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New Chair John Fechter to Help BDA with Full Plate of Issues

By Jack Casey
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WASHINGTON – Bond Dealers of America will be working on a full plate of issues this year as it helps its members navigate recent and ongoing regulatory developments while maintaining its educational and Capitol Hill-centered work, said BDA's new board chair John Fechter.

Fechter, managing director and head of taxable trading at Wells Fargo Advisors in St. Louis, Mo., became chair on March 1. He spoke about the group's agenda and priorities for the upcoming year during an interview with The Bond Buyer.

"We need to be a value-added resource to our 59 member firms, whether we do that through advocacy in DC, host[ing] roundtables and webinars on topics such as legal and compliance … or simply providing interpretation and guidance on proposed regulatory rule changes," Fechter said about the trade group for middle market fixed income dealers.

His background in taxable fixed income, unique compared to the muni-dominated past of former chairs, is something he said he hopes will bring a different perspective with a chance to move away from the "same old way of looking at things."

The change in perspective has already brought noticeable results, he said, exhibited by better dialogue in the organization's board meetings so far this year.

He also hopes to leverage his familiarity with both taxable and tax-exempt trading to help the organization guide its members through future developments in the market, many of which are already prevalent in the taxable space.

"I think [munis] are going to run into some of the same issues we have experienced on the taxable side from liquidity to the advent of more electronic trading in the market," Fechter said about the municipal market over the next five years. "As those types of things become more adopted by the marketplace, I think it will become better but there are growing pains with that."

Some of those growing pains will likely come from implementing new regulation as the market adjusts, something BDA and its members are already focused on. The Municipal Securities Rulemaking Board is expected to be the main source of that regulation.

“Probably the most significant issue or one of the more significant issues we will face in the industry this year will be the retail confirm[ation] markup proposal,” Fechter said. “If the rule is ultimately to bring more efficiency and transparencies to the retail investors, then the BDA will continue to advocate for a less complex and less costly rule.”

The MSRB’s proposed rule changes would require dealers acting as principals to disclose to retail customers the markups and markdowns on muni trades. Dealer groups, including BDA, have asked the self-regulator to harmonize its rule with one from the Financial Industry Regulatory Authority. Since receiving initial comments, the MSRB has proposed revisions that would require dealers to go through a “waterfall” process to determine the prevailing market price, which would serve as the basis for calculating such markups.

“I think that we will see a final rule announced here in calendar 2016,” Fechter said, adding firms will need a long time for implementation. “For firms such as ours, a lot of our technology priorities are built out for 2016. When you throw something on top of that, it either pushes those other ones to the side, which are very important, or it is going to give us the need to have a longer time for implementation.”

Taxable Background Helps

Another major regulatory development for the muni market, and one where Fechter’s taxable background could help, is the adjustment to the MSRB’s best execution rule for muni dealers which took effect on March 21. MSRB Rule G-18 on best execution requires dealers, whether acting as agents or principals, to use "reasonable diligence" to determine the best market for a security and to then buy or sell the security in that market so the price for the customer is as favorable as possible under prevailing market conditions.

Helping member firms adjust their policies and procedures to make sure they are in compliance will be a “priority item” for BDA this year, Fechter said.

“For me, coming from a taxable [background] looking at it since we’ve had best-ex rules for as long as I can remember, here at our firm, we didn’t feel like it was that big of an adjustment for our municipal desk to adhere to this best ex standard, we felt we were already doing that,” he said.

However, he acknowledged that implementation could be challenging for firms without taxable experience to fall back on.

“You’ve got all these rules coming down … if you don’t have the experience and you haven’t dealt with this in the past, it can be overwhelming,” Fechter said. “You want to make sure you are checking all of the boxes and doing all the right things to comply with the rule.”

In addition to markup disclosure and best execution, BDA is also involved in market group discussions about improving continuing disclosure in the wake of the Securities and Exchange Commission’s Municipalities Continuing Disclosure Cooperation initiative. MCDC promised underwriters and issuers lenient settlements if they self-reported instances where the issuers inaccurately said in offering documents that they were in compliance with their continuing disclosure agreements.

The muni market will also be focused on implementation of three core MSRB rules that extend the MSRB’s regulatory framework to municipal advisors. The MSRB made changes for non-dealers in its Rules G-42, G-20, and G-37 on core duties, gifts and gratuities, and political contributions, respectively.

Jessica Giroux, general counsel and managing director of federal regulatory policy for BDA who joined the interview, said that BDA’s members are generally pleased that there is going to be a formerly unregulated component of the market now brought under a regulatory regime.

But the large number of implementation dates to juggle has created problems for dealers.

Regulatory Fatigue

“There’s definitely some regulatory fatigue amongst our member firms,” Fechter said. “We’re trying to implement a lot of things simultaneously and whether its systems, whether its policies and procedures, compliance, legal, we spend a lot of time on comment letters, a lot of time on just implementation. We want to be very thoughtful about how we set up our processes.”

“I would have thought that it would have slowed down by now,” he continued. “With that said, I don’t necessarily see things slowing down either.”

John Vahey, BDA’s director of federal policy who also participated in the interview, characterized BDA’s and its members’ task this year as facing a lot of regulations “all at once” and asking “how are all the firms going to figure it out.”

But Fechter said he and BDA realize the regulators are also trying to do their best in the market.

“The time that we spend with the regulators, you certainly express your concerns, but on the other side of the coin, you have to look at it from their perspective and when they have something that they want to enact, they want to do it as soon as possible,” he said. “There’s a balancing act. I think both sides for the most part are respectful of the others, it just takes a lot of time and money.”

BDA's list of topics to tackle goes on from there, including maintaining the tax-exempt status of munis, Treasury Department and Internal Revenue Service proposed rules on political subdivisions, bank regulations that do and do not treat munis as high quality liquid assets, and Treasury and IRS issue price rules. But Fechter said prioritization is going to be a necessity.

"We need to digest what we have in front of us before taking on a lot of other items," he said. "One of the things we talked about at the last board meeting was actually taking things off our list instead of adding more things."

Fechter also wants the BDA to continue representing members' interests to both regulators like the MSRB, FINRA, and SEC, as well as policymakers on Capitol Hill.

Giroux said BDA regularly asks regulators to explain trends they see with dealers when doing their periodic firm examinations.

"If a regulator can share [insights] with our members as they go through the examination process, it does help our members make more robust their policies and procedures so they are really in line with the understanding of what the regulator would like to see," she said.

The group also schedules member "fly-ins" periodically throughout the year where member firm representatives travel here to hold meetings with members of Congress and their staff.

Fechter said the fly-ins are something he wants to continue because they give small groups of members the opportunity to talk with lawmakers about issues concerning both individual respective firms and the industry in general.

"I think those tend to have a lot of impact because BDA has a lot more main street members than Wall Street members," Fechter said. "[Fly-ins] are a way to keep the BDA in front of those different contingencies."

Giroux added that fly-ins and BDA staff meetings on Capitol Hill help the group continue to educate members of Congress and their staffs.

"We try to give them a better understanding of who our members are so when they are thinking muni bonds, when they're thinking taxable bonds, when they think about coming to the market, improvements in infrastructure, any number of those things, we want the staff on the Hill to be able to call [BDA members] as a resource," she said.

The BDA is also focusing on maintaining its own strong internal operations. The group regularly holds seminars, conference calls, and roundtables about important topics affecting dealers in the market. The meetings and calls can center on anything from recent developments in regulation compliance and enforcement to challenges and solutions regarding trading and order management systems and other technological considerations. The internal discussions are an opportunity for BDA and its members to share insights and firm-specific developments that may be beneficial to the membership as a whole.

Fechter, who hails from the “show me” state and was born and raised in St. Louis, has worked in the same office in that city since 1988. He jumped into the fixed income market right after graduating from Benedictine College in Kansas with a BA in marketing. While he didn’t know much about the municipal business, he was connected through a few of his friends’ fathers who worked in it.

He joined Centerre Bank in 1985 trading repo funds and commercial paper before moving to A.G. Edwards & Sons in 1988 and trading governments, agencies, and mortgage-backed securities. He has stayed with the company, while working his way up to his current position, as the company was acquired by Wachovia Securities in 2007 and subsequently brought under Wells Fargo Advisors when that company acquired Wachovia in 2008. He has a wide array of experience both trading and managing groups during his time with the companies.