

Bond Case Briefs

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BDA RECAP: Members Participate in Capitol Hill Fly-in on FINRA Rule 4210 & Host Congressional Fundraiser.

On Thursday, July 12, BDA members participated in a Capitol Hill fly-in, and hosted a fundraiser for Representative Bill Huizenga (R-MI), Chairman of the House Financial Services Committee's Subcommittee on Capital Markets, Securities and Investment. The primary focus of the meetings was amendments to FINRA Rule 4210.

BDA members in attendance:

- Brian Brennan, KeyBanc Capital Markets
- Lana Calton, Hilltop Securities
- David Medanich, Hilltop Securities
- Demetri Patikas, Vining Sparks
- Guy Yandel, George K. Baum & Co.
- Don Winton, Crews & Associates
- Ron Bernardi, Bernardi Securities

BDA members met with the following congressional offices:

- Rep. French Hill - Arkansas
- Rep. Steve Stivers - Ohio
- Rep. David Kustoff - Tennessee
- Rep. Jeb Hensarling - Texas (Chairman, House Committee on Financial Services)
- Sen. Tom Cotton - Arkansas
- Sen. Rob Portman - Ohio
- Sen. John Cornyn - Texas
- **Policy discussion:**

In April, FINRA asked the SEC to delay Rule 4210 amendments to March 2019, indicating that many market participants have requested that FINRA reconsider the potential impact of amended Rule 4210 on smaller and medium-sized broker-dealers. BDA and its members are supportive of this delay and would like FINRA and the SEC to reconsider these amendments.

BDA believes that the 4210 amendments represent a regulatory overreach by FINRA:

FINRA is using a broad statutory authority of the Securities and Exchange Act in an attempt to adopt a systemic risk rule, potentially violating congressional intent.

BDA believes that the 4210 amendments are anti-competitive to BDA members:

The margin requirements will push small- to medium-sized dealers out of the trading of these securities with larger buy-side institutions. BDA expects large buy-side institutions to halt trading these securities with BDA members due to practical demands.

The amendments could actually create systemic risk as they may consolidate the trading of these securities into a fewer number of counterparties instead of the broad number and kind of counterparties who currently trade these securities.

BDA expects large buy-side institutions to manage their exposure with smaller dealers by reducing trading and outstanding volumes to below the Rule's gross open position limit of \$10 million, making the required movement of margin unlikely.

BDA has also asked FINRA to consider allowing dealers to take a capital charge instead of requiring them to enter into margining agreements with customers:

A capital charge would allow dealers to remain competitive with money manager accounts and still manage any systemic risk.

Next steps:

BDA staff will continue to engage Capitol Hill on Rule 4210, and are working to gather further congressional support for a letter to regulators expressing the concerns of small and mid-sized broker-dealers with Rule 4210.

Specifically, BDA is working towards a rescission of the 4210 amendments, but is also engaging regulators on a capital charge, which would make the rule and amendments more tenable for BDA members.

Bond Dealers of America

July 17, 2018