

April 8, 2016

VIA ELECTRONIC MAIL

Robert W. Errett
Deputy Secretary
Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549

RE: Notice of Filing of 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 (SR-MSRB-2016-04)

Dear Mr. Errett:

On behalf of the Bond Dealers of America (“BDA”), I am pleased to submit this letter in response to the Municipal Securities Rulemaking Board’s (“MSRB”) filing with the Securities and Exchange Commission (SEC) to define ‘regular way’ settlement as occurring on a trade date plus two-day basis and to make conforming MSRB rule changes (SR-MSRB-2016-04) (“Notice”). 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 and we welcome this opportunity to present our comments.

As the BDA stated in its letter to the MSRB dated December 10, 2015, we agree that the regular-way settlement cycle of municipal securities should be consistent with that of equity and corporate bond markets and that regulatory harmonization and a shortened settlement cycle should improve market efficiency. The industry-wide initiative to shorten the settlement cycle by the third quarter of 2017 should also provide middle-market dealers sufficient time to implement the operational changes that will be required due to the rule changes. However, BDA members remain concerned with the potential for negative municipal fixed-income customer impact as a result of the proposed amendments.

BDA Urges the Commission to Consider the Impact on Customers and Overall Regulatory Concerns

BDA members have concerns regarding the potential impact that the shortened settlement cycle will have on investors. For example, SEC’s Rule 15c6-1, which does not apply to municipal securities, 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 a dealer would have to liquidate an unpaid transaction to T+4. In addition, 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 with retail customers will require sufficient 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 it is a particularly sensitive area for broker-dealers. As a result, we ask that regulators remain cognizant of the potential for customer confusion as the transition to a shorter settlement cycle continues.

The information gathered 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 be having with their retail clients. However, in order to avoid a market disruption, we would request the Commission and other regulators work to preserve the five-day payment timeframe as required under current Rule 15c6-1.

BDA Urges the Commission to Consider the Impact of Altering Timing of Other Regulations

BDA believes the proposed rule will make clearing and settling transactions more efficient, thus reducing risk in the marketplace. Nevertheless, the impact to market participants of shortening the settlement cycle will filter through to other regulations explicitly tied to the settlement date of a municipal security transaction. 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 one day. As such, underwriters will need to change the systems and processes that are used to deliver offering documents. Therefore, leaving other regulatory requirements that are tied to the settlement date, like the requirements for delivering offering documents under G-32, unchanged would minimize the regulatory and compliance cost burdens of the proposed rules without limiting the risk-reducing benefits of the shortened settlement cycle.

Finally, BDA member firms are the dealers who will be most affected by the transition to a T+2 settlement cycle and the associated costs and potential compliance burdens of these amendments. Middle-market dealers in the municipal securities market offer a unique and valuable perspective and as such, the BDA would be happy to be a resource to the Commission as it continues to consider the market and operational impact of these rule changes. Thank you again for the opportunity to submit these comments.

Sincerely,



Michael Nicholas
Chief Executive Officer