Commerce Bank
Member FDIC
1000 Walnut St.
Kansas City, MO 64106

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

Re: Notice 2021- 06, Request for Comment on Application of Regulation Best Interest to Bank-Dealers

Dear Mr. Smith,

The Capital Markets Group of Commerce Bank ("CMG") respectfully submits these comments in response to MSRB Notice 2021-06. The Capital Markets Group is a department of Commerce Bank ("Commerce") and is a registered bank-dealer. Commerce Bank, a subsidiary of Commerce Bancshares, Inc., is a Federal Reserve Member, Missouri Trust Company operating full service banking facilities across the Midwest including the St. Louis and Kansas City metropolitan areas, Springfield, Central Missouri, Central Illinois, Wichita, Tulsa, Oklahoma City, and Denver. We appreciate the opportunity to share our observations and comments in regard to the potential impact and effect of the proposed application of Regulation Best Interest on bank-dealers.

The Request for Comment invites market participants to provide comments in response to several questions and topics posed in regard to Regulation Best Interest. As noted by the MSRB, the terms of Regulation Best Interest ("Regulation BI") do not currently apply to bank dealers. Specifically, the MSRB is seeking comment on a draft amendment to MSRB Rule G-19, requiring bank dealers to comply with Regulation Best Interest when making recommendations of securities transactions or investment strategies involving municipal securities to retail customers.

Our comments with the corresponding Item Number from the Notice are as follows:

2. Are the municipal securities activities of bank dealers significantly distinct from those of broker-dealers to warrant a different standard of conduct? If so, can you provide a more detailed explanation about how or why bank dealers' municipal securities activities are so dissimilar?

> Although we cannot speak with direct knowledge of other bank dealers, we can provide applicable details about the activities of CMG. The majority of CMG's customers and related activity are institutional in nature, comprising over 91% of open accounts, and with many of the institutional customers designated as SMMPs. CMG does not actively market or seek to obtain new retail customer accounts. Many of our retail clients are related parties to the institutions we serve. For example, many CMG retail customers are typically more sophisticated and are familiar with fixed income products and securities markets. Also, as a bank dealer, CMG is generally only permitted to offer fixed income type products. Our retail customers are aware of this product constraint and utilize CMG services for only a portion of their overall personal portfolios.

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4. If bank dealers are subject to the requirements associated with Regulation Best Interest, to better assess the compliance costs, what portion of a bank dealer's municipal securities business would be impacted? In general, how much of a bank dealer's municipal securities business relates to retail customers? How much of a bank dealer's retail customer business involves a recommendation?

For CMG, retail customers comprise approximately 9% of CMG's total open account customer base. Further, only a portion of these retail accounts actually executed transactions in the last 12 months, comprising approximately 3% of CMG's total customers. As discussed above, the majority of CMG's customers are institutional in nature. In general, most CMG customers may currently be provided recommendations. Given the potential applicability of Regulation BI, internal consideration and assessments will now need to be performed to determine whether recommendations would continue for any CMG retail customers.

5. Would amending the existing regulatory scheme to extend the application of the requirements associated with Regulation Best Interest to bank dealers incentivize bank dealers to eliminate certain municipal securities activities with retail customers? Please provide any specifics available in support of your answer.

Given the significant existing suitability and documentation requirements applicable to CMG's current retail customers, the additional increased requirements, risks, and costs associated with Regulation BI will continue to be assessed. As a result of this review, consideration will most likely be given to the potential removal of retail customers from the CMG platform. In addition, CMG may also consider the elimination of providing recommendations for securities or strategies to retail customers.

6. If Regulation Best Interest's General Obligation and its Component Obligations were made applicable to bank dealers, should the MSRB omit, supplement, or otherwise modify any of the requirements associated with Regulation Best Interest to account for the municipal securities activities of bank dealers? Why or why not? If so, specifically how should the obligations be omitted, supplemented, or modified?

As previously outlined in our response to Question 2, important distinctions exist for retail customers of CMG when compared to a general securities broker-dealer model. For example, the sophistication level of the customers, as well as the regulatory limitations that govern the products permitted to be provided by bank dealers. Given these distinctions and the costs associated with developing a robust program to comply with Regulation BI, we propose the MSRB consider the possibility of omitting or modifying the requirements applicable to bank dealers. As previously stated, the number of retail accounts that comprise CMG's customer base is relatively small, when compared to the number of institutional customers. As currently proposed, the full requirements of Regulation BI would apply to a bank dealer in the absence of any consideration for the number of retail accounts. We propose the MSRB consider a threshold for applicability of Regulation BI, such as the percentage of retail customers that comprise a bank dealers customer base.

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13. If bank dealers become subject to Regulation Best Interest, what impact would that have on the municipal securities market? How would it affect capital formation? How would it affect competition?

Assuming the amendments are approved as adopted and bank dealers begin to move away from providing services to retail customers, bank dealers that underwrite municipal bonds would need controls in place to ensure underwritings or related commitments are appropriate for any retail order periods required by an issuer. The potential impact may be a smaller number of underwriting firms available or willing to work with smaller issuers and public entities in the market, limiting the number of competitors available for either competitive or negotiated deals. This may negatively impact a municipality's cost to borrow.

Thank you for the consideration of perspectives and information from the industry. We are certainly available to provide further details or aspects of this proposal for bank dealers.

Respectfully submitted,

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Capital Markets Group of Commerce Bank

Joseph Reece
Chief Compliance Officer - CMG
Capital Markets Group of Commerce Bank