BDA Bond Dealers of America

Taking Inventory: Quantifying the Costs of Regulatory Change

The BDA sponsored the following survey to its members (from December 2018 to February 2019) to provide Washington decision-makers with a clear picture of the cost of regulation and the associated impact to regional, middle-market, and small firm banks and broker-dealers exclusively focused on the U.S. fixed income markets that make up the BDA membership.

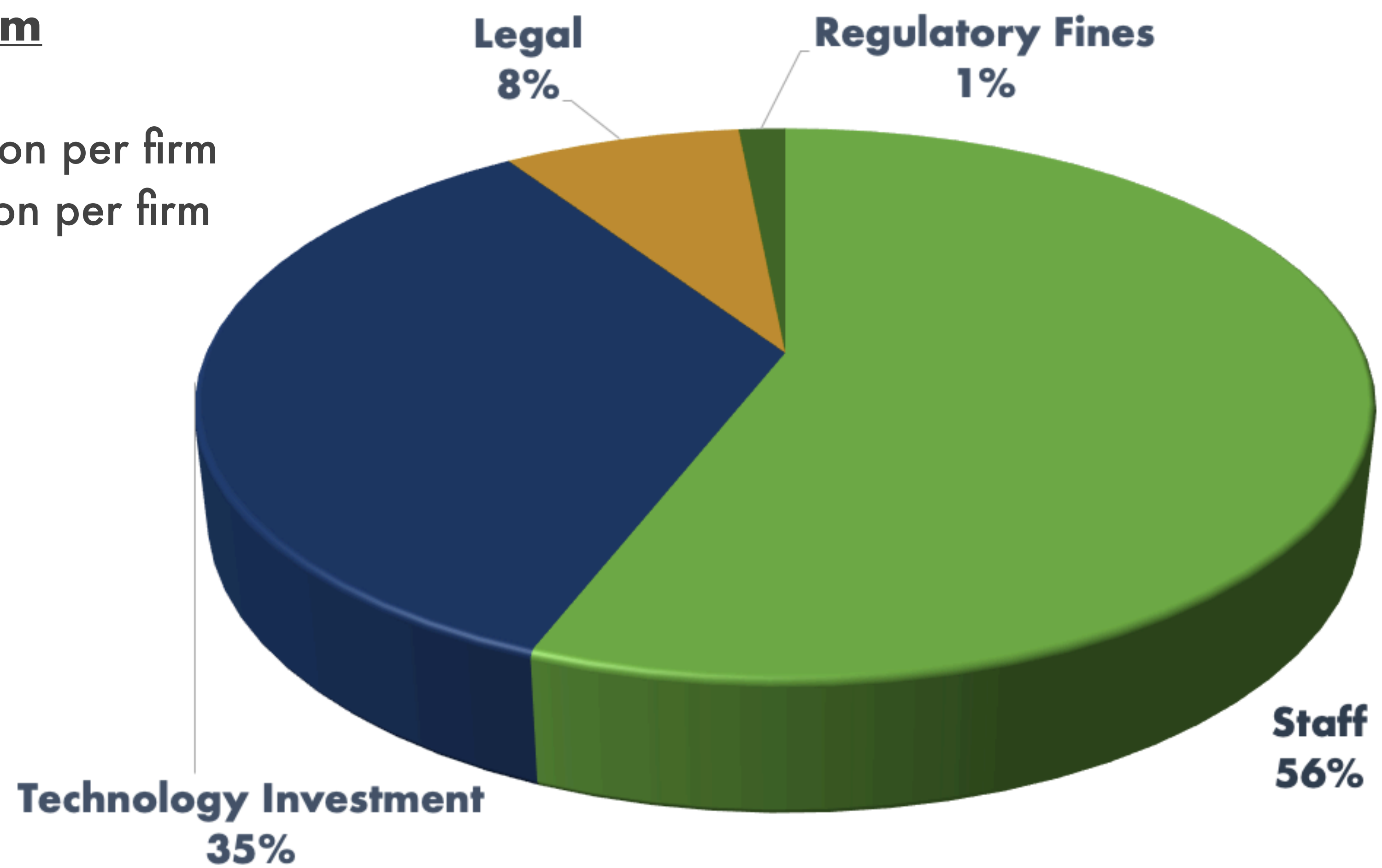
Highlights of Survey Results:

- Over **70 percent** of BDA members' compliance costs have **increased by 20 percent or more** since the Dodd-Frank Act was implemented in 2010.
- Compliance personnel has increased by an average of **3 persons** at each BDA member firm since 2008, with over **30 percent** expecting to hire an **additional 1 to 3** compliance staff in 2019.
- On average, new rule implementation has **increased** the firm workload by **15 hours** per week, per person at BDA member firms.
- **20 percent** of BDA member firms have spent **$1million or more** on legal fees associated with new rule implementation and/or examinations.

1) 10 years after the credit crisis (pre-credit crisis to today), what is the cumulative amount your firm has spent on the cost of regulation (resources and costs) for the categories listed below?

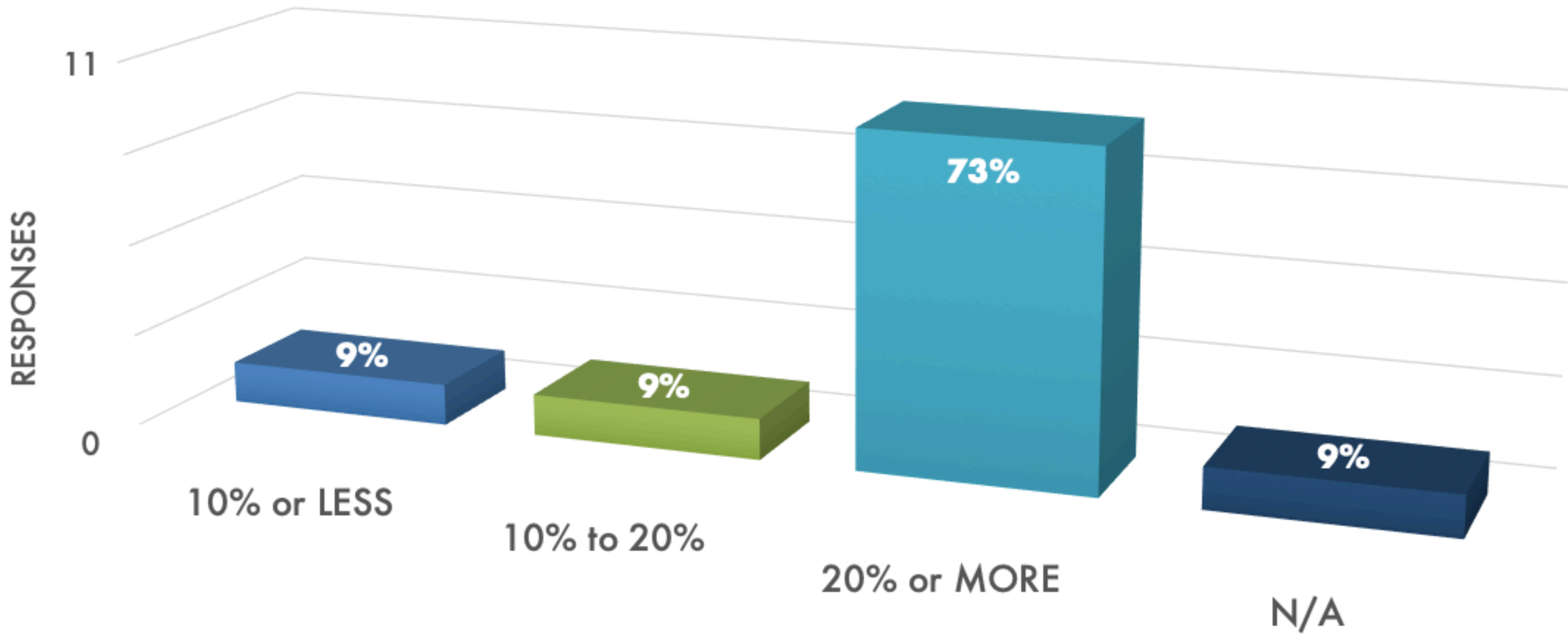
Average cost per BDA member firm

- Staff: $9.94 million per firm
- Technology Compliance: $6.17 million per firm
- Legal & Outside Counsel: $1.4 million per firm
- Regulatory Fines: $300K per firm



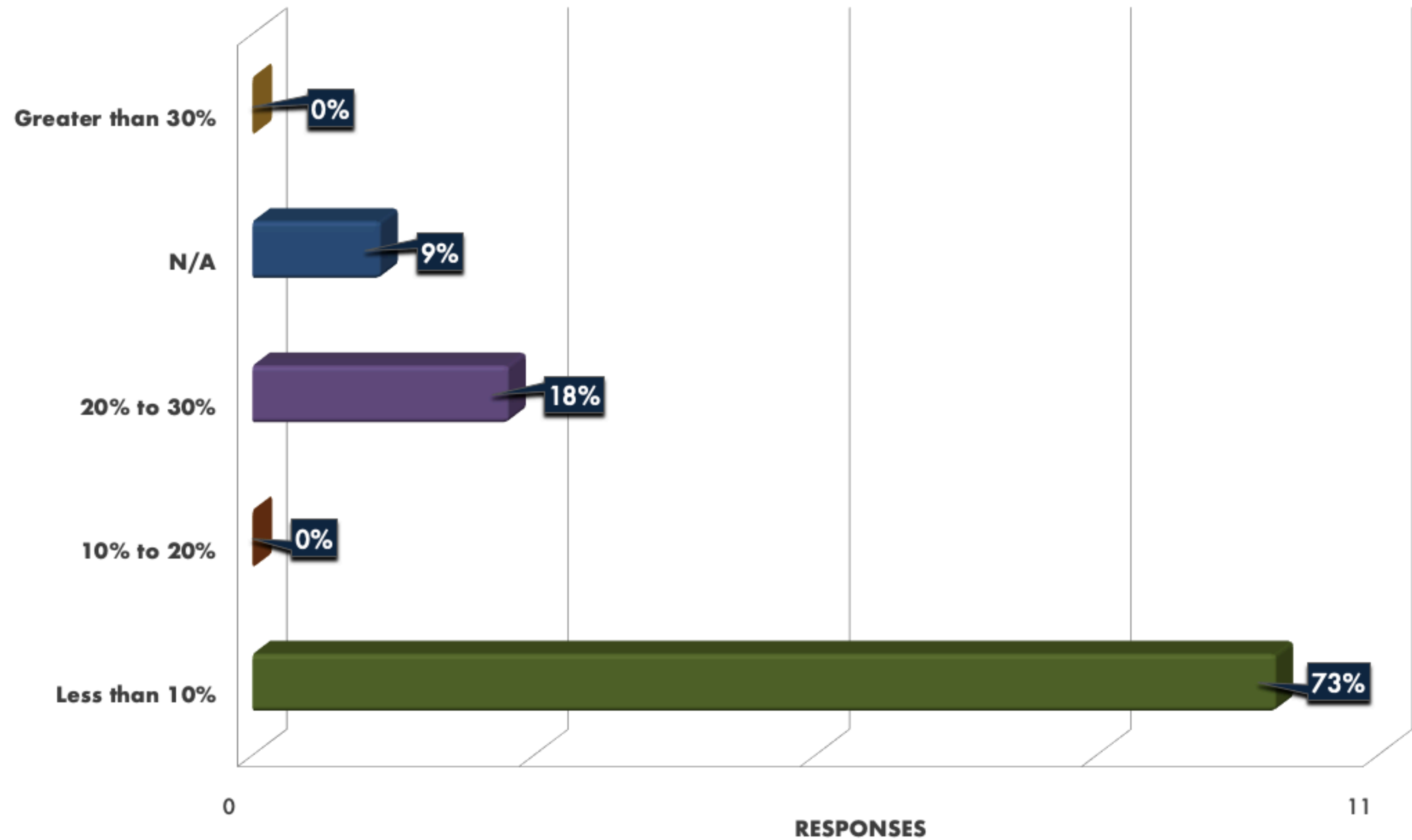
2) How have your compliance costs increased since the Dodd-Frank Act was implemented in 2010? (%)

- 10% or Less
- 10% to 20%
- 20% or More



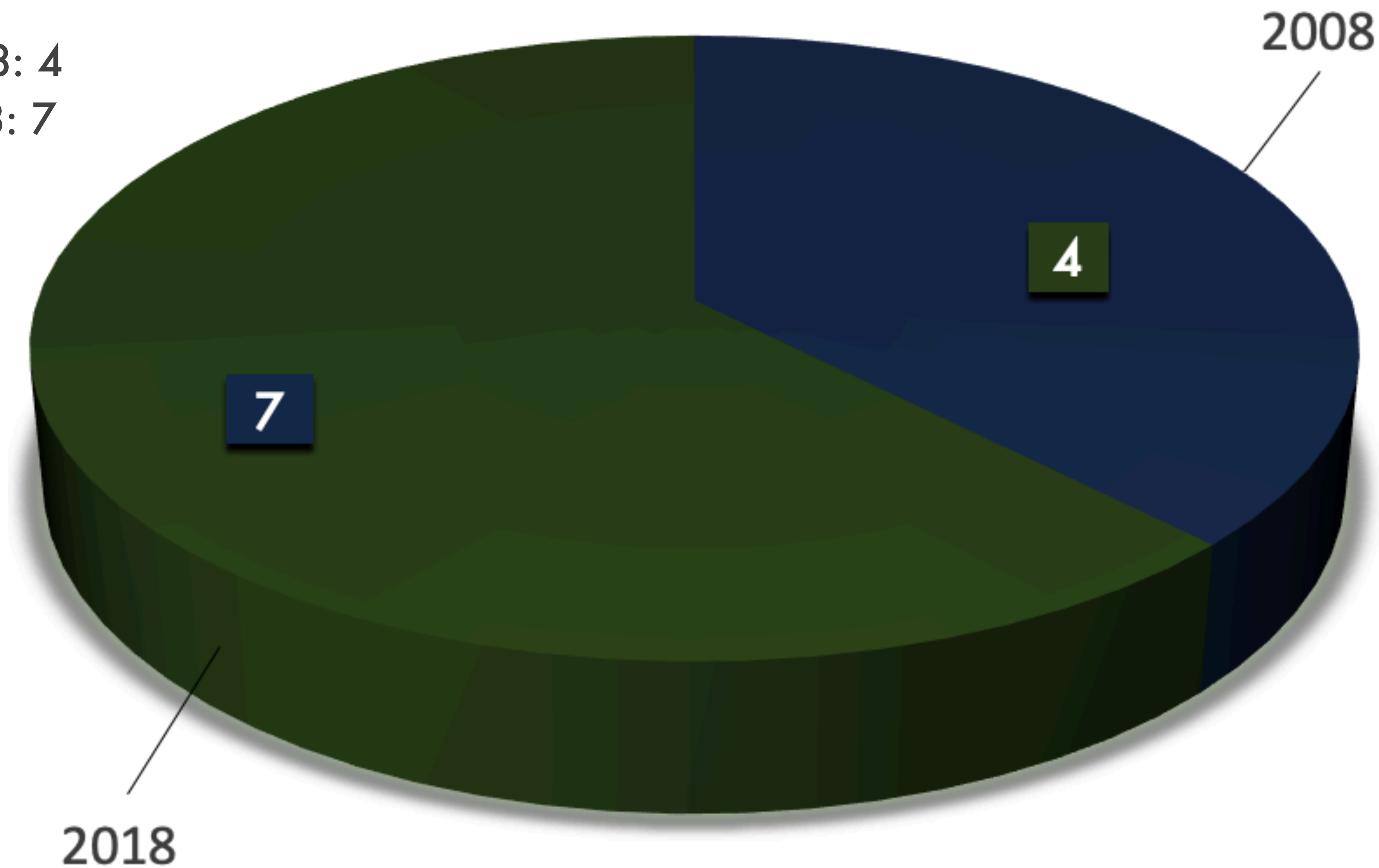
3) What percentage of your total annual expenses can be attributed to compliance costs? (%)

- Less than 10%
- 10% to 20%
- 20% to 30%
- N/A



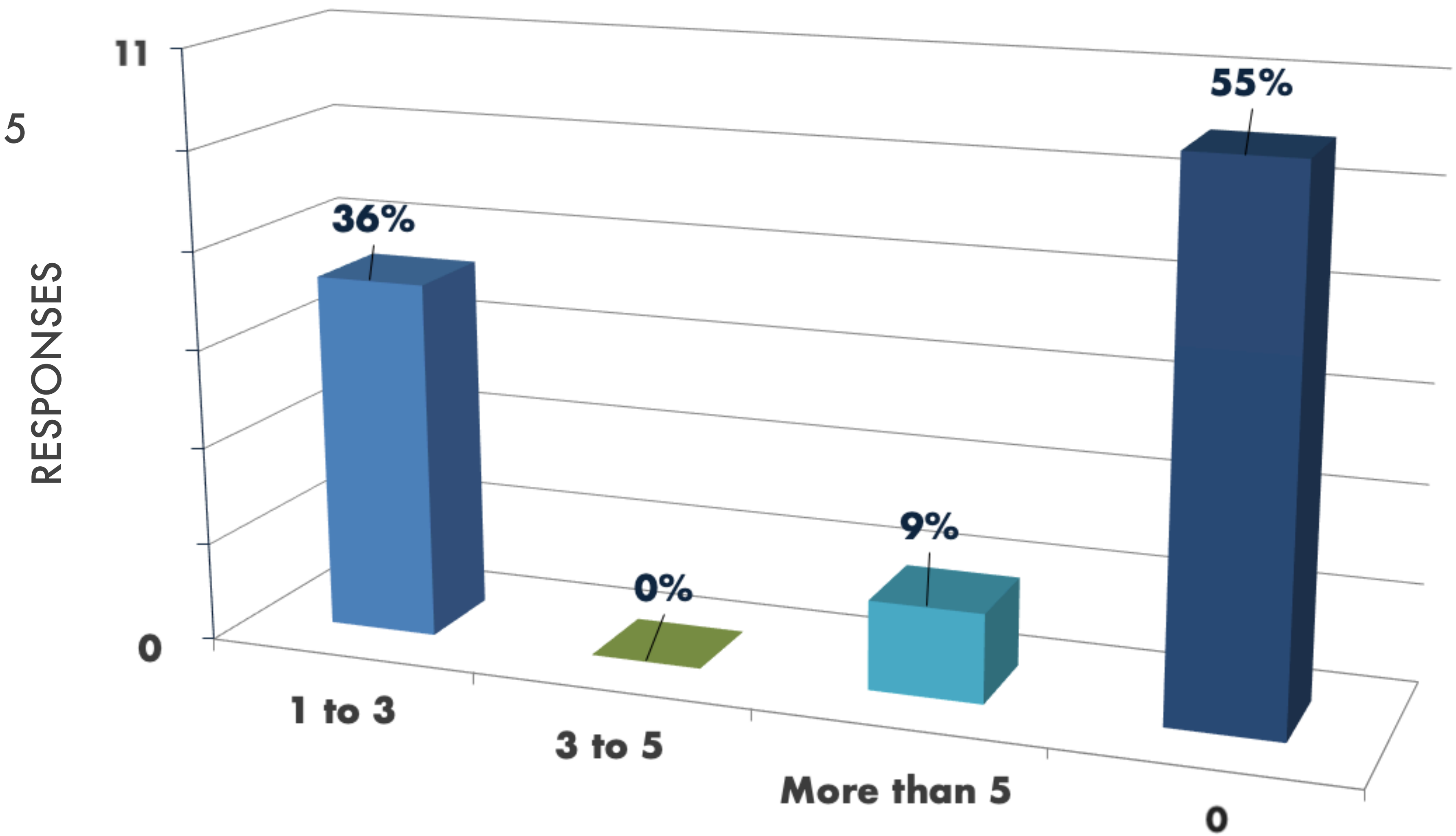
4) In comparison to the number of compliance staff in 2008, list the number of compliance staff you currently employ.

- Compliance Staff in 2008: 4
- Compliance Staff in 2018: 7



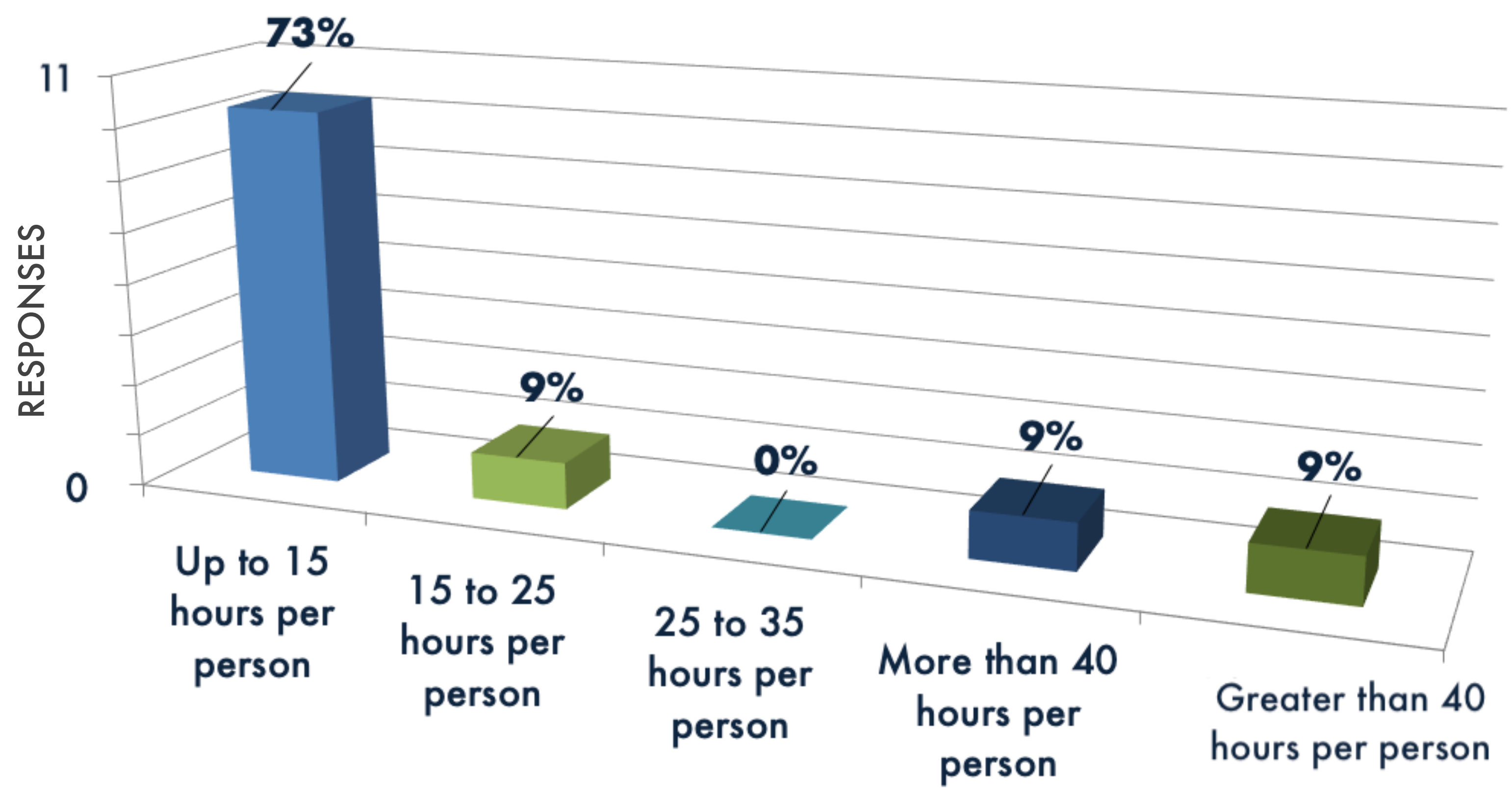
5) How many compliance personnel do you anticipate hiring in the next year?

- 1 to 3
- 3 to 5
- More than 5
- 0



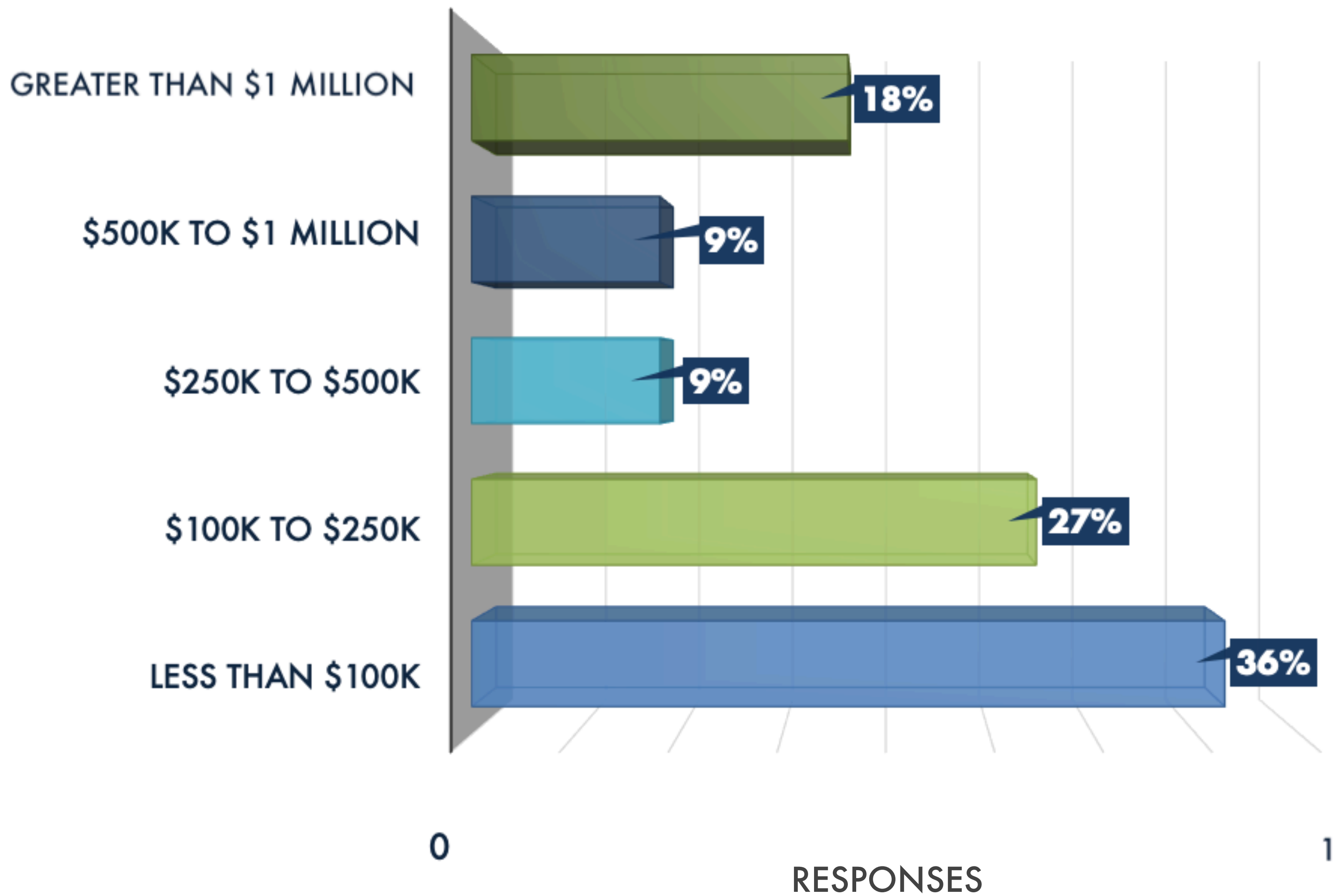
6) Compared to 10 years ago, how many hours per week has your firm spent collectively dealing with new rule implementation and/or examinations this past year?

- Up to 15 hours per person
- 15 to 25 hours per person
- 25 to 35 hours per person
- More than 40 hours per person



7) In the past year, how much has your firm spent on legal fees associated with new rule implementation and/or examinations?

- Less than $100K
- $100K to $250K
- $250K to $500K
- $500K to $1 million



8) In your opinion, how have the recent regulatory changes affected the market and investors?

- *There is* **less liquidity for investors**[1] *and profitability for a regional broker dealer is terrible. The return on capital does not meet the risk required to operate a regional broker dealer.*
- **Increased cost to investors** *with little additional protection*
- *Reduced spreads and profitability, increased fixed expenses, increased risk, reduced market liquidity,* **reduced market efficiency, reduced number of market participants***, reduced incentive to service investors.*
- *It continues to have opportunity cost of time of personnel to review rule impacts and* **more frequent exams***, now annually.*
- **Reduced the number of broker dealers**[2] *overall and specifically those that serve retail customers. A critical mass of* **retail customers is now required to cover compliance costs** *driving this business to the larger firms.*

Endnotes:

[1]Since the Financial Crisis in 2008–2009, the number of MSRB–Registered Dealers has shrunk by over 31 percent. In 2009, there were 1,967 dealers compared with 1,346 in 2017. Source: Municipal Securities Rule Making Board. June 2018. Municipal Securities: Financing the Nation's Infrastructure.

[2]According to the MSRB's report, "Municipal Securities: Financing the Nation's Infrastructure," customer trades are more widely dispersed among dealers with the top 10 dealers accounting for less market share. Since large dealer firms have a significant proportion of retail accounts within their wealth management business units, this does not indicate an increase in liquidity because larger firms cannot compete for the activity in their managed accounts.

For additional information or questions about this survey please contact:

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