership and the committees of jurisdiction in response to the release of their respective pieces of legislation.

## **HQLA**

H.R. 1624, the Municipal Finance Support Act of 2017, sponsored by Rep. Luke Messer (R-IN) and with support of the BDA, passed the House by a unanimous voice vote in October. The bill would amend the Federal Deposit Insurance Act and require certain municipal bonds to be classified as level 2B liquid assets. The bill currently awaits action in the Senate Banking, Housing and Urban Affairs Committee.

The committee is expected to deliberate the package in 2018 and the BDA will continue to press the Senate to maintain the 2B classification as mandated by the House bill.



## **Financial Regulatory Reform Legislation**

House Financial Services Committee Chairman Jeb Hensarling (R-TX) authored H.R. 10, the [Financial CHOICE Act](#), which the House passed in June 2017. The bill, designed to be a Republican overhaul of the Dodd-Frank Act, is now awaiting Senate action.

Senate Banking Committee Chairman Mike Crapo (R-ID) authored a smaller financial regulatory reform overhaul bill, S. 2155, [the Economic Growth, Regulatory Relief and Consumer Protection Act](#). S. 2155 does have bipartisan support and is considered to have a much higher likelihood of being law than the CHOICE Act.

Important to BDA member firms, S. 2155 directs the FDIC, the Federal Reserve, and the OCC to classify qualifying investment-grade, liquid and readily marketable municipal securities as level 2B liquid assets under the agencies' liquidity coverage ratio rules (see HQLA section above).

# BDA 2017 EVENTS

*BDA roundtables, seminars, member fly-ins, events, along with the BDA National Fixed Income Conference allow member firms to engage with key Capitol Hill policy makers, regulators, and fellow dealers to discuss significant market and regulatory issues. BDA events ensure we keep you apprised of developments on key business, market, regulatory and legislative challenges that directly impact the fixed-income markets and your business.*

- **Annual Strategy Session**, February 2017, Half Moon Bay, CA. This event featured two days of discussions on the taxable, municipal and retail fixed-income markets, the evolving role of technology in fixed-income as well as an in-depth discussion of the political and regulatory outlook for the BDA in 2017. To view the event recap, [click here](#).
- **National Municipal Bond Summit**, March 2017, Palm Springs, FL. Co-hosted with The Bond Buyer, the National Municipal Bond Summit.
- **Retail Fixed Income Roundtable**, May 2017, St. Louis, MO. Hosting almost 50 firms, attendees discussed the issues most important to their businesses, including candid dealer-to-dealer discussions about ongoing regulatory challenges and the various approaches to maximize resources. To view roundtable recap, [click here](#).
- **Heads of Public Finance Roundtable**, June 2017, Chicago, IL. This event hosted 20 firms, attendees at the roundtable discussion focused on the issues facing middle-market banks and dealers in public finance securities, including municipal advisor rule licensing, G-17 supervisory responsibilities, implementation of issue price regulations, compliance with due diligence obligations, and tax reform. To view roundtable recap, [click here](#).

- **Fixed Income Legal and Compliance Roundtable**, June 2017, Washington, D.C. 30 attendees from BDA member firms participated in this year's event that discussed hot regulatory and compliance topics, shared regulatory examination experiences and also heard directly from senior staff at the MSRB, SEC and FINRA. To view the event recap, [click here](#).
- **Institutional Fixed Income Conference**, August 2017, Chicago, IL. This event, attended by heads of fixed income from over two-dozen middle-market firms, focused on the most impactful business, regulatory, and market-technology issues facing middle-market and regional securities dealers in the U.S. fixed income markets. To view the event recap, [click here](#).
- **Fixed Income Legal & Compliance Roundtable**, October 2017, Dallas, TX. Over 30 BDA representatives and industry participants attended this event with candid dealer-to dealer discussions about a variety of issues directly impacting business at member firms. To view the event recap, please [click here](#).
- **Heads of Public Finance Roundtable**, October 2017, Dallas, TX. Attended by over 20 representatives of BDA member firms, which provided a venue for information sharing and discussed the most recent regulatory and market topics, attended the roundtable. To view the event recap, [click here](#).
- **National Fixed Income Conference**, October 2017, Dallas, TX. This event has quickly become the most focused and widely attended US fixed income conference for sell side firms. In 2017 our National Fixed Income Conference attracted a record number of attendees, exhibitors and sponsors. Thank you to all who continue to make this event a success. To see the event recap, [click here](#).

# ADDITIONAL NEWS

## **BDA Continues to Add Members**

BDA membership continues to grow year after year. In 2008, we launched our association with 14 member firms and are proud to say that in just over 9 years time, we've grown to over 70 members headquartered literally coast to coast. In 2017, we welcomed the following firms as the newest BDA members:

### **Full Members**

- FTN Financial
- UBS Wealth Management Americas
- Calton & Associates
- Central States Capital Markets
- First Southern Securities
- Moreton Capital Markets

### **Associate Members**

- AxeTrading
- MTS Markets

# 2018 INITIATIVES

## **Member Fly-Ins**

Continuing an effort initiated in 2017, the BDA organizes member fly-ins for BDA member key contacts for a day of meetings on Capitol Hill and with Federal regulators on the priority legislative and regulatory advocacy issues, as prioritized by the BDA Board and committee leadership. These meetings are tremendously beneficial towards advancing the BDA's DC presence and overall impact. In 2018, the BDA will continue to organize these fly-ins on a quarterly basis.

## **Partnership with Greenwich Associates**

To advance the BDA's focus on taxable fixed income and general market structure trends and opportunities, the BDA has retained Greenwich Associates for 2018. This relationship includes regular conference calls, two industry surveys, strategic webinars, and multiple in-person speaking roles at BDA events for senior leadership at Greenwich. The Greenwich relationship simply expands the BDA's capacity to best represent the taxable fixed income markets before Federal lawmakers, regulators and policy makers in DC.

## **Partnership with American Continental Group**

The BDA retains the American Continental Group to bolster our Federal lobbying activity on all legislative matters as prioritized by the BDA Board and committee leadership. The BDA's relationship with ACG was extremely beneficial and evident during Federal tax reform, as the BDA worked to retain the tax exemption for government municipal bonds and private activity bonds in full. The ACG relationship improves the BDA presence on Capitol Hill.

## **Partnership with Nixon Peabody**

The BDA has retained and worked closely with Nixon Peabody since 2008 on all Federal regulatory issues, both municipal and taxable. In 2017 - and continuing in 2018 - the BDA expanded this relationship to include

“Business Solutions” for BDA member firms. The Nixon relationship now includes in-person consultation (exclusive to BDA members) on compliance and back office structure to ensure members firms are compliant with Federal regulatory requirements and expectations, in addition to general industry standards.

Thank you again for your engagement and your support. Please contact me if you need anything from the Bond Dealers of America.

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