

January 18, 2017

***VIA ELECTRONIC MAIL***

Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F. Street NE  
Washington, DC 20549-1090

**RE: Notice of Filing of a Proposed Rule Change to Amend FINRA Rules to Conform to the Commission's Proposed Amendment to SEA Rule 15c6-1(a) (SR-FINRA-2016-047)**

Dear Mr. Fields:

On behalf of the Bond Dealers of America ("BDA"), I am pleased to submit this letter in response to the request for comment related to FINRA rule filing (SR-FINRA-2016-047), a proposal to amend FINRA Rules to conform with the Commission's proposed amendment to Rule 15c6-1(a) to shorten the standard settlement cycle. BDA is the only DC based group representing the interests of middle-market securities dealers and banks focused on the United States fixed income markets and we welcome this opportunity to present our comments.

BDA appreciates FINRA's actions to reverse course and leave the requirement for delivering customer confirmations under FINRA Rule 11860(a)(3) unchanged at T+1. This means that smaller dealers will not be required to make significant and costly operational changes in order to comply with a T+0 confirmation delivery requirement. However, as previously expressed in our attached letters of December 10, 2015 to the MSRB and April 4, 2016 to FINRA, as well as our letter of December 5, 2016 to you, BDA remains concerned with how the proposed amendments to Rule 15c6-1(a) will impact both the timing and payment requirements of Reg T, as well as the potential negative impact that an automatically shortened settlement cycle under Reg T could have on retail investors. The timing requirement of Reg T, namely the requirement to receive payment for a transaction by T+5, is directly linked to the settlement-transaction timeframe of Rule 15c6-1(a). Shortening the standard settlement cycle to T+2 will shorten the Reg T timing requirement to T+4. We urge regulators to preserve the five-day payment timeframe required under the current version of Reg T.

Thank you for the opportunity to submit these comments.

Sincerely,



Mike Nicholas, CEO  
Bond Dealers of America

## ENCLOSURES:

1. MSRB Notice 2015-22: BDA Letter Submitted December 10, 2015
2. FINRA Regulatory Notice 16-09: BDA Letter Submitted April 4, 2016
3. SEC File No. S7-22-16: BDA Letter Submitted December 5, 2016

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 "Michael" being more prominent than the last name "Nicholas".

Michael Nicholas  
Chief Executive Officer

April 4, 2016

VIA ELECTRONIC MAIL

Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

**RE: FINRA Regulatory Notice 16-09 (November 10, 2015): Request for Comment on Proposed Amendments to FINRA Rules to Support the Industry Initiative to Shorten the Settlement Cycle for Securities in the U.S. Secondary Market From T+3 to T+2**

Dear Ms. Asquith:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to the Financial Industry Regulatory Authority (“FINRA”) Notice 16-09, on its proposed amendments (“Proposed Amendments”) to FINRA rules related to shortening the settlement cycle. 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**

BDA understands these regulatory changes are part of a broader, industry-wide initiative supported by the Securities and Exchange Commission’s (“SEC”) and other self-regulatory organizations (“SROs”) to shorten the settlement cycle by the third quarter of 2017. BDA believes this timeframe should allow FINRA, the SEC, and the MSRB to make all the required conforming regulatory changes, while also allowing ample time to assess the comments BDA is requesting FINRA to consider in this letter. Additionally, the late 2017 timeline should allow dealers to make all the necessary changes to systems that the proposed rule will require.

We urge FINRA to consider the impact that the Proposed Amendments will have on the fixed-income markets and broker-dealer customers, which we expand upon below.

**Impact on Customers and Overall Regulatory Concerns**

BDA members have concerns regarding the impact that a shorter settlement cycle would have on investors. For example, SEC’s Rule 15c6-1 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. Shortening the settlement cycle to T+2 would automatically reduce the timeframe before a dealer would have to liquidate an unpaid for transaction to T+4. Shortening the settlement cycle by one day may

negatively impact retail clients that still rely on sending checks, which may not be sent, received, processed, and cleared, within the shortened four-day window.

Brokers who do a large amount of retail business will undoubtedly require ample time to communicate the practical consequences that a shortened settlement cycle will have on retail customers. While BDA does believe, as stated above, the 2017 timeline does provide enough time to make the transition, this is a particularly sensitive area that broker-dealers and regulators should be cognizant of as the transition to a shorter settlement cycle continues.

The information from industry-wide testing will be beneficial and will inform the process going forward for the Proposed Amendments—especially as it relates to the anticipated conversations our firms will have with their retail clients. Time to educate retail investors will be required to get this particular client informed about the shift to T+2. However, in order to avoid a market disruption, we would request that FINRA and other regulators work to preserve the five-day payment timeframe as required under current Rule 15c6-1.

### **Consider the Impact of Altering Timing of 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 dates of fixed-income transactions. In some instances, this will create new regulatory burdens for dealers.

For example, the proposed FINRA Rule 11860(a)(3) would require members to deliver confirmations to a customer ‘not later than the close of business on the date of any such execution of the transaction’. This is a tremendous undertaking for broker-dealers, especially smaller dealers who are currently implementing a rather large amount of new regulatory requirements. Broker-dealers will need to commit large amounts of internal resources to change the systems and processes that are used to deliver confirmations in order to process confirmations on a T+0 basis. BDA urges FINRA to consider leaving other regulatory requirements that are tied to the settlement date, like the requirements for delivering customer confirmations under 11860, unchanged and allow customer confirms to be sent T+1. 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 the impact of the Proposed Amendments will become more understandable for the industry as more detailed analyses of the impact of the Amendments on systems and technology continue. 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 fixed-income markets 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 industry-wide discussions and gather any information needed to assess the impact of the Proposed Amendments.

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 of the Amendments. We believe that our input is valuable and that it provides FINRA with additional insight for middle-market broker dealers and BDA is willing to provide additional comments and information regarding this issue if needed. Thank you again for the opportunity to submit these comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Nicholas".

Michael Nicholas  
Chief Executive Officer



December 5, 2016

***VIA ELECTRONIC MAIL***

Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F. Street NE  
Washington, DC 20549-1090

**RE: SEC File No. S7-22-16: Amendment to Securities Transaction Settlement Cycle**

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to the request for comment (File No. S7-22-16) by the United States Securities and Exchange Commission, a proposal to amend Rule 15c6-1(a) under the Securities Exchange Act of 1934 to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date (“T+3”) to two business days after the trade date (“T+2”). BDA is the only DC based group representing the interests of middle-market securities dealers and banks focused on the United States fixed income markets and we welcome this opportunity to present our comments.

BDA understands these regulatory changes are part of a broad, industry-wide initiative, supported by the SEC and other self-regulatory organizations (“SROs”), to shorten the settlement cycle by the third-quarter of 2017. BDA believes this timeframe should allow the SEC, FINRA and the MSRB to make all the required conforming regulatory changes needed for the transition to a shorter settlement cycle, while also permitting sufficient time to assess and address the comments BDA is requesting the SEC to consider in this letter.

The BDA believes the proposed amendment will make clearing and settling transactions more efficient and that will reduce risk in the marketplace. However, we remain concerned with the consequences of amending the settlement cycle language given that other regulations are explicitly tied to the settlement-transactions timeframe. We urge the SEC to consider the impact that the proposed amendment will have on the fixed-income markets and broker-dealer customers, which we expand on below.

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

BDA members are concerned with the potential negative impact that a shortened settlement cycle could have, especially on retail investors. For example, under the Federal Reserve Board’s Regulation T (“Reg T”) the rule text specifies:

*Payment period* means the number of business days in the standard securities settlement cycle in the United States, as defined in paragraph (a) of SEC Rule 15c6-1 (17 CFR 240.15c6-1(a)), plus two business days.

Therefore, a broker-dealer has a total of five days to cancel or liquidate a cash account transaction if it has not been paid for within five business days (T+5) of the transaction. The result of the proposal to shorten the settlement cycle to T+2 would automatically reduce the timeframe before a dealer would have to liquidate an unpaid transaction to four business days (T+4). BDA requests that regulators endeavor to ensure that the shortened settlement cycle does not negatively impact retail clients that still rely on sending checks, which may not be sent, received, processed, and cleared, within the proposed four-day window. BDA would encourage the SEC to work with the Federal Reserve to ensure that broker-dealers have until T+5 to receive payment and do not have to liquidate customer transactions unnecessarily given the practical time constraints that will arise if the Reg T standard is shortened to T+4.

Thank you again for the opportunity to submit these comments.

Sincerely,

A handwritten signature in blue ink that reads "M. Nicholas". The signature is fluid and cursive, with the first name "Mike" and last name "Nicholas" clearly visible.

Mike Nicholas, CEO  
Bond Dealers of America