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[New BDA Chair Steve Genyk Talks About Agenda, Priorities.]

WASHINGTON – Bond Dealers of America is stepping up efforts to educate its members on regulatory compliance as well as electronic trading and to get them to meet with more lawmakers and staff on Capitol Hill, said new board chairman Steve Genyk.

Genyk, a managing director and the head of fixed-income capital markets at Janney Montgomery Scott in Philadelphia who became BDA chair on March 1, spoke about the group's agenda and priorities during an interview with The Bond Buyer.

Genyk said the trade group for middle-market dealers has been trying to provide educational resources in recent months to add more value for its more than 50 member firms.

"Joining a trade organization like the BDA is an expense for firms," he said. "We have to constantly strive to provide value to the membership."

BDA has begun some new initiatives to that end, he said.

"We're doing compliance training webinars now, which have been attended through WebEx by a lot of people," Genyk said. "Three-hundred people participated in the due diligence webinar, which is only available to members. The webinar focused on "the evolving need to do due diligence and the regulators' focus on the importance of due diligence," he said.

"We've recently formed an electronic trading and technology committee," Genyk continued. "Electronic trading is something that in the retail world has been pretty prevalent for a while now. It's becoming talked about more and more in the institutional world."

"A lot of our membership really benefits from learning more and becoming more facile with the technology aspects."

Genyk said the committee can help members learn about the alternative trading systems that are operating and how to integrate electronic trading into their firms — something smaller firms may not be familiar with.

Regulators want to encourage use of ATS', but Genyk said they have the potential to alter the market.

"The ATS' will continue to play a role in municipals, particularly as it relates to retail," he said, but added it's not clear what their growing role will mean for the market. "This is an evolving area of the marketplace that many of our members don't know about," he said.

BDA has also started monthly "member fly-ins," in which member-firm officials come to Washington and meet on Capitol Hill with federal lawmakers and senior staff from the key committees involved in muni-related and other issues.

"This type of work is really, really important because those in Washington who are making rules and regulating our industry, they need to hear from us directly and they need to hear from the practitioners directly," Genyk said.

The fly-ins "have been really, really well-received by Washington and by membership," Genyk said.

Two legislative issues that BDA is focusing on are preserving the tax-exemption for municipal bonds and increasing the annual issuance limit for issuers of bank-qualified bonds.

The exemption is "very, very important," said Genyk. "I think the notion of education around the tax exemption is critical."

Recently, as part of a member fly-in, George K. Baum & Company executive vice president Guy Yandel participated in a roundtable for the Senate Finance Committee tax-reform working group on community development and infrastructure that included staff from that panel and from the Joint Committee on Taxation. JCT staff had technical follow-up questions. After the roundtable, Yandel and BDA met with staff in lawmakers' offices and provided more basic information about the importance of the muni exemption, said BDA general counsel and managing director Jessica Giroux, who also participated in the interview.

BDA initiated the Municipal Bonds for America coalition, whose members have conversations weekly and meet in person once a month. The coalition plans to hold more "muni bonds 101 seminars" for congressional staff members, Giroux said.

Last year, the group held a seminar on the House side, and the previous year, it held one on the Senate side. This year, the group wants to hold seminars on both sides of Capitol Hill because there has been a lot of interest in learning about the exemption and tax reform, Giroux said.

"Tax reform isn't imminent, but it's more or less on everybody's radar consistently," she said.

Bank-Qualified Bonds

BDA also has been pushing for Congress to pass legislation to increase the annual issuance limit for issuers of bank-qualified bonds.

Under current law, banks can buy the bonds of issuers who issue $10 million or less of tax-exempt bonds per year and deduct 80% of their carrying costs, the interest expense they incur from purchasing or carrying an inventory of tax-exempt bonds. The $10 million limit was temporarily increased to $30 million under the American Recovery and Reinvestment Act, but that expired at the end of 2010. Outside of that temporary increase, the bank-qualified limit has not been raised or indexed to inflation.

The bank-qualified bond issue is "right in our members' wheelhouse" because it pertains to small and medium-sized issuers working with small and medium-sized underwriters, said BDA chief executive officer Mike Nicholas, who was on-hand for the interview as well.

BDA is working with the Independent Community Bankers of America, the Government Finance Officers Association, and other state and local government groups on the bank-qualified bond issue. One of the reasons BDA started its member fly-in program was to have its members talk about the benefits of increasing the bank-qualified limit, Nicholas said.

Bipartisan legislation to increase the bank-qualified limit to $30 million and index it to inflation has been introduced several times in past years in both chambers of Congress, but has not yet been offered in this Congress. It was offered in the House last year. There is still interest in that bill, which was called the Municipal Bond Market Support Act and was sponsored by Rep. Tom Reed, R-N.Y., Rep. Richard Neal, D-Mass., Giroux said.

On the Senate side, Sen. Mike Crapo, R-Idaho, and former Sen. Jeff Bingaman D-N.M., introduced a version of that bill in 2011. Bingaman retired from the Senate in 2013, and BDA and other groups are looking for a new Democratic sponsor of the bill so that it can be bipartisan, said Giroux said. Having bills be bipartisan helps the legislation move faster in Congress and attract more cosponsors, she said.

President Obama proposed increasing the bank-qualified limit to $30 million in his fiscal 2016 budget request. Last year's tax-reform proposal by former House Ways and Means Committee chairman Dave Camp, R-Mich., would have done away with bank-qualified bonds.

On the regulatory side, Genyk said, BDA is focused on what it feels is the disproportionate impact of rules and enforcement actions on small and medium-sized firms.

"You're going to hear that from us over and over again," Genyk said, making the point that while certain costs may be easily absorbed by major Wall Street firms, they are typically a burden for BDA members.

"The simple example is MCDC," Genyk said, referring to the Securities and Exchange Commission's Municipalities Continuing Disclosure Cooperation initiative. Launched about one year ago, the MCDC offered both dealers and issuers a chance to take advantage of lenient settlement terms if they self-reported instances in the previous five years in which the official statements of their bond deals falsely claimed the issuer was in full compliance with its continuing disclosure agreement. The civil penalties for dealers under the initiative were structured based on the sizes of their bond deals, but capped based on the size of the firm. The maximum total voluntary settlement penalty for a dealer was $500,000, but was capped at $100,000 for underwriters who reported less than $20 million of revenue in fiscal year 2013.

A $500,000 settlement for a medium-sized firm is far different monetarily than a $500,000 settlement for one of the "Big Five," Genyk said.

Another example is the cost of overhauling automated systems to comply with new Municipal Securities Rulemaking Board regulations, such as its recently-approved best execution rule.

"That expense is far greater to a small or medium-sized firm than it is to a large firm that has more revenue over which to spread the expense," he said.

MA Rules

Genyk said there is a "lack of uniformity" with how BDA members are interpreting what is or is not permitted under the SEC's municipal advisor registration rule, which was adopted in late 2013. The rule implements the 2010 Dodd-Frank Act's requirement that firms giving bond advice to state and local issuers owe those municipalities a fiduciary duty to put issuers' interests ahead of their own. The roughly 18 months since the rule's adoption have been marked by conversations about what behaviors dealers can engage in without having to register as MAs, something the SEC has said would preclude them from underwriting a bond issue resulting from their advice. Genyk said BDA firms view the boundaries differently.

"I don't think that's anybody's fault," Genyk said. "That's just the nature of a new rule."

Giroux said BDA's membership encompasses a diverse range of business practices and that the irregularity in interpretations of the MA rule has emerged as firms have been reworking their written policies and procedures pursuant to the rule. BDA is doing its best to keep members educated about the rule, Giroux said, but its actual application is up to the firms themselves.

Officials from the SEC's muni office have said repeatedly that they have no concrete plans to issue a third round of guidance on the MA rule, but also have not ruled it out. Giroux said BDA would always consider that helpful.

"We'd love to see additional guidance," she said.

Genyk also talked about his own background and his views on the challenges the muni market faces. Born in Detroit and raised in Ann Arbor, Mich., Genyk went on to earn a bachelor's degree at Wesleyan University in Connecticut. He moved to New York and began a career in corporate finance, initially at Morgan Guaranty Trust Company, now J.P. Morgan, and Shearson Lehman Hutton, which ultimately became Lehman Brothers.

After about three years, Genyk proceeded to earn a master's degree in government administration at the University of Pennsylvania in Philadelphia, inspired by his family's track record of public service. His father worked as a probation and corrections officer in Michigan, Genyk said, while his brother works for the Department of Justice and his mother and sister have each been social workers.

"I come from a family of public servants, literally everybody but me," said Genyk.

Genyk entered the muni world through an internship with the former advisory firm, PG Corbin and Co. while at graduate school, and decided to pursue a career in financial services after graduation. He worked at advisory firm A. H. Williams in Philadelphia for about five years before joining Legg Mason in the same city for more than eight years, rising to become co-head of public finance. After a short stint at Bear Stearns in 2005-2006, Genyk said, he saw the chance to fulfill a personal goal of working in the public sector for the Philadelphia Industrial Development Corporation. After two years in 2008, he joined Janney, following Legg Mason's Timothy Scheve, who had become president and chief executive officer of Janney the previous year.

Moving forward, Genyk said he sees the long-standing low interest-rate environment as posing a challenge for the muni industry.

"Persistently low interest rates are a challenge for the investors out there," Genyk said. "Good for the issuers, a challenge for the investors. A rising interest rate, when that happens, is something the entire industry is going to have to pay attention to."

"Will new money issuance increase as the economy expands?" he asked. Or will we remain sort of mired in the post-Great Recession anti-tax, anti-spend mode?"

Genyk said distressed muni issuers that have made headlines such as Detroit and Puerto Rico are "distractions for the industry" but are also important, particularly because of how widely-held Puerto Rico's bonds are. He said the industry should also be looking at the ongoing issue of pension underfunding, which the SEC has made clear in both enforcement actions against multiple states and in speeches from commissioners, that it is watching very closely.

"We're cautious." Genyk said. "We want to continue to stay focused on making sure that the regional middle market firm's voice is heard in a marketplace that is changing due to the market and due to increased regulation."

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