

# **Bond Case Briefs**

*Municipal Finance Law Since 1971*

---

## **SEC Approves MSRB Plan To Lengthen Board Terms To Four Years.**

WASHINGTON - The Securities and Exchange Commission has approved a Municipal Securities Rulemaking Board proposal that extends MSRB board terms to four years from three.

The approval means that all board members who start their terms in MSRB's fiscal year 2017, which begins on Oct. 1 of this year, will serve four-year terms. Also, only six new members will be selected next year instead of the normal seven.

The proposed changes to the board's Rule A-3 on board membership have drawn industry support since the MSRB first announced them in October of last year. They were approved on Thursday but the MSRB did not announce the SEC's decision and it was not posted on the commission's website until Friday.

"Longer board terms support greater continuity and institutional knowledge while preserving the benefits of a yearly incoming class with new perspectives and expertise," said MSRB executive director Lynnette Kelly.

The SEC said in its release approving the changes that it "believes that the effect of the proposed rule is beneficial and the proposed changes will improve the effectiveness ... of the board."

The Securities Industry and Financial Markets Association and Bond Dealers of America said in comment letters that they agreed the changes would help board members be more effective during their tenures.

SIFMA said the changes would specifically help public members who may have had limited exposure to the municipal dealer and advisor industries before joining the board.

BDA asked the MSRB to use the changes as an opportunity to reevaluate its training process for board members and make sure it is updated to reflect any changes in market practices or new regulations. Responding to BDA's comments, the MSRB said it already revises and improves its orientation process consistently.

The MSRB board is made up of 21 members, 11 of which are public and 10 of which are regulated. The members currently serve staggered three-year terms with a new "class" of seven members joining the board every fiscal year. The classes are named for the year in which its members are scheduled to leave the board.

The new arrangement approved by the SEC will keep the 21-member, majority-public board structure, but change the number of classes to four. One class will have six members and the other three will have five. The MSRB said it designed the changes to keep the balance between public and regulated members in each class as even as possible.

The changes also eliminate a requirement that each new class have at least one non-dealer

municipal advisor. The MSRB said the requirement, which would have led to four non-dealer MAs on the board at any given time, may have inadvertently limited representation of other regulated members. Despite the change, there will still be a requirement that the board in its current form have at least three non-dealer advisors serving at any time.

Additionally, the proposal also limits the number of consecutive terms a member can serve to two. Members would only be eligible for a second term if they are invited to do so because of a board-determined special circumstance or if they are filling a vacancy and are therefore only serving a partial term.

The SEC made its approval conditional on the MSRB implementing its stated plan to shift the board structure over three fiscal years, starting in 2017. For this next fiscal year, one public representative from the class of 2016 will receive a one-year extension and six new members will join the board. In fiscal year 2018, one public and two regulated representatives from the class of 2017 will each receive a one-year extension and five new members will join the board. Finally, for fiscal year 2019, three public and two regulated representatives from the class of 2018 will receive a one-year extension and five new members will join the board.

By fiscal year 2020, no further extensions will be needed and five new members will join the board. After that, new classes will be named annually in a repeating sequence of six members, then five members, then five members, then five members.

Any board member whose term expires on or after the end of MSRB fiscal year 2016 will be eligible for a one-year extension during the transition period. The full board will then vote by ballot to determine who receives the extensions.

The MSRB's proposal also lists several smaller changes to bring Rule A-3 up to date. It will eliminate a portion of the rule that laid out a transition process the board undertook in fiscal years 2013 and 2014 to move to 21 members from 15 because the process has concluded. It will also insert the updated name of a committee referenced in the rule.

## **The Bond Buyer**

By Jack Casey

March 18, 2016