



Federal Advocacy Update

July 18, 2011

Regulatory

BDA Opposes SEC Substitute for Credit Ratings. Pursuant to a requirement in Dodd-Frank, the SEC has proposed removing references to credit ratings from its regulations and substituting an alternative measure of credit-worthiness in the computation of net capital for nonconvertible corporate debt, commercial paper and preferred stock. The substitute proposed by the SEC would require firms to set up their own systems for evaluating credit-worthiness, essentially reproducing the system of the credit ratings agencies. This approach would be extremely detrimental to smaller firms, to issuers and to investors. Because it is based on an inherent conflict of interest, the proposed system would not provide the protection necessary to counterparties. The BDA recommended an objective system based on trading spreads to an index. The BDA's comments are available [here](#).

Legislative

Debt Ceiling Resolution Uncertain. Negotiations and maneuverings over increasing the debt ceiling continue. Congressional leaders and the Obama Administration continue to say that the debt limit will be increased before August 2, but have not agreed on exactly how to do it.

BDA supports Rep. Garrett's bill for SEC cost benefit analysis. The BDA has sent a letter in support of HR. 2308, the SEC Regulatory Accountability Act, introduced by Rep. Scott Garrett (R-NJ), chairman of the House Financial Services Capital Markets Subcommittee. The SEC Regulatory Accountability Act would require the SEC to conduct cost benefit analysis on proposed regulations. A copy of the bill is available [here](#). The BDA support letter is available [here](#).

Senate Banking Committee Examines Investor Protection Issues including Fiduciary Duty. On July 12, the Senate Banking Committee took testimony on whether Dodd-Frank has enhanced investor protections. Witnesses included the MSRB, two former SEC Commissioners, CalPERS, and the Consumer Federation of America. There was some discussion of the fiduciary standard, with witnesses acknowledging that broker-dealers could meet the standard by disclosing conflicts. There was also concern that the Department of Labor ERISA standards on fiduciary duty could conflict with SEC standards and harm investors.

House/Senate Discuss Taxation of Debt. The House Ways & Means and Senate Finance Committees met jointly on July 13 to begin general discussions on debt and tax reform, focusing specifically in this hearing on the taxation of business and household debt. The municipal bond tax exemption was not discussed. Witnesses at the hearing included academics and former Treasury Department officials. The discussion centered on whether current tax law discourages business investment and provides deductions (like the mortgage interest deduction) that may encourage households to over-extend their budgets. Both the Senate Finance and House Ways and Means Committees will continue to hold periodic tax reform hearings, and the taxation of municipal bonds will likely be the subject of a future hearing

GASB Issues New Pension Recommendations. State governments would be forced to make dramatic changes in the way they calculate pension fund liabilities under new accounting proposals recently released by the Governmental Accounting Standards Board (GASB). Under the proposals, public pension funds would be required to report unfunded pension liabilities and provide more disclosures and additional supplementary information. GASB also recommends that public pension funds which have sufficient assets to make projected benefit payments be allowed to use the historic rate of return on investment in calculating current liabilities, but when a plan reaches a point of no longer having sufficient

assets it must shift to making its calculations using a lower, highly-rated municipal bond rate of return. Information on the GASB proposals is available [here](#).

Conferences & Events

2011 National Fixed Income Conference

The 2011 National Fixed Income Conference is booked for October 6 and 7 at The Four Seasons Hotel in downtown Denver, Colorado. This is the only conference of the year specific to middle market fixed income dealers and attracts over 150 senior executives from more than 60 dealers. Topics cover institutional, retail, municipal and taxable so mark your calendar and plan on being in Denver on October 6 and 7 this year.

For more information on the conference and to register, please click [here](#). For sponsorship and exhibit opportunities please contact Jen Elmi at jelmi@bdamerica.org or 202-204-7900.

Roundtable for Fixed Income Leadership

On August 10, the BDA is hosting a three-hour roundtable for fixed income senior leadership at BDA member firms. This roundtable will gather 25 to 30 senior fixed income leaders for interaction on market practice, business, regulatory and legislative issues that are impacting the US fixed income markets. This roundtable also provides a great opportunity to network with industry colleagues and peers at a reception following the roundtable and then at a Cubs' game at Wrigley Field that evening.

For more information please contact Jen Elmi at jelmi@bdamerica.org or 202-204-7900.