



July 13, 2015

Mr. Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street  
Suite 600  
Alexandria, Virginia 22314

Dear Mr. Smith,

SIFMA is pleased to comment on Municipal Securities Rulemaking Board (“MSRB”) Notice 2015-08, “Request for Comment on Draft Amendments and Other Issues Related to MSRB Rule A-3 on Membership on the Board” (the “Notice”). SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over \$2.4 trillion for businesses and municipalities in the U.S., serving clients with over \$16 trillion in assets and managing more than \$62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association.

### **Proposed amendments to Rule A-3**

SIFMA generally supports the proposed amendments to MSRB Rule A-3, with some suggestions for changes to the proposal to address reasonable concerns. We agree with the MSRB that the current definitions of “independent of any regulated entity” and “no material business relationship” are overly restrictive with respect to the public board seat that is required by statute to be representative of institutional or retail investors in municipal securities. We agree that the rule as it currently exists makes it excessively difficult to recruit independent board members who are investor representatives due to business affiliations that may not affect the independence of the board member. We believe it is important for the MSRB to recruit the best possible candidates for board membership, and the current Rule A-3 makes it difficult to find qualified investor representatives for the independent board seat that is required to be an investor.

We also agree that the proposed changes to Rule A-3 should be applicable only to the public board seat that is required to be an investor representative. We believe the current more restrictive rule for establishing the independence and absence of material business relationships does not seriously impede the MSRB’s ability to recruit independent board members other than for the seat required to be an

investor representative. The current, more restrictive rule helps ensure that the independent board members who are not required to be investor representatives are truly free from conflicts.

Proposed new paragraph (g)(ii)(2) of Rule A-3 would, among other tests, establish factors for determining that an independent board member “does not have a relationship with a regulated entity.” For one of those factors, proposed Rule A-3(g)(ii)(2)(1) states “(1) revenue from the regulated entity accounts for a material portion of the revenues of the consolidated entity that includes the investment advisor and the regulated entity.” The proposed rule does not, however, establish any firm test for “material portion of revenues.” In that regard, we urge the MSRB to revise the proposed rule to establish a more quantitative test for “material portion of revenues.” We suggest that “material portion of revenues” should be defined more than 20 percent of the revenues earned by the consolidated entity. This test would provide a degree of objectivity in determining “material portion of revenues” while still providing the MSRB with sufficient flexibility to recruit qualified candidates.

### **Other questions**

Notice 2015-08 seeks comments on other issues related to Rule A-3 and board membership. We offer comments on some of those questions.

On the issue of board terms, we urge the MSRB to consider providing for a longer term for board membership. Under the current three-year term, it can take new board members a year or more to orient themselves to MSRB issues and processes. By the time some board members have adapted to their roles, they may have only a year or so left in their terms to serve as fully effective and participatory members. We believe a term of four years would help address this issue and would allow the MSRB to leverage the experience of board members who are two or three years into their service. Under this approach, however, we believe the MSRB should consider establishing a firm lifetime cap of four years of board service. It is sometimes the case currently that board members serve their three-year terms, leave the board, and then come back later for second terms; or a board member may fill out a partial term and then remain on the board for a successive full term. We believe imposing a lifetime cap of four years of board service would help ensure new members are able to serve as appropriate while allowing the MSRB to leverage fully the experience of veteran board members.

Under four-year terms, there would be three “classes” of five board members and a fourth “class” of six board members. If the MSRB moved to four-year terms, there would need to be a transition plan for current board members. We believe the firm cap of four years of board service should also apply to board members serving under any transition plan. We also believe that a new four-year term should apply only to new board members; the terms of existing three-year board members should not be extended.

Four-year terms would also strengthen the leadership of the MSRB. Under our suggested four year-term arrangement, a board member would become eligible to serve as Vice Chair of the board in their third year of service and as Chair in their fourth year. This approach would ensure that the MSRB’s leadership has already served long enough as board members—two years for Vice Chair and three years for Chair—that they are fully oriented to MSRB issues and processes.

## Conclusion

SIFMA is pleased to comment on the issues raised in Notice 2015-08. We generally agree with the MSRB's proposal to amend Rule A-3 to provide more flexibility in recruiting individuals to serve in the independent board seat required to be an investor representative, subject to the suggested changes to the proposal that we outline. We also believe the MSRB should consider amending the terms of board members to four years and apply the provisions we describe, such as a lifetime cap of four years of service. We believe moving to single four-year terms would strengthen the board by leveraging the experience board members accumulate as they serve out their terms.

As always, please feel free to contact us if you have any questions on our comments.

Best regards,

A handwritten signature in black ink, appearing to read "M. Decker". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Michael Decker  
Managing Director