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New Post in the Bond Buyer: BDA Group Wants to Play Key Role in Fixed Income Market Structure

WASHINGTON — The Bond Dealers of America has formed a Fixed Income Market Structure Working Group to advise regulators, lawmakers and market participants on structural changes in the fixed income industry and marketplace.

The regulators will include the Securities and Exchange Commission, the Municipal Securities Rulemaking Board, and the Financial Industry Regulatory Authority.

The working group will consist of representatives of 20 BDA-member firms in the retail, taxable and municipal bond markets and will be led by Brad Winges, managing director and head of fixed-income services of Piper Jaffray Firm Investments and Trading, and Kevin Giddis, head of fixed income at Raymond James Investment Services.

Its first meeting will take place via conference call on Monday, Oct. 15, and working group members plan to hold discussions at least once every quarter, according to BDA Chief Executive Officer Mike Nicholas.

Nicholas said the reasons for creating the group were two-fold.

First, in the aftermath of the financial/credit crisis firms have faced tremendous challenges that include tightening spreads and increased regulatory and technology costs. This has led some firms to shut down, drop out of the muni market or realign their business, presenting some opportunities.

And separately, the SEC has “a deep-dive focus on fixed income market structure and what it should look like,” Nicholas said.

There are a handful of major Wall Street firms in New York City and about 4,000 other firms located around the country, he said.

“The BDA is being very proactive,” Nicholas said. “We want to ensure that those 4,000 firms have a voice during this discussion of market structure. We think of ourselves as a thought-leader on this issue, just as we’ve been on infrastructure and how munis will be impacted and play a role in infrastructure next year.”

Nicholas pointed to Chicago-based William Blair as an example of the challenges faced by firms.

Viewed primarily as a municipal securities firm for more than five decades, William Blair announced in July that it was exiting the municipal securities business, after making an effort four years earlier to expand its public finance practice to new regions.

During the past few years, the firm saw steady revenue growth approaching \$1 billion and client assets at \$90 billion. But its municipal business contributed less than 3% to overall revenue in 2016, the firm’s President and Chief Executive Officer John Ettelson said in a release.

Meanwhile, the SEC late last year created a 23-member Fixed Income Market Structure Advisory Committee (FIMSAC), on which Wings sits, that held meetings in January, April, and July of this year.

The July meeting focused in part on the current state of pre-trade transparency in the muni market and on recommendations for electronic trading.

In his remarks at the inaugural meeting of FIMSAC, SEC Chairman Jay Clayton said the fixed income markets are massive, growing, and play a significant role for the American economy and the investing public.

The municipal bond market, by the end of 2016, had a total of 31,000 different issuers with roughly \$3.8 trillion of munis outstanding, up 17% since the end of 2006, he said.

The fixed income markets directly and indirectly significantly impact other markets such as the derivatives market. They are particularly important to retail investors and they are critical to the nation's infrastructure and companies, he said.

The SEC plans to work with "to ensure that our regulatory approach to these markets is sound and continues to meet the needs of retail investors as well as American companies and state and local governments," Clayton told the group.

Bond Dealers of America

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