

Why self-regulators worry about dwindling dealer numbers

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WASHINGTON – Concerned about the exodus of dealers from the municipal securities business, officials from self-regulatory organizations say they don't want regulations to be the reason smaller firms in particular are merging with others or folding their muni desks.

Municipal Securities Rulemaking Board President and Chief Executive Officer Lynnette Kelly and Financial Industry Regulatory Authority President and CEO Robert Cook expressed those sentiments Friday while on a panel at the Bond Dealers of America's National Fixed Income Conference here.

In a discussion with BDA CEO Mike Nicholas, the two regulators discussed why they worry about dealers leaving the market.

The number of MSRB-registered dealers has fallen by almost one-third since 2009, according to an MSRB report released earlier this year. There were 1,346 MSRB-registered dealers last year, down from 1,967 in 2009. The trend was due to a combination of mergers and acquisitions in the business and the exit of smaller muni firms, according to the board.



Mike Nicholas, Lynnette Kelly, and Robert Cook

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Cook said Friday that while many market participants might tend to worry most about liquidity being affected by a deteriorating dealer community, the problem could go beyond that. Dealer firms provide jobs and contribute to their economies locally, he pointed out, and FINRA wants that to continue.

"We want to have an environment where small business can prosper," Cook said. "We do care about small firms."

Cook said FINRA is open for communication from the industry at any time, but already spends time evaluating whether its rules need to differentiate for smaller firms, or whether smaller shops need more compliance support.

The MSRB report showed that trade activity and market size have been relatively stable despite the exodus of dealers from the market, but Kelly said she still has some concerns.

“The risk of participating in the municipal market is getting higher and higher,” Kelly said, referencing the MSRB’s previous findings. “What I worry about is regulation shouldn’t drive the business model or the size of firms.”

Kelly also said the MSRB wants to be helpful to small firms. It is making compliance support a priority and is also undertaking reviews of its existing rules.

Kelly mentioned the board’s Rule G-23 on the activities of financial advisors as one that could be ripe for review. The rule, which bans a firm from serving as a financial advisor and underwriter on the same transaction, was controversial with dealers from the start and many have complained that there is not enough clarity around it.

“G-23 is definitely at the top of our list,” Nicholas told Kelly.

The BDA conference concluded Friday.

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