

BDA Bond
Dealers of
America



Year in Review

2016

A Message from our CEO

On March 3, 2017 the BDA begins our 10th year as the only DC based trade association representing and advocating for middle-market, regional and small securities firms and banks active in the US fixed income markets. The BDA's presence - both in DC and throughout the industry - our impact and our overall effectiveness are squarely tied to you - the BDA membership actively engaged to ensure focused success.

Over the course of the last 9 years, the BDA has increased membership from 14 to 62 firms while significantly adding to both our internal and external resources, designed strategically to best represent the membership by advancing BDA's regulatory, legislative and market practice priorities.

In 2016, Chair John Fechter of Wells Fargo Advisors, Vice Chair Tom Dannenberg of Hutchinson, Shockey, Erley and Treasurer Calvin Sullivan of Raymond James led the BDA Board of Directors. As we transition from our 2016 to 2017 fiscal year, we should all thank John, Tom and Calvin for their engagement and leadership during a year of dramatic growth, member engagement and aggressive federal advocacy. I personally want to thank all three for their support, guidance and leadership. 2016 was also the year the BDA helped launch the American Securities Association and the Equity Dealers of America. These two new organizations, both affiliated with the BDA, build a platform of more complete representation of middle market and small investment firms while increasing the DC presence and the overall impact of the BDA. We anticipate both new organizations will thrive in 2017.

A dramatic area of growth for BDA has been our industry events as we now host over 10 events throughout the year focused on the taxable, tax-exempt, retail, and institutional markets. Additionally, we host events tailored to specific functions like legal and compliance, sales managers, and heads of public finance. I want to send a big thank you to our many sponsors and exhibitors at these events! BDA events saw record attendance across the board and we'll simply build on this in 2017. All events are strategically designed to be tangibly beneficial to you and your firm with informative speakers and timely discussion topics, in addition to the opportunities to network and enhance working and personal relationships with fixed income leadership at firms headquartered nationwide.

In closing, the BDA is your trade association and your representative in Washington, DC. Please get engaged and help us best advocate for you and your firm as we begin with a new Administration and Congressional and Federal regulatory leadership. There are many opportunities now for the BDA to enhance our presence and make a real impact for your interests.

We are strategically positioned for an impactful 2017 but we need your engagement and support.

Thank you and please never hesitate to contact me if you need anything from the BDA.

Mike Nicholas
Chief Executive Officer
Bond Dealers of America

In this document –

You will find highlights from 2016, focusing on the highest priority regulatory, legislative, and advocacy issues the BDA faced last year. In 2017, BDA intends to continue to capitalize on our BDA member-driven initiatives including member fly-ins to Capitol Hill, webinars hosted in conjunction with outside consultants, and face-to-face meetings with senior level staff at FINRA, MSRB, SEC, IRS and Treasury.

In early 2016, BDA Board Chair John Fechter discussed the BDA's 2016 municipal market priorities in an interview with the Bond Buyer. Fechter discussed how the BDA “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.” In that article, Fechter focused on the BDA’s priority items for 2016 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.”

You can find a link to that story [here](#).

2016 REGULATORY INITIATIVES

In this time of massive regulatory change, BDA remained focused on the highest priority regulatory issues impacting the U.S. fixed income markets. BDA has consistently provided members with valuable opportunities to engage directly with regulators, Members of Congress, and senior staff on Capitol Hill in order to deliver a distinct, middle-market dealer message in Washington. The following is a recap of the regulatory issues BDA focused on in 2016.

FINRA and MSRB's Retail Confirmation Markup Disclosure Rules and MSRB's Prevailing Market Price Guidance

In August and September 2016, MSRB and FINRA each filed retail confirmation disclosure proposals with the SEC. BDA submitted comment letters to the SEC in response to both filings. In early November 2016, FINRA and the MSRB submitted additional amendments to the SEC. The amendments focused on harmonization of the rules and required a confirmation web link to EMMA or TRACE, a time-of-trade disclosure, and an 18-month effective date. In November, the SEC approved the retail confirmation disclosure proposals that will require dealers to disclose a markup for retail account trades where there is an offsetting principal trade. The MSRB has announced an effective date of May 14, 2018. FINRA has stated it intends to have a harmonized effective date.

MSRB's Request for Comment on Minimum Denominations

In April 2016, MSRB published a request for comment on amendments to Rule G-15 and for a new proposed Rule G-49, for transactions in bonds with minimum denominations. BDA submitted a comment letter to the MSRB stating that the proposed MSRB Rule G-49 should be focused on issuances with 'minimum authorized denominations' of \$100,000 and also argued that dealers should have increased flexibility to sell a portion of a below minimum denomination position acquired from a customer in an inter-dealer transaction. BDA will continue to monitor this proposal and will comment if it is submitted to the SEC.

Improving Municipal Disclosure: SEC Rule 15c2-12

BDA continues to work with our members and industry colleagues to engage the SEC on improving the clarity of disclosures in the municipal marketplace. Specifically, the BDA signed onto an industry-wide letter to the SEC requesting

many of the changes we suggested in our January 2015 letter to the SEC, which recommended several specific policy changes for SEC Rule 15c2-12. The recommended policy changes included changing the timing of listed events and eliminating the requirement for listed event notices for ratings changes, and providing obligated persons a more effective process for amending and updating financial and operating information filed pursuant to a continuing disclosure agreement.

Fiduciary Duty

In April 2016, the Department of Labor (DOL) approved a rule to amend the definition of 'fiduciary' under ERISA. The new rule applies a fiduciary duty to broker-dealers that provide investment advice to retirement investors. In response to the DOL's April 2015 rule proposal, BDA submitted a comment letter to the DOL and testified at a DOL public hearing at which we advocated for a rules-based approach and a coordinated effort with the SEC. In September 2016, BDA held a Fiduciary Duty Roundtable in Chicago that featured Morgan Lewis. The roundtable was designed to assist BDA members with their compliance efforts under the final rule.

MSRB and FINRA Best Execution Standards

MSRB Rule G-18 established a best execution standard for municipal securities transactions. The rule went into effect on March 21, 2016. MSRB published implementation guidance and FINRA also published best execution guidance for the fixed-income securities under its jurisdiction. BDA held a best execution implementation webinar during February 2016 and created a Best Execution Considerations Document for members, which is accessible in the Member Resources section of the BDA website.

FINRA Mortgage Security Margin Amendments

In October 2015, FINRA filed proposed amendments with the SEC to FINRA Rule 4210 to establish margin requirements for transactions in TBAs, specified pools, and collateralized mortgage obligations. BDA submitted comments to the SEC in November 2015 and February 2016 that highlighted concerns with the proposal. BDA also met with the SEC in January and May to discuss concerns and to advocate for changes, which we outlined in a letter submitted to the SEC in early May 2016, followed by another letter in late May. FINRA amended the rule three times, including implementing changes the BDA recommended including increasing the allowable gross open position limit and the minimum margin transfer threshold and permitting risk limits for advisor sub-accounts to be made at the advisor level. The SEC approved the rule in June 2016. The rule's written risk

limit determination requirement went into effect in December 2016. The rule's remaining requirements go into effect in December 2017.

Municipal Advisor Regulatory Regime

The SEC's Municipal Advisor (MA) rule went into effect on July 1, 2014. The core set of regulations for the MA regime have gone into effect, including pay-to-play obligations (G-37), supervisory and compliance obligations (G-44), core standards of conduct (Rule G-42) and limitations on gift-giving (Rule G-20).

Private Placement Activity of Non-Dealer Municipal Advisors

BDA remains concerned that non-dealer municipal advisors (MAs) may be violating securities law and denying investors the protections of the broker-dealer regulatory regime. BDA has consistently encouraged the SEC and MSRB to remind non-dealer MAs that soliciting investors and acting as a placement agent are registered broker-dealer activities.

IRS Issue Price Regulation

In June 2015, the IRS and U.S. Treasury issued a proposed rule to amend the definition of issue price for municipal securities. BDA submitted a comment letter in September 2015 outlining our initial concerns and suggesting an alternative approach. Additionally, BDA discussed the proposal with senior regulatory officials at the IRS and Treasury during an in-person meeting and delivered testimony at an IRS public hearing. In December 2015, BDA submitted a follow-up comment letter, which expanded upon topics covered during BDA's previous testimony, comment letter, and in-person meeting. In December 2016, the IRS issued a final rule to re-define issue price. The rule is effective on June 7, 2017.

IRS Political Subdivision Proposal

In February 2016, the IRS proposed a three-step framework for defining 'political subdivision'. In May, the BDA submitted a comment letter and urged the IRS and Treasury to withdraw the proposed rule because, as drafted, the rule would unnecessarily disrupt the ability of certain public projects to attract tax-exempt financing. Additionally, in June, BDA testified at an IRS public hearing on the proposal to advocate for a withdrawal of the rule and suggested an alternative approach.

MSRB Bank Loan Disclosure Concept Proposal

In March 2016, MSRB published a request for comment on a concept proposal to require the municipal advisor (MA) involved in a direct purchase or placement of a bank loan to disclose that transaction to EMMA. BDA commented in May and expressed its support for greater transparency of bank loans and direct placements

but opposed the proposed requirement to have municipal advisors be responsible for reporting the transaction. Subsequently, the MSRB stated that it would not pursue the proposal as outlined in the concept release.

Trade Reporting Amendments

FINRA and MSRB adopted several new trade reporting amendments in 2016, which are outlined below.

- **CMO Reporting:** In September 2016, the SEC approved a FINRA rule to establish a new reporting regime for CMOs, including real-time dissemination of transactions of \$1 million or less. In July, BDA submitted a comment letter to the SEC on FINRA's rule proposal. The rule is effective March 20, 2017.
- **Academic Data Sets:** In November 2016, the SEC approved new FINRA and MSRB rules to establish new academic data sets—new data sets designed exclusively for institutions of higher education. The data sets will allow academic institutions to research reported transactions through the use of an anonymous dealer identifier. The rules are effective on February 27, 2017.
- **TRACE Reporting for Treasury Securities:** In October 2016, the SEC approved a FINRA rule to require TRACE reporting for transactions in U.S. Treasury securities. At this time, there will not be public dissemination of Treasury transaction information and FINRA has not proposed any fees associated with Treasury reporting. The rule is effective on July 10, 2017.
- **ATS Indicator and No Remuneration Indicator:** In March 2016, SEC approved FINRA rules to require a new ATS indicator for reporting trades when the reporting party or contra party is an ATS. Additionally, a new “No Remuneration” indicator is being utilized to identify whenever a commission or markup/markdown is not assessed on a trade. These changes were effective in July 2016.

Proposed MSRB Complaint and Record Keeping Rules

In November 2016, the MSRB filed amendments with the SEC to update customer complaint and record keeping rules for dealers and to establish new rules applicable to municipal advisors. In December 2016, BDA submitted a comment letter, which argued for a longer implementation timetable and harmonization between existing FINRA recordkeeping codes. In early January 2017, MSRB filed an amendment and BDA is awaiting SEC action on the amended proposal.

Proposed FINRA Gifts and Non-Cash Compensation Rules

In August 2016, FINRA published a request for comment on proposed amendments to its gifts and non-cash compensation rules. FINRA proposed to raise its gift limit from \$100 to \$175 per year. BDA submitted a comment letter in September 2016, which opposed the increase unless the limit is harmonized with other regulatory gift limits established by securities and commodities market regulators.

Sales Manager Advocacy Item: SEC Petition for Form ADV Amendments In December 2016, BDA submitted a petition for rule-making to the SEC to engage in a rule-making to amend Form ADV. BDA's recommendations, if adopted, would make client prospecting more efficient for dealer sales personnel.

Proposed Rules to Shorten the Settlement Cycle (T+2)

In November 2015, the MSRB published a request for comment to facilitate shortening of the securities settlement cycles in Rule G-12 and Rule G-15. BDA submitted a comment letter in December 2015 that focused on concerns the impact a T+2 settlement cycle would have on middle-market securities dealers. MSRB received approval of its amendments in April 2016. In March 2016, FINRA published a request for comment on proposed amendments to support a shortened settlement cycle. BDA submitted a comment letter to FINRA in April 2016, which urged FINRA to leave the requirement to deliver customer confirmations unchanged on a T+1 basis. FINRA accepted this BDA recommendation. The SEC published its request for comment on a proposed amendment to Rule 15c6-1(a) to shorten the settlement cycle in September 2016. In December 2016, BDA submitted a comment letter to the SEC, which urged the SEC to maintain the current Reg T standard of allowing certain payments up to T+5. In December 2016, FINRA filed additional amendments to support the transition to T+2 and BDA will submit an additional comment letter in January 2017.

MSRB Closeout Procedure Rule

In January 2016, MSRB published a request for comment on proposed amendments to Rule G-12, to modernize closeout procedures. BDA's letter was submitted in March 2016 and provided recommendations to improve MSRB's proposal for closing out open transactions, requested guidance for the operational and implementation requirements of the amendments, and requested a 180-calendar day grace period for current outstanding inter-dealer fails. The SEC granted approval for MSRB's amendments in August 2016 and the rule became effective on November 16, 2016.

2016 LEGISLATIVE INITIATIVES

BDA provides its members with in-person access to key Capitol Hill policymakers on the Senate Finance Committee, the Senate Banking Committee, the House Financial Services Committee and the House Ways and Means Committee. The legislation developed by these committees directly impacts the fixed-income markets and BDA members.

Financial Reform Legislative Priorities

BDA will work with the new Congress and Administration to advance regulatory reform legislation. This will include working to advance BDA's advocacy priorities, including requiring more stringent regulatory cost-benefit analyses, High Quality Liquid Asset legislation, amendments to the Department of Labor Fiduciary Duty Rule, revisiting the Municipal Advisor Rule, and more.

CHOICE Act

BDA is encouraged by the legislative financial regulatory reform efforts that are already underway on Capitol Hill, including Chairman Jeb Hensarling's CHOICE Act. The CHOICE Act is currently the primary House GOP financial regulatory reform package. It includes several important provisions related to broker-dealer regulatory relief, including a repeal of the Volcker Rule, amendments to the DOL Fiduciary Duty Rule, requirements for securities regulators to perform more rigorous cost-benefit analyses, and provisions to make the enforcement process more fair and efficient.

Tax Reform

BDA and the Municipal Bonds for America (MBFA) Coalition will continue to work with Congress and the Administration to advocate for maintaining the tax-exempt status of municipal bonds during the upcoming Congressional tax reform legislation efforts.

Protecting Tax-Exempt Bonds

BDA wrote to the Ways & Means Committee opposing any proposal to modify or eliminate the tax-exempt status of municipal bonds. Additionally, BDA wrote a letter to House Speaker Paul Ryan (R-WI) and Rep. Kevin Brady (R-TX), Chairman of the House Ways & Means Committee, in response to the federal tax

reform plan known in Washington as the "Blueprint". BDA works with industry partners, including issuers and state and local groups, through the [Municipal Bonds for America](#) (MBFA) Coalition to preserve the tax exemption. In June 2016, the MBFA Coalition held a Muni Bonds 101 Seminar that over 35 House and Senate offices attended. The event included a panel discussion on the importance of preserving the tax-exempt status of municipal bonds.

Bank Qualified Bonds

The Municipal Bond Market Support Act of 2016 was introduced in both the House and the Senate in 2016. This Bank Qualified (BQ) bond legislation would increase the annual volume limit for bank-qualified bonds from \$10 Million to \$30 million and would require that the limit be indexed for inflation. In addition, the legislation would allow for the use of pooled financings and would calculate the volume cap at the issuer, rather than issuance, level. BDA has lobbied Congress extensively on the bank-qualified issue over the past six years and will continue to advocate for an increased bank qualified bond limit, and will work to get the bills re-introduced in the House and Senate in 2017.

High Quality Liquid Assets

BDA is supportive of legislation to include municipal bonds as High Quality Liquid Assets (HQLA) under the banking Liquidity Coverage Ratio. BDA worked with Rep. Messer (R-IN) who introduced H.R. 2209 in the 114th Congress. The bill would classify municipal securities as Level 2A assets in the bank liquidity rule. Additionally, there was a Senate HQLA bill, S. 3404, introduced by a bipartisan group of Senators that would classify municipal bonds as Level 2B assets in the bank liquidity rule. BDA will continue to advocate for the inclusion of municipal bonds via legislative and regulatory advocacy.

2016 BDA EVENTS

BDA events, including roundtables, webinars, seminars, member fly-ins, as well as the BDA National Fixed Income Conference allow member firms to engage with key Capitol Hill policy makers, regulators, and fellow dealers to discuss significant market and regulatory issues. BDA events ensure you are apprised of developments on key business, market, regulatory, and legislative challenges that directly impact the fixed-income markets and your business.

- **BDA Cyber security Webinar**, January 2016. Co-hosted with BDA Associate Member firm Quarles & Brady, this event focused on practical guidance for broker dealers in managing cyber security risks. To view the event recap, click [here](#).
- **Annual Strategy Session**, February 2016, New Orleans, LA. The strategy session was attended by key contacts from over 30 BDA member firms and it focused on regulation and enforcement trends, technology and fixed-income market structure, and BDA's regulatory and legislative agenda for 2016. To view the event recap, click [here](#).
- **BDA Best Execution Digital Roundtable**, February 2016. BDA hosted over 115 member-firm representatives for the BDA / Nixon Peabody webinar, which focused on high-priority best execution compliance questions and concerns. To view the event recap, click [here](#).
- **National Municipal Bond Summit**, March 2016, New Orleans, LA. Co-hosted with The Bond Buyer, the National Municipal Bond Summit is the industry's exclusive annual gathering offering market leaders the opportunity to meet and network with senior issuers, state and federal officials, as well as deal participants from across the country. To view details from last year's event, click [here](#).
- **Sales Managers Roundtable**, April 2016. This event focused on effective account management, regulatory issues, leveraging technology to deliver account management and sales force optimization, and more. To view the event recap, click [here](#).

- **BDA and Greenwich Associates Webinar**, April 2016. The webinar, entitled “Transformation in the US Corporate Bond Market”, focused on U.S. fixed-income market structure, liquidity, and technology. To view the event recap, click [here](#).
- **BDA and Nixon Peabody Webinar on Municipal Bankruptcy**, May 2016. The webinar addressed the increasingly important topic of due diligence and disclosure of municipal bankruptcy risks including what we have learned about how Chapter 9 treats bondholders. To view the event recap, click [here](#).
- **Municipal Market Seminar on Regulation, Compliance and Enforcement**, May 2016, St. Louis, MO. With over 100 attendees from both member and non-member firms, the seminar focused on current regulatory priorities, new developments in policy, the latest enforcement initiatives, and featured remarks from senior staff at the MSRB, SEC and FINRA. To view the event recap, click [here](#).
- **Retail Fixed Income Roundtable**, May 2016, St. Louis, MO. Hosted by Wells Fargo Advisors, the roundtable provided an opportunity to discuss issues regarding concerns in the municipal marketplace, best execution, retail confirmation and more. To view the roundtable recap, click [here](#).
- **MBFA Muni Bonds 101 Seminar**, June 2016, Washington, DC. This annual seminar on Capitol Hill for congressional staff focused on the importance of preserving the present-law treatment of tax-exempt municipal bonds. The House and Senate seminars featured a distinguished panel of municipal finance professionals from varying backgrounds who explained the benefits of the traditional municipal bond market to over 90 staff members from key congressional personal and committee offices. To view the event recap, click [here](#).
- **Fixed Income Legal and Compliance Roundtable**, July 2016, Washington, D.C. The roundtable provided an opportunity for candid, in-person discussion with industry colleagues at other BDA member firms. Attendees also heard directly from senior staff at the MSRB, SEC and FINRA. To view the event recap, click [here](#).
- **Institutional Fixed Income Roundtable**, August 2016, Chicago, IL. This event, attended by heads of fixed income from over two-dozen middle-market firms, provided an opportunity for candid, in-person discussion with

industry colleagues at other BDA member firms. To view the event recap, click [here](#).

- **BDA DOL Fiduciary Duty Rule Roundtable**, September 2016. Over 30 representatives of BDA member firms attended the roundtable, hosted by William Blair. The event featured presentations by Morgan Lewis and Deloitte. Dealers were also provided an opportunity to discuss business and compliance strategy questions related to the significant impending changes to the retirement investment landscape. To view the event recap, click [here](#).
- **Fixed Income Legal & Compliance Roundtable**, October 2016, Philadelphia, PA. This event was hosted by Janney Montgomery Scott and sponsored by Lumesis, NCFG and Quarles & Brady. Joining us at this roundtable was Mark Zehner, Deputy Director, Public Finance Abuse Unit and Division of Enforcement at the SEC. To view the event recap, click [here](#).
- **Heads of Public Finance Roundtable**, October 2016, Philadelphia, PA. This event was the first ever Heads of Public Finance roundtable and was attended by over 10 representatives at BDA member firms. Discussion focused on the biggest trends impacting the U.S. public finance markets, including the significant pace of regulatory change, the availability of new market technologies, and how businesses are adapting. To view the event recap, click [here](#).
- **Annual National Fixed Income Conference**, October 2016, Philadelphia, PA. This event garnered record numbers in attendees, exhibitors and sponsors. We drew record turnout across-the-board with over 230 fixed income leaders and in total, more than 70 firms represented. The conference focused on the biggest trends impacting the fixed-income markets and the future of the U.S. securities markets. To see the event recap, click [here](#).
- **BDA and ViableMkts First Friday Call Series**. In November 2016, BDA and ViableMkts launched the “First Friday” call series, a new and ongoing monthly series of conference calls, webinars, and discussions focused on the most significant trends impacting the fixed-income markets and middle-market fixed income dealers. The calls will primarily be led by Chris White, [the team](#) at ViableMkts, and other outside speakers. The November call recap is [here](#) and the December call recap is [here](#).

- **BDA Member Fly-In Series:** BDA hosts regular member "fly-ins" to Washington, D.C. to provide valuable opportunities for BDA member firms to meet directly with Members of Congress, senior staff from key congressional committees, and top market regulators. These meetings ensure that BDA member firms are able to engage and learn from regulators and lawmakers. In-person meetings allow BDA members to gain valuable insight into the rulemaking process, to discuss existing legislative and regulatory proposals, and ultimately to advocate for BDA member priorities. If you are interested in participating in a fly-in during 2017, please contact the BDA.

2016 BDA MEMBERSHIP

BDA membership continues to grow year after year. In 2008, we launched our association with 14 member firms and are proud to say that in just over 8 years' time, we've grown to over 62 members, including both full and associate members. In 2016, we welcomed the following firms as the newest BDA members:

Full Members

- Advisors Asset Management
- American Municipal Securities
- Roosevelt & Cross
- US Bank National Association

Associate Members

- DPC Data
- Municipal Bond Information Services
- The Karn Group
- Morgan Lewis
- Trumid