BDA Bond Dealers of America

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January 28, 2025

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW Suite 1000
Washington DC 20005

Dear Mr. Smith,

The Bond Dealers of America (BDA) is pleased to provide comments on MSRB Notice 2024-14, "Request for Information on the MSRB's Rate Card Process." BDA is the only DC-based group exclusively representing the interests of securities dealers and banks focused on the US fixed income markets.

BDA largely stands by previous statements we have made to the Board and the Commission on the MSRB's Rate Card, budget process, and finances in general, viz., last year we told the Commission "While we do not disagree with the rate card system in general, we believe the MSRB's overall approach to fees and revenue is flawed. The Board's budget process is opaque, there is little to no oversight of the MSRB's spending, the rate of recent budget increases is unreasonable and unsustainable, the fee structure places too much burden on dealers and not enough on non-dealer municipal advisors, and fees under the Rate Card system, while intended to be stable, have turned out to be volatile." (BDA comment letter on SEC Release No. 34-99096).

While BDA appreciates some of the steps the Board has taken to address these issues and commends the Board for taking another comprehensive look at the MSRB's fee-setting and budgeting process, we believe that additional work is needed in order to improve fee rate setting transparency and predictability.

Market activity fees

The MSRB imposes three fees on dealers based on their levels of market activity, a transaction fee, an underwriting fee, and a trade count fee. The basis for these fees is generally reasonable. However, firms' preferences for which fees to emphasize vary depending on their business models and may even vary within firms depending on how the Board's overall fees are allocated internally. While the overall total of fees imposed by the Board on an individual firm may not change much from year to year, the mix of sources of fees does matter to some firms, and big swings in fee rates are not desirable.

We do not oppose a fee structure based on market activity as opposed to some other basis like headcount or revenue, nor do we believe that the general structure of market-based fees is unreasonable. However, we do believe that tighter collars around fee rate changes from year to year are warranted. For example, the 2024 fee rates the Board proposed and then withdrew changed substantially from the 2023 fee rates. The Underwriting Fee rate was proposed to increase by 25%, the maximum allowed under MSRB Rule A-13. The Trade Count fee rate would have fallen by 48%. This type of variance can and should be avoided. BDA recommends that instead of a maximum 25% increase in any market-based fee rate, the Board should consider a 10% threshold.

Fees for Municipal Advisors

MAs currently are taxed based on their numbers of registered professionals. The Board should consider an alternate basis for MA fees based on market activity such as volume of bond issuance on which the MA was engaged.

There is a fairness element to a market-based fee for MAs since that is the basis for dealer fees. Levels of market activity—volume of new issues on which the MA advised—could be made reportable by the MAs. We recognize that MAs sometimes do work for issuer clients that is unrelated to bond issues but still may be compensated from new issue bond proceeds. This does not make new issue advisory volume an inappropriate basis for MA fees since the fee would be based on advisory activity and not revenue.

On the issue of fee distribution across regulated entities, BDA believes that more attention is needed. For example, in its recent FY 2024 Annual Report, the Board reported that the MA headcount fee raised a total of $3 million in 2024 while the three market-based dealer fees raised a total of $45 million. MAs pay just 6% of the fees the MSRB collects from regulated entities. The Board has provided scant justification for why MAs pay so little. And despite their minimal contribution to MSRB resources, MAs are heavy users of MSRB trade reporting and data even though they do not provide data to those databases.

It is difficult to gauge what should be the appropriate portion of MSRB fees to impose on MAs because we lack necessary data. However, comparing fees earned by MAs from advising on new issues versus underwriting spreads earned by dealers is a possible starting point. Fee rates could be set such that the collective contribution of MAs approximately tracks the relation between what an underwriter typically earns from a new-issue transaction and what a MA earns on the transaction. However, unlike underwriting spreads, which are required to be publicly reported for each new-issue transaction, MA fees are not public. This opacity makes it difficult to determine whether the Board is charging MAs appropriately. The MSRB should consider collecting information from MAs on revenue derived from advising on new municipal securities issuance as a way to inform the question of the appropriate mix of underwriter and MA fees.

Reserves and the budget

We generally agree with the Board's reserve policy as expressed in the "MSRB Funding Policy" document. (https://www.msrb.org/MSRB-Funding-Policy-0) We believe target levels are appropriate and we agree with the method built into the Rate Card system for adjusting reserves—lowering fees and operating with a budgeted deficit when reserves are too high and raising fees when reserves are too low. Fee rebates can be cumbersome, especially trying to allocate underwriting fee rebates to syndicate members. We do not believe a rate stabilization fund is called for. That is simply holding additional reserves under another label. Instead, the MSRB should set fee rate change ceilings and floors to avoid big swings in rates while maintaining targeted reserve levels. In addition, there may be value in budgeting and fee-setting on a multi-year basis as a means of stabilizing fees.

With respect to the budget, we are pleased to see that for 2025 at least, year-over-year budget increases have become more sustainable—the increase in the Board's overall budget for FY2025 is just 3.0% higher than 2024 versus a 4.9% increase in 2024 and a 5.1% increase in 2023. We are also pleased to see the formation of the MSRB's Technology Advisory Group (TAG). Technology expenses make up nearly 60% of the MSRB's budget. And while the market and finance experts who comprise the Board and make it so effective have a deep understanding of the market, some may not have a similarly deep knowledge of IT issues. The TAG hopefully will address this, and we ask that the MSRB also consider recruiting Board members with technology backgrounds.

Conclusion

The MSRB has made notable improvements in its budgeting, fee-setting, and financial management in general, i.e., its reserve targets are more reasonable., its year over year budget increases are more sustainable, and the Board has taken steps to improve transparency and stakeholder outreach. However, BDA recommends further improvements to reduce unpredictability. For example, the suspension of the Rate Card for 2024 means that the Board collected 17% more in revenue from the industry last year while expenses rose only 5%. Steps to reduce fee rate volatility from year to year should include tighter collars around fee rate changes. The Board also needs to take a more rigorous look at how fees are allocated between dealers and non-dealer MAs. Part of this should include a comparison of underwriting spreads and MA fees derived from advising on new issues. In that context, the Board should consider a MA fee based on advisory new-issue volume.

We appreciate the opportunity to comment. Please reach out if you have any questions.

Sincerely,

Michael Decker
Senior Vice President