



BDA10 *Years Strong*

Advocacy / Membership / Events



2Q 2018 Fiscal Year



To: BDA Member Firms

Re: 2Q Update on Advocacy, Events, and Membership

Just into our second quarter of FY 2018, the BDA continues to add new member firms as we lead the advocacy on a number of fixed income issues and host events targeted to the regulatory, legislative, market and business issues most relevant to middle-market, regional and small fixed income dealers.

Below is a summary of the current focus of the BDA, as directed by the BDA Board under the leadership of Board Chair Brian Brennan of KeyBanc Capital Markets.

From FINRA 4210 to markup disclosure rules to municipal advance refundings, HQLA, the Small Business Audit Correction Act, and the SEC's focus on fixed income market structure – the BDA has and continues to aggressively represent member firms with key congressional offices and federal regulators and policy makers.

Enhancing our political presence in DC, the BDA utilizes our federal political action committee and next month we're pleased to host a small dinner for US Representative Bill Huizenga (R-MI). Rep Huizenga is chair of the Capital Markets Subcommittee of the House Financial Services Committee. **Thank you to the BDA members planning to attend this small dinner.

I'm pleased to announce the BDA now represents more than 70 firms with the recent additions of LPL Financial, Sandler O'Neill, and B. Riley FBR. The leadership at these firms, engaged directly through BDA committees and working groups simply makes the BDA a stronger, more impactful advocate for all member firms.

A full event schedule is below. This week we're expecting over 20 heads of municipal finance at our semi-annual Public Finance Roundtable, and we're preparing for the annual BDA Institutional Fixed Income Roundtable, August 16 in Chicago and our National Fixed Income Conference on October 25 and 26 in Washington, DC.

Thanks to your engagement the BDA has become the industry leader for events focused on the US fixed income markets.

As always, thank you for your continued support and please contact me if you need anything from BDA.

Mike Nicholas
Bond Dealers of America
202-204-7901
mnicholas@bdamerica.org

Federal Regulatory and Legislative Priorities 2Q 2018 Update

Regulatory Priorities

FINRA Rule 4210

The BDA continues to engage Capitol Hill, FINRA and the SEC on next steps for FINRA Rule 4210. In 2018, the BDA met with SEC Chair Clayton and each SEC Commissioner in addition advocating for excluding from the rule transactions from the “Covered Agency Securities” definition that do not pose systemic risk, such as specified pools and CMOs; transactions from the “Covered Agency Securities” definition that settle on the next or first good settlement date; and/or allowing dealers to take a capital charge instead of requiring them to enter into margining agreements with customers.

The BDA believes that FINRA should revise the amendments to allow dealers to either charge margin to counterparties or to take a regulatory capital charge to cover any mark-to-market deficiency in excess of the de minimis threshold. This would allow dealers to remain competitive with money manager accounts and still manage any systemic risk. This proposal was discussed with Robert Cook and senior FINRA staff in February and April 2018.

As a result of BDA member outreach and advocacy efforts, FINRA and the SEC has delayed the implementation date of Rule 4210 to March 25, 2019. The BDA continues to press for inclusion of the capital charge proposal and is planning a meeting for BDA members to discuss this issue directly with FINRA staff in mid-May and June.

The BDA has continued to advocate for the Capital Charge Proposal, both directly to FINRA as well as on Capitol Hill. On June 7th, the BDA submitted a letter co-authored with two small member firms, Duncan-Williams and NatAlliance, in support of the Capital Charge Proposal and worked to dispel the myth that the Charge would create a “race to the bottom” scenario.

The BDA continues to follow up with FINRA and maintain an open dialogue as they continue to assess what the next steps will be.

In addition to direct advocacy with the regulators, the BDA continues to engage with Capitol Hill. The Hill strategy is two-fold: 1) have the Member of Congress reach out to FINRA in support of the Capital Charge Proposal, 2) terminate the amendment before it is finalized on March 25, 2019.

SEC Municipal Disclosures-Rule 15c2-12

The BDA continues to advocate on Rule 15c2-12 to the SEC Office of Municipal Securities. Working with the Legal and Compliance Committee, the BDA continues to encourage commissioners to update the Commissions interpretative guidance last updated in 1994.

The BDA invited acting director, Rebecca Olsen to the annual Fixed Income Legal and Compliance Roundtable where she fielded members concerns over the lack of transparency in the status of the rule.

SEC Fixed Income Market Structure Committee

The BDA Taxable Committee continues to play an active role in the SEC Fixed Income Market Structure Committee. At the April meeting, FIMSAC recommended a pilot on TRACE-eligible corporate securities. The BDA Taxable Committee has been engaged and is monitoring the progress of the pilot program.

BDA members of the SEC's Fixed Income Market Structure Advisory Committee (FIMSAC) include Horace Carter (Raymond James) was selected for the committee, as were BDA members Amar Kuchinad, (Trumid Financial) and Richard McVey (MarketAxess).

SEC Best Interest Standard/ DOL Fiduciary Duty

Focused on the specific impact to fixed income, the BDA continues to be engaged with SEC Commissioners and staff on next steps and plans to further engage Capitol Hill as the SEC comment period opens this summer.

In April 2018, the SEC voted to issue for public comment two proposed rules and an interpretation to address the fiduciary rule/best interest standard. Comments are due on August 7, 2018. BDA will form a working group to draft comments to the SEC.

Focused exclusively on fixed income, the BDA is forming a working group to draft comments for submission to the SEC in the coming months on the Best Interest Standard.

Retail Confirmation Mark-up Disclosure Rules

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 rules and to make clear to the SEC the numerous compliance problems small firms are facing with vendors, etc. The BDA also explained to the commissioners the “general market liquidity provider” amendment. During the meeting with Chairman Clayton, he prompted the BDA to draft a “business plan” laying out the framework of steps to be taken if a delay of enforcement were to be granted.

Following the meeting, the plan BDA presented to the SEC included a “conformance period,” in which the regulations would not be enforced if broker-dealers acted in good faith and worked to come into full compliance with the rules by December 31, 2018. As a follow-up, in March 2018, BDA members also met with the two new SEC commissioners, Hester Peirce and Robert Jackson, Jr., regarding the mark-up rules.

Despite opposition from various trade groups, in late April 2018, the SEC denied the conformance period proposal for retail confirmation mark-up disclosure rules and they will become effective on May 14, 2018.

However, both FINRA and MSRB have agreed to work with BDA members as they prepare to comply with the rules and leave the door open for an extended timeline without enforcement.

MSRB Seeks to Establish Rule for Municipal Advisors/Update Dealer Standards on Advertising

The BDA has been active in submitting comments in opposition to the MSRB’s proposed new rule, MSRB Rule G-40, on advertising by municipal advisors, and

amendments to MSRB Rule G-21, on advertising by municipal securities dealers.

BDA submitted comments in February 2018 to the SEC in response to the MSRB's proposed new rule and met senior SEC staff in April 2018. BDA also submitted a joint letter with NAMA and SIFMA, requesting for the SEC to institute disapproval proceedings for the MSRB's proposed amendments to Rule G-21 and new Rule G-40 until the MSRB further clarifies and addresses these key issues within the text of the rules themselves.

However, the SEC has approved MSRB's proposed rule change and its effective date will be February 7, 2019. Prior to this date, the MSRB will provide guidance for municipal advisors relating to a municipal advisor's use of case studies and municipal advisory client lists; Rule G-40's content standards; and a municipal advisor's use of social media. BDA plans to submit comments, in partnership with NAMA and SIFMA on what issues the MSRB should cover in the guidance.

FINRA Government Securities Initiative

The BDA submitted comments to FINRA on April 9, 2018 in response to a February 2018 request for comment (Notice 18-05) on the application of various FINRA rules to government securities including U.S. Treasury securities and debt securities. The BDA believes that the application of FINRA rules to government securities will place undue compliance burdens and staffing challenges and opposes the proposal.

Legislative Priorities

Promoting Tax-Exempt Municipal Bonds and Private Activity Bonds

The BDA has been building relationships with various state and local groups, coalitions, and trade associations to continue to advocate for the protection of tax-exempt municipal bonds and for expanded use of private-activity bonds during "Infrastructure Week 2018" as well as further BDA's legislative priorities.

In early 2018, the Trump Administration released an infrastructure guideline that would eliminate the AMT provision, provide change-of-use provisions to preserve the tax-exempt status and allow for the advance refunding of PABs. The BDA continues to work with its partners on Capitol Hill to promote these

fundamental pillars in any infrastructure package.

Most recently in April and May 2018, the BDA Municipal Bond Division Leadership provided the Senate Finance Committee and the House Ways and Means Tax Policy Subcommittee with comments strongly urging them to expand the use of PABs.

Municipal Advance Refundings

The BDA is leading the advocacy push for H.R. 5003, legislation that would fully reinstate municipal advance refundings. While disappointed in the elimination of advance refundings in the *Tax Cuts and Jobs Act of 2017*, the BDA continues to work simultaneously with Capitol Hill, the Municipal Bonds For America Coalition, the full issuer community and the U.S. Treasury to find a market-based, regulatory no cost solution for municipal bond issuers.

Grassroots lobbying efforts are ongoing with BDA membership contacting their representatives in Washington. Most recently, in May 2018, the BDA Municipal Bond Division Leadership submitted comments to the House Ways and Tax Policy Means Subcommittee's hearing titled, "Tax Reform and Small Businesses: Growing Our Economy and Creating Jobs," requesting to restore the ability of state and local governments to save taxpayer dollars and generate additional funds for infrastructure and other key initiatives by restoring tax-exempt advanced refundings.

Financial Regulatory Reform Legislation: High Quality Liquid Assets (HQLA)

Working in tandem with state, local and issuer groups, the BDA has long-supported the introduction and re-introduction in the House and Senate and passage through the House of legislation to define municipal bonds as HQLA under banking liquidity rules.

With support of the BDA through extensive work and partnership with the issuer community, municipal securities were classified as level 2B HQLA in the Economic Growth, Regulatory Relief, and Consumer Protection Act, (S. 2155) passed both the House and Senate and was signed into law by President Trump on May 24, 2018.

Small Business Audit Correction Act

In June, Senators Tom Cotton (R-AR) and Doug Jones (D-AL) and Representatives French Hill (R-AR) and Vicente Gonzalez (D-TX) formally introduced *The Small Business Audit Correction Act* (S. 3004 & H.R. 6021). The bill would exempt small, privately-held, non-custodial broker-dealer firms from the requirement to use a Public Company Accounting Oversight Board (PCAOB) registered audit firm for their annual audits. Passage of legislation would allow eligible firms to conduct their annual audits in a less costly and burdensome manner. Many BDA members listed this issue as one of their top legislative priorities for the year.

Over the last few months, BDA has been actively meeting with all of the Members of the House Financial Services and Senate Banking Committees. We will continue to do so in the coming weeks to garner support for the bill.

Municipal Bonds for America (MBFA) Coalition

The coalition is dedicated to preserving the tax-exempt status of all municipal bonds, including private activity bonds and the recent loss of advance refundings. As discussions on Capitol Hill continue to develop on a federal infrastructure package and changes to the tax code begin to take form in “Tax 2.0,” simply a second phase of tax cuts, the MBFA will host its annual Hill briefing for Members of Congress and staffers on municipal finance on September 24th, 2018. The coalition will also provide an opportunity for BDA members to participate in its legislative Hill day, in which you’ll have the opportunity to participate to lobby member’s offices on why the tax-exemption is critical for infrastructure financing, while explaining the many benefits of the traditional municipal bond market on September 25th.

Additional BDA Priorities 2Q 2018

FinCEN Customer Due Diligence

The BDA continues to work with membership on developing best practices for the CDD rule, which goes into effect this May. FinCEN is issuing final rules under the Bank Secrecy Act to clarify and strengthen customer due diligence requirements for: Banks; brokers or dealers in securities; mutual funds; and futures commission merchants and introducing brokers in commodities. The rules contain explicit customer due diligence requirements and include a new requirement to identify and verify the identity of beneficial owners of legal entity customers, subject to certain exclusions and exemptions.

With the continued possibility of hearings on beneficial ownership this year, the BDA continues to engage the House Financial Services Committee offering assistance. The BDA will continue to monitor the possibilities as the legislative year progresses.

Michigan Legislation on Competitive vs. Negotiated Bond Sales

A bill was recently introduced in the Michigan State Legislature that would require municipal issuers to issue all outstanding debt through competitive bid, unless the issue is no more than \$500,000, at which point negotiated is an option. The BDA's Fixed-Income Municipal Bond Committee has developed a strategy to fight against the anti-competitive nature of this bill and will engage in a grass-roots effort to stop the legislation from moving forward before other states follow suit.

The BDA will be working with other groups represented in Washington, as well as Michigan-state associations that have vested interest in the issue to begin a campaign against the bill. This is an issue that has negative implications for underwriters and issuers across the country. The BDA will continue to update the membership through regular communications of our activities.

Upcoming BDA Events

Heads of Public Finance Roundtable

June 21
Quarles & Brady
Chicago, IL

Member Fly-In and Political Fundraiser

July 12
Washington, DC
On July 12, the BDA will host a small fundraising dinner (preceded by meetings with key congressional offices) for US Rep Bill Huizenga (R-MI), Chair of the Capital Markets Subcommittee within the House Financial Services Committee.

Institutional Fixed Income Roundtable

August 16
Four Seasons Hotel
Chicago, IL

2Q Board of Directors Meeting

August 17
Four Seasons Hotel
Chicago, IL

Fixed Income Legal & Compliance Roundtable

October 24
Location TBD
Washington, DC

3Q Board of Directors Meeting

October 24
Nixon Peabody
Washington, DC

Heads of Public Finance Roundtable

October 25
The Four Seasons Hotel
Washington, DC

National Fixed Income Conference

October 25 - 26

The Four Seasons Hotel

Washington, DC

4Q Board of Directors Meeting

February 7, 2019

Location TBD

Fixed Income Strategy Session

February 7 - 8, 2019

Location TBD