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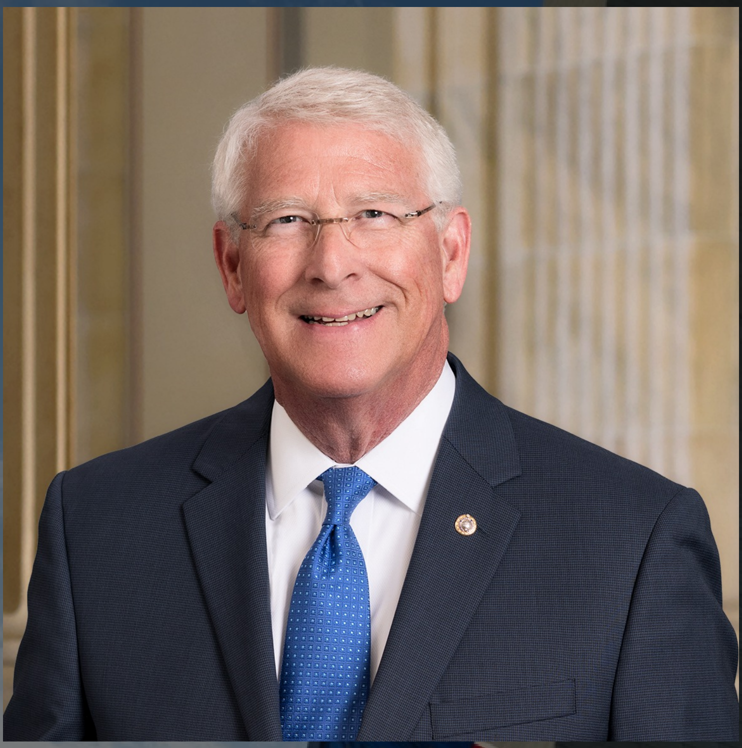
Infrastructure & Municipal Bonds - Q&A with U.S. Senator Roger Wicker (R-MS)



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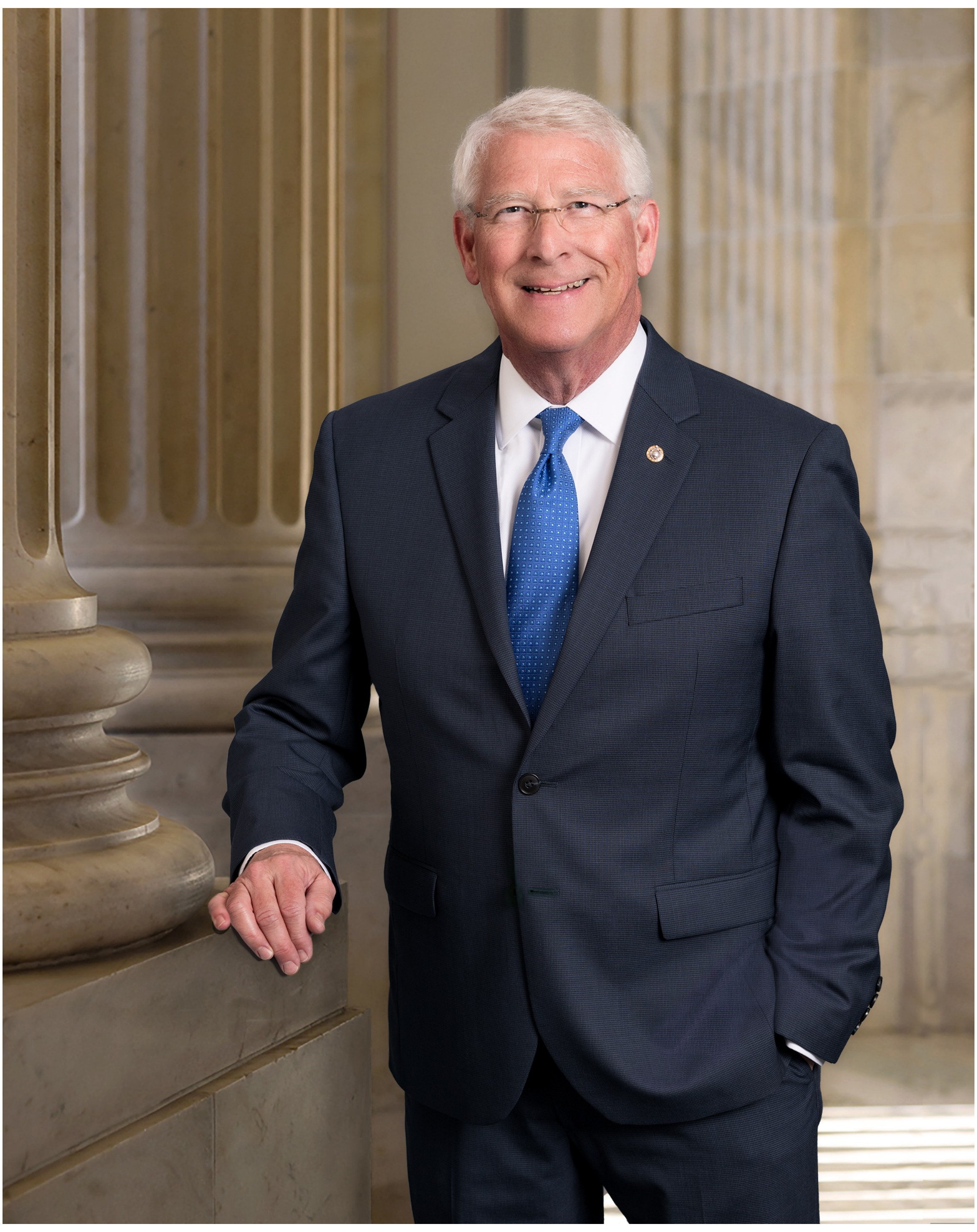


In the current political climate, much has been made of the lack of dedicated public servants willing to step up to bat and serve in Congress. What originally brought you into public service? And what can be done to ensure that a new generation of public servants follow the same calling?

My mother was a public school teacher and my father was a World War II veteran and long-time circuit judge. The value of public service was something that both of my parents taught me from an early age. Whatever the pundits may say, I think that every year America produces a new crop of dedicated young people who have a heart for public service.

I have made it part of my mission as a U.S. Senator to provide internships in my offices, make recommendations to our military service academies, and support organizations like the U.S. Senate Youth Program, the American Legion Boys and Girls State, JROTC, scouting, and 4-H that provide young people a pathway to service. Many of these young people will end up serving their country or their communities in their own way.

While Capitol Hill remains polarized, you continue to hold clout as a bipartisan lawmaker and dealmaker .. Can infrastructure legislation, in particular muni provisions such as the LOCAL Act help break through the current partisan wall?

Our country is overdue for a large investment in local infrastructure, including roads, bridges, ports, rail, and broadband internet. While President Biden continues to negotiate the details of a larger infrastructure package, Congress is moving forward with legislation that would address these needs on a bipartisan basis through the normal legislative process.

As the President and Congress work to find ways to pay for infrastructure, I am hopeful that negotiators will include municipal bond financing reforms like the ones outlined in my LOCAL Infrastructure Act and the American Infrastructure Bonds Act. These proposals, which have already earned bipartisan support, would provide local municipalities powerful tools for financing the cost of infrastructure at a reasonable cost to federal taxpayers.

With an enhanced focus on the creation of a new direct-pay bond this Congress, is the Senate committed to ensuring this new bond remains exempt from sequestration such as included in the Senators American Infrastructure Bond Act? Is this legislation something that Senate Leadership holds as a priority?

The return of sequestration would be a disaster for many federal programs. If Congress were to advance legislation that included support for direct-pay bonds, it would be a mistake to make them subject to an automatic and unpredictable sequester.

The American Infrastructure Bonds proposal, which has been sponsored by Republicans and Democrats who have a leading role in advancing infrastructure legislation, includes an exemption from sequestration. These lawmakers understand that providing support for direct pay bonds is a sensible solution for financing the cost of infrastructure. It is important that Congress remain committed to a normal legislative process and avoid

Mid-Year Thoughts

Author
Natalie Cohen at *The Public Purse*

Seen on a t-shirt: Doc Brown, standing in front of his time travel DeLorean says to Marty McFry: "Above all, don't go to 2020!" (a take on the movie, Back to the Future, 1985)

We quote this not to sidestep the abject sorrow and economic impact of losing 600,000+ lives to COVID-19 in 2020-2021, but to alert readers to be very careful of year-over-year, and month over month comparisons.

We summarize for those short on time and then discuss in greater detail below:

- The recent Federal Reserve's Z.1 release showed stellar growth in household net worth which bodes well for the three main revenue sources of state and local government: sales, income and property taxes.
- The macro numbers overwhelm visibility of the household situation for low-paid and unemployed workers. Inequality of fortunes has grown during the pandemic. Migration has picked up after being dormant for some time. For those without accumulated net worth, migration has not been an option. Demographics will shuffle in our largest, most dense cities as population grows in less dense suburban communities.
- Weakness in commercial property in large cities showed up in the Federal Reserve's latest Beige Book.
- Employment levels are shrinking relative to population despite favorable signs of recovery. More workers retired than might have been expected. In the latest census, general population growth was lowest in a century. This has future implications for pension funding, and entitlement programs driven by payroll taxes.
- Migration has picked up, creating pockets of growth, and fiscal stressors for places losing population.
- The federal government's hungry need to fund its deficit is affecting financial markets, with municipal securities tagging along. For some municipal securities holders, such as banks, there's been a reversal in municipal holdings since the decline following the "Tax Cuts and Jobs Act", TCJA, passed at the end of 2017.
- An active hurricane and wildfire season is likely. Investor activism will continue to put greater pressure on companies to demonstrate actions to push back climate change. These pressures to visit the municipal market as well.
- Activism may grow on several fronts: among investors in ESG finance, more directly pushing for substantive change over window-dressing; and around the ballot box between right and left where controversies about the validity of the presidential election have re-framed the political culture in some places. Plus, rapidly growing property assessments/property taxes in the past have given rise to anti-tax initiatives. These tensions ramp up as we approach the congressional mid-terms.
- On balance, fiscal distress at the state and local level is at bay, thanks to help from the federal government and state/local actions. However, a few high yield and non-rated corners of the market are showing payment delinquencies and reserve draws.

Shifting Demographics and the "K" Recovery

From the Federal Reserve's Z.1, or flow of funds, which came out on June 10: "The net worth of households and nonprofit organizations increased by $5.0 trillion… in the first quarter. The value of directly and indirectly held corporate equity increased by $3.2 trillion largely because of further gains in corporate equity prices. The value of real estate held by households increased by about $1.0 trillion. After four quarters of solid growth, household net worth is now about $19 trillion above its level at the end of 2019." Wow. On the other side of the ledger, household debt grew as well, by 6.5% in the first quarter, mainly due to growth in home mortgages.

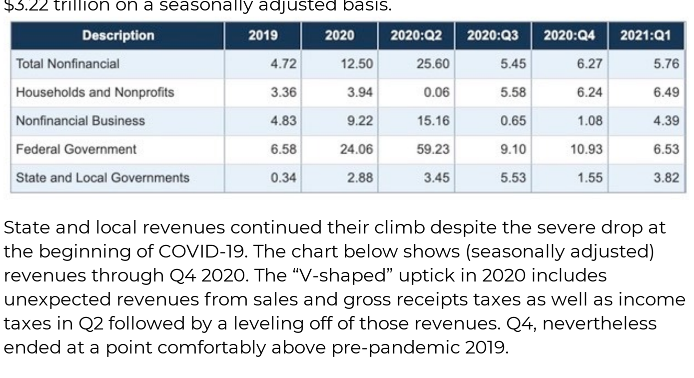
Migration in 2020 picked up — nearly half a million more households than in 2019. The Wall Street Journal has an interesting visual of movement here. A study by economists for the NBER showed that moves tended to be from city to suburban rings — reminiscent of the 1970's and also of the housing boom in 2004-2007 suburban and exurban expansion.

In a recently released report on the state of housing in the US (from the Joint Center for Housing Studies of Harvard University), authors point out that new single family home sales jumped 20%; existing home sales jumped 6% — totaling the highest level since 2006. However, the difference between white and black homeownership is stark, with a gap of 28.1% in Q1 2021. Income inequality contributed, with median income of white households at $71,000 and Black households at $43,000.

On the other hand, the "COVID-19 Eviction Defense Project" points out that 16.1 million people, or 8.4 million adults were behind on their rent. You can read their research here. The project derives their data from the Census Bureau's "Household Pulse Survey". The survey is "designed to collect real-time data on how people's lives have been impacted by the COVID-19 pandemic to inform federal and state response and recovery planning."

The survey found that about 17% of renters with household income below $35 K that are not current on payments believe it is likely that they will leave their home due to eviction in the next two months. Below the $50K threshold of household income, the percent likely to be evicted drops slightly to 16.4%. You can play with their data tool to look at geographic areas suffering the most from employment, childcare, food, housing and transportation insecurity. Sorting by states and metro areas is available. In the June 15th Financial Times, Martin Wolf commented (paywall likely): "…in the US, the absence of universal healthcare and next-to-no support for retraining and job seeking makes the loss of a job mean also the loss of basic security. A modern economy becomes more flexible, not less, by separating security from a specific job."

There has been an uptick in early retirement for some as a result of the pandemic. The Schwartz Center for Economic Policy Analysis at the New School found that 1.7 million more older workers retired than expected during the pandemic. Study authors found that the employment/population ratio fell 7.2% in April, from its pre-pandemic levels for workers older than 55, but also fell for mid-career workers (35-54) more than 4%. The upshot is that we can expect a smaller workforce going forward. This is not so good for the entitlement programs that rely on payroll taxes, nor is it good for public pensions that also rely on employee contributions. Without sensible immigration policies and retraining opportunities, shortages of workers in many occupations is likely to continue.



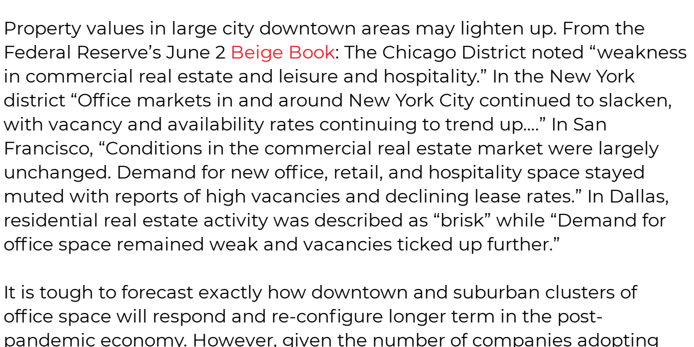
Source: U.S. Bureau of Labor Statistics, Employment-Population Ratio [EMRATIO], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/EMRATIO, June 15, 2021.

State/local Financial Landscape

State and local debt outstanding took off in Q2 and Q3 2020 and continued its growth in Q1 2021. At the end of Q1 2021, state and local debt outstanding totaled $3.22 trillion on a seasonally adjusted basis.

Description	2019	2020	2020:Q2	2020:Q3	2020:Q4	2021:Q1
Total Nonfinancial	4.72	12.50	25.60	5.45	6.27	5.76
Households and Nonprofits	3.36	3.94	0.06	5.58	6.24	6.49
Nonfinancial Business	4.83	9.22	15.16	0.65	1.08	4.39
Federal Government	6.58	24.06	59.23	9.10	10.93	6.53
State and Local Governments	0.34	2.88	3.45	5.53	1.55	3.82

State and local revenues continued their climb despite the severe drop at the beginning of COVID-19. The chart below shows (seasonally adjusted) revenues through Q4 2020. The "V-shaped" uptick in 2020 includes unexpected revenues from sales and gross receipts taxes as well as income taxes in Q2 followed by a leveling off of those revenues. Q4, nevertheless ended at a point comfortably above pre-pandemic 2019.



U.S. Census Bureau, National Totals of State and Local Tax Revenue: Total Taxes for the United States [QTAXTOTALQTAXCAT1USYES], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/QTAXTOTALQTAXCAT1USYES, June 15, 2021.

In May, 2021, Pew Trusts found that 29 states recovered pandemic-driven losses (March through February 2021) but 18 states had net losses including big losers Alaska (-49.2%), Hawaii (-17.4), North Dakota (-10.9%) and Texas (-10.3%). Negatively affected states include those reliant on oil and gas as well as tourism (Florida, Hawaii, Nevada).

Property values in large city downtown areas may lighten up. From the Federal Reserve's June 2 Beige Book: The Chicago District noted "weakness in commercial real estate and leisure and hospitality." In the New York district "Office markets in and around New York City continued to slacken, with vacancy and availability rates continuing to trend up…." In San Francisco, "Conditions in the commercial real estate market were largely unchanged. Demand for new office, retail, and hospitality space stayed muted with reports of high vacancies and declining lease rates." In Dallas, residential real estate activity was described as "brisk" while "Demand for office space remained weak and vacancies ticked up further."

It is tough to forecast exactly how downtown and suburban clusters of office space will respond and re-configure longer term in the post-pandemic economy. However, given the number of companies adopting hybrid and limited return-to-office approaches, we can assert that the need for office space will be lower than pre-pandemic. This will likely affect the vitality of service businesses surrounding these clusters as well as property values/property tax revenues.

While states like California, New York, Illinois, Massachusetts and Ohio show recovery of revenues to pre-pandemic levels, these figures mask a sleeper cost: unemployment insurance advances from the US Treasury. Some states, notably California, are racking up significant repayment obligations.

Pre-pandemic, states that have taken advances from the US Treasury in order to meet their unemployment obligations had two years to repay. Generally, the employer FUTA tax is 6% but if the employer files form 940, there is a reduction credit of 5.4%, bringing the cost of the tax to .6%. If the state has a non-repaid advance after two years, the credit is reduced.

Since the "Families First" Act (FFCRA), interest payments on advances have been waived and interest accruals have been suspended. The American Rescue Plan Act of 2021 extended this waiver and accrual period to September 6, 2021 for states that have outstanding advances. As of June 14 (report published daily), nineteen States had advances totaling $53.2 billion. California's advance balance totaled $21.7 billion or roughly half of the total. New York, Texas, Illinois and Massachusetts followed, with $9.6, $6.9, $4.2 and $2.3 billion, respectively. When these waivers cease, states and employers could face higher payroll costs, posing a potential drag on economic recovery.

Financial Market Effects

Tax reform plus federal pandemic aid significantly increased the federal deficit and consequently its funding needs. There is concern about complacency in the treasury market, while others have concerns about inflation and a potential bear market. However, one headwind is a shift in bank holdings from reserves into treasuries. According to an article "The Gravitational Pull of Zero" from the Fed Guy blog, Global Systemically Important Banks, or GSIBs, purchased $350 billion in Treasuries over the last year, "tilted towards longer dated maturities."

Banks have increased their holdings of municipal securities as well, reversing the decline in holdings among corporate entities since the TCJA made tax exempt municipal securities less valuable. Notably, US banks increased their municipal holdings $28.6 billion over the course of 2020 and by another 4.2 billion in Q1 2021 to $516.8 at June 30, 2021. This followed a drop in bank holdings from $572.6 in 2017 to a nadir of $471.7 billion in 2019.

Recall that municipal securities are categorized as HQLA 2b (High Quality Liquid Assets), while not as liquid as Treasuries, they are a second cousin. Plus, growth in the municipal taxable market created additional supply for corporate investors. Note that insurance companies, both property and casualty and life followed a similar pattern over the course of 2020 and YOY when comparing Q1 2021 with Q1 2020.

The Z.1 release offers a few other interesting observations of changes in 2020 and Q1 2021 compared to prior years:

- Hedge fund holdings of municipal securities ended 2020 roughly level where they ended 2019. Holdings did move up $1.2 billion to $14.4 billion in Q2 2020 but fell back to the level in the chart by the end of Q4.
- State and local government "acquisition of financial assets" in Q2 2020 jumps out. (See table S.8.q in the Z.1 for state and local government). State and local governments acquired $668.8 billion Treasury securities and $24.4 billion open market securities, up from $41.7 billion in Q1 2020 and sale of $57.2 billion in Q2 2019. These derive from the National Income and Product Accounts, or NIPA, which track flows in the US economy. (Note that this table for state and local governments excludes state and local government retirement funds.)

Selected Holders of Municipal Securities, June 10, 2021 ($ billions)

	2017	2018	2019	2020	Q1 2020	Q1 2021
Total Municipal Securities Outstanding (Liability)	$ 3,904.0	$ 3,846.3	$ 3,866.4	$ 3,950.1	$ 3,872.1	$ 3,977.3
Total State and Local Govt. Included in Total (Liability)	3,118.6	3,067.7	3,077.1	3,165.2	3,083.0	3,193.1
Nonprofit Securities Outstanding Included in Total (Liability)	217.5	215.1	211.8	202.1	208.9	202.1
Industrial Revenue Bonds Included in Total (Liability)	567.8	563.5	377.6	582.8	580.2	582.1
Assets Held By:						
Households	1,897.8	1,868.0	1,901.4	1,920.5	1,878.8	1,888.3
Hedge fund holdings included in household	9.3	14.5	13.2	13.3	14.0	NA
U.S. Chartered Depository Institutions	572.6	499.8	471.7	512.6	484.0	516.8
Property-Casualty Insurance	338.9	291.6	285.2	397.9	281.5	294.3
Life Insurance	197.8	190.0	215.0	234.2	214.8	231.6
Money Market Funds	134.4	142.8	134.0	112.6	130.7	103.8
Mutual Funds	688.1	693.6	831.0	891.3	786.2	912.2
Closed-end Funds	90.0	88.4	93.2	95.2	89.6	95.3
ETF's	24.8	37.0	49.0	64.5	49.3	69.2
Rest of World	101.3	99.7	103.7	108.0	102.9	104.3

Source: Federal Reserve Z.1, L.212, B.101.f, B.101.n June 10, 2021

* Households are considered a "residual" category. The Federal Reserve includes not-for-profit institutions, US domestic hedge funds, private equity and personal trusts in the household category. Nonprofit organizations include private foundations, charitable trusts and 501(c)(3) through 501(c)(9) organizations.

- Bond Buyer data shows refundings jumped 107.9% YTD in June, 2020 compared to June 2019. Taxable borrowing jumped more than 230% during the same time period. This is no surprise, given the dramatic drop in rates in 2020. The effective Federal Funds Rate was 1.6 on January 30, 2020, dropped like a rock on March 16 to .25, then to .10 on March 25, then to .05 on April 2 and has stayed around .06 since the beginning of 2021. This "gravitational pull" has helped states and local governments refinance tax exempt debt with taxable debt in the absence of permissible tax exempt advance refundings which were eliminated in the TCJA .
- (The inquisitive reader may note the difference in the level of municipal securities in various tables. Table L.212 for municipal securities is not seasonally adjusted whereas "debt outstanding by sector" (D.3 and in the Federal Reserve's opening summary is seasonally adjusted).

Finally, strong "own source" revenues plus help from the federal government has helped municipal credit stay healthy during the pandemic. We watch reserve drawdowns, bankruptcy filings and missed payments, and these have mostly occurred in high-yield, non-rated corners of the market: senior living, people-facing activities such as theaters, arenas, etc. but also a number of "tax increment" districts. These are uniquely drawn districts where incremental growth from a new revenue source secures the debt. In Missouri, for example, tax increment securities that were issued on the expected growth of sales tax from physical retail, or multi-use construction around the St. Louis ballpark, have shown stress.

Extreme Weather and the "E" part of ESG

June 1st marks the beginning of the Atlantic hurricane season. Colorado State University (CSU) published its second meteorological forecast for the 2021 season here on June 3rd. Their figures include hurricane Ana, which occurred before the official season began. Ana was located off the coast of Bermuda and weakened into a Tropical Depression. This is the second year that a named storm formed ahead of the official season. (BTW, the next name on the list is Bill. The 2020 season was so busy that they ran out of names, reverting to Greek letters.) CSU predicts 18 named storms (NOAA forecasts up to 20), eight hurricanes and four major hurricanes. These compare with averages of 14.4 named storms, 7.2 hurricanes and 3.2 major hurricanes. The current forecasts attribute higher activity to warmer sea surface temperatures, which enable a storm to pick up energy as it forms. For those wishing to go further, NOAA offers monthly briefings; with discussions of drought, sea surface temperatures, air temperatures and additional resources; the latest for May, 2021 here. The current briefing indicates that there's a greater than 99% chance that the 2021 season will rank in the 10 ten.

While the Atlantic Coast and Gulf of Mexico may have a wet season, California drought is high, increasing probabilities for a strong wildfire season. As of May, 2021 2,000 fires had already been recorded. January 2021 was one of the driest in the state's history. The 2020 wildfire season was record-setting, including a "giga-fire" that burned over one million acres in seven counties. PG&E is installing equipment that will help the company better pinpoint areas prone to wildfire in order to limit the scope of purposeful power shut-offs to prevent damage. The NOAA Climate Prediction Center's hurricane and drought forecasts may be found here.

The Texas freeze brought blackouts last winter, when a weakened jet stream brought icy cold weather to the south. There were more than 150 deaths as a result and an estimated $200 billion in property damage. See this article by the Climate Adaptation Center in Sarasota, written January 27, 2021 just ahead of the February Texas freeze.

An active and harmful hurricane and wildfire season could push companies along to reduce their carbon footprint. Cities and counties are beginning to do the same, with climate action plans popping up across the country at the local level. Just "Google" "climate action plan" or click here. Corporate investors will pressure the companies they own. Investors in the municipal market don't typically have the inclination or ability to pressure individual municipalities to change. But most fund families have at least one or many "ESG" funds where their clients can express their desire to influence environmental, social and governance change. Each fund family has its own methodology for qualifying an investment as "ESG compliant". Several nonprofit organizations are now setting out standards along with a handful of private companies certifying ESG and labeling municipal bonds "green".

An active flood season, may finally push Congress make changes in FEMA's National Flood Insurance Program. Congress and a host of local nonprofit agencies have struggled to reform FEMA policy for years. A strong editorial in The Hill in May made the case for change, but importantly, for transparency for homeowners. The need to put FEMA on more self-sustaining footing could raise premium rates on many. Lower-income homeowners in coastal locations may drop their insurance if prices reach unaffordable levels. A destructive storm season on the heels of pandemic recovery could put many into a desperate financial and humanitarian situation.

A Resurgence of Activism

The pandemic also put the spotlight on inequality, and has unleashed greater activism. In the early days of manufacturing, we saw a similar emergence of unionization, walkouts and strikes for safety and higher wages. Auto and steel workers eventually came to be revered as the image of the hard-working American man, who was able to provide for a middle-income lifestyle, put kids through college, all without a college degree himself. Recall the symbolic signing by President Trump of his executive order imposing tariffs on steel and aluminum flanked by hardhat steelworkers in March 2018.

As manufacturing globalized in the 1970's and beyond, it was replaced on the one hand with lower paid service jobs and on the other, higher paid office jobs. The first group suffered decline in their standard of living and increased dependence on government supplement. Today, it looks like we are entering a second wave of unrest, unionization and activism. This time, repetitive factory work is found in packing, warehousing and shipping activities (aka Amazon and other online purchasing and fulfillment). In addition, customer-facing retail service employees (food and drinking establishments, grocery stores, hospitality facilities), frontline healthcare workers and gig workers are under great pressure to fulfill orders quickly and face new workplace dangers made prevalent by the pandemic.

Some companies have begun to offer higher wages to attract and retain employees. Some employers warn of inflation and loss of small business, but more money in people's pockets means more spending and less reliance on government subsidies for survival across federal, state and local governments.

See a related article (paywall likely), "The Coming Age of Disorder Will Favor Commodities" by John Authers of Bloomberg, underscores some of the throwback of current trends to the 1970's.

…and at the Ballot Box

The controversy about who won the latest presidential election continues, and we observe emerging clashes among hyper-partisan politicians and voters, playing out in the arena of ballot initiatives as well as efforts to control the ballot box. (If you would like a quick primer about "direct democracy" and ballot initiatives from our "wayback machine", click here but please forgive links that are now dead).

Last August, 53% of Missouri voters voted for "Amendment 2" which would have expanded Medicaid. The Republican state legislature refused to provide funding for the expansion and the governor rejected the initiative. This article points out that 230,000 Missourians and rural hospitals would have benefitted from the expansion. In addition, one study showed that the measure would save the state a significant amount of money and the state would have received $1.1 billion additional aid under the American Rescue Plan if they had expanded Medicaid.

In Mississippi, nearly 60% of voters approved a medical marijuana constitutional amendment. The measure was overturned following a lawsuit filed by the GOP mayor of Madison. The governor opposed the measure as well. Like Missouri, Mississippi activists are hoping to expand Medicaid in the state through a future ballot measure.

The New York Times picked up on this trend as well (here). Politico has an article about efforts to take over key secretary of state elections in order to have more control over the running of elections. These efforts follow the controversy by President Trump to influence Georgia Secretary of State Brad Raffensperger to alter the count of Georgia ballots. Rep. Jody Hice, who voted against certifying the 2020 electoral college results, said he is running against Raffensperger "to stop Democrats before they rig and ruin our democracy forever." (Raffensperger is a Republican.)

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ESG AND THE MUNI DEALER COMMUNITY

Author
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To quote from rock musician Sting, "the numbers lead the dance". Lately, the "numbers", or rather, the data, have been overwhelmingly supportive of the municipal market, thanks to the very aggressive fiscal stimulus package pushed through by the new Administration. In fact, save for a short period of unprecedented volatility between March and June of 2020, the tax-exempt asset class has displayed remarkable resiliency throughout the pandemic and may in fact come out of this health crisis in slightly better shape, with the exception of a couple of sectors (e.g. Higher Education and Senior Living). Even the State of Illinois got a minor upgrade out of it, despite having not solved a single one of its structural deficit issues!

Now that market dislocation and credit concerns have abated, as evidenced by historically tight credit spreads, one would expect the municipal market to finally follow in the footsteps of the rest of the financial markets and start focusing on the so-called "Environmental, Social and Governance" ("ESG") issues. Is ESG mainly a "buy side" issue? Aside from giving the clients (the buyers) what they want, how should the dealer community approach ESG concerns?

Confusion Reigns

It has been said the municipal asset class is the ultimate ESG play because public finance is by definition, designed for the pursuit of the common good. Hardly a day goes by that "ESG" is not mentioned in every municipal market webinar. Yet, there appears to be little consensus at this time about what ESG standards are and how they should apply to municipals. In truth, up until recently, ESG has reached much wider acceptance with global investors than with domestic investors. There is no dearth of ESG-related data but no one, to our knowledge, has offered an analytical model to tie all that data together. To date, most of the attempts to bring ESG to the municipal market have come from corporate sector vendors with limited appreciation for the complexities of our market. What can we make of this current state of affairs?

"Risk" vs "Impact" Components of ESG

For the sell side professional, the key, we believe, is to distinguish between the "Risk" aspect and the "Impact" aspect of ESG. The "Risk" aspect is what most people would traditionally view as a component of regular credit risk, something that investors and traders would want to mitigate or be protected against. The "Impact" aspect, on the other hand, is meant to reflect an investor's intent to use their investment dollars to encourage or promote a certain set of outcomes he or she perceives as socially desirable, such as the preservation of the environment, the reduction of racially-based economic disparity etc...

To illustrate, under the "Environmental" umbrella, one would find both "risk factors", such as the physical risk of climate change (forest fire, floods etc...) and carbon transition risk; and "impact factors" such as the promotion of environmentally friendly ("green") projects. Under the "Social" heading, one may find risk factors such as the risk of social unrest having a fiscal impact on a community, and impact factors such as socio-economic disparity. Similarly, the "Governance" area may include cybersecurity, clearly a risk factor, as well as the quality and composition of a health care system's board, features which are more impact-oriented.

Obligor Level Assessment vs Project Level Assessment

Another distinction we find useful is the difference between obligor-level ESG assessment and project-level assessment. An investor may choose to assess any State or local government unit as a holistic entity or choose to focus instead on the actual projects that such entity has undertaken. The current bond categories of "Green" and "Social" bonds are essentially project-level categorizations. When investors focus on the Use of Bond Proceeds, they are mainly concerned about the nature of the project, not about the bond issuer itself.

Focus on "Risk", Leave "Impact" to the Buy Side

The pricing of risk is what we do in the debt markets and ESG risk factors should be viewed in this context. ESG risk, particularly climate change, is most likely to have an impact on bond yields and quality spreads. At this time, the main hurdle standing in the way is the absence of a common standard for estimating the financial impact of such risk, in other words, an ESG risk scoring system similar to the traditional credit ratings. It would be hard for the market to price the risk (i.e. in terms basis points of yield) without some kind of common benchmark. As is the case with credit ratings, not everyone has to agree with such an ESG risk score, and market participants can always trade with or against the commonly accepted ESG scores.

For the sell side of the municipal market, the notion of ESG risk holds important implications regarding risk management and disclosure practices. If we're proven correct, and the market eventually finds a way to price ESG risk, no trader or capital committer can afford to be unaware of the ESG characteristics of the various bond issues they trade.

Furthermore, where there is risk, there is a need for proper disclosure. The SEC, under new Chairman Gensler, has already started to zero in on climate change disclosure for the corporate sector and it stands to reason that municipals will be among the asset classes next in line. Disclosure sections on climate change and cybersecurity have already started to show up in new issue official statements over the past couple of years, but there remains the need for disclosure standards in the secondary market.

Away from the ESG risk factors, Impact-type considerations are best left to the buy side since they are essentially a marketing tool for institutional investors looking to tap into a renewed sense of social responsibility from their investors. In fact, it's hard to envision our industry agreeing to a common standard on this subject, since impact is primarily in the eye of the beholder. Each investment company will come up with their special brand of ESG impact strategy to appeal to a specific audience. Separate account managers will probably ask their prospective clients to fill out an ESG questionnaire similar to the traditional Investment Policy questionnaire and use it to design a customized impact strategy for said clients.

As an underwriter of Green or Social Bonds, particularly of the self-designated variety, it would behoove you to impress upon your clients the importance of putting in place a rigorous process for monitoring ongoing compliance to the green or social framework they have committed to. The absence of such a disciplined process may lead to negative backlash from investors or worse, invite scrutiny from the SEC.

The issuers themselves should care about their own ESG profile, as it may eventually affect their cost of capital. The GFOA recently issued a best practices article on ESG Disclosure that encourages issuers to start with the E-Environmental factors, as it may be in their best interests to control their own ESG narrative:

"Issuers of governmental securities should be aware that there could be credit rating differentiation depending on their approach to addressing ESG factors. Without clear ESG information—either through a rating agency report or disclosures—potential buyers of municipal bonds are likely to conduct their own ESG analysis, which may not include all relevant information or context that a government can provide especially regarding steps taken to mitigate these risks. These factors should serve as motivation for governments issuing municipal bonds that are still questioning if ESG should be considered for their disclosure practices (...)"

Based on the above, those of you who are Municipal Advisors may wish to add ESG policy consulting to the range of services you can offer municipal issuers!

The Regulators Cometh

In summary, in contrast to the equities and corporate debt markets, the municipal market is still in the early innings when it comes to a widely accepted ESG framework. Until some basic market consensus about resiliency standards is achieved, we believe the broker-dealer community would be best-served to focus primarily on the key "risk" aspects of ESG, primarily climate change/transition risk and cybersecurity risk, and what they imply in terms of disclosure and risk management practices. We do believe it's only a matter of time before the regulators come calling.

No Infrastructure Package in 2021 Without a Political Breakthrough

Author
Tom Kozlik

After delivering over $6 trillion of fiscal policy in response to Covid-19 through March of 2021, Washington, D.C. lawmakers have now turned to other policy priorities, including discussions about infrastructure. Democrats and Republicans should be able to find common ground here (see page 5), however, a political breakthrough is needed.

Lawmakers returned to their districts for the Fourth of July break and are not scheduled to return to Washington until July 19, which put a temporary pause on infrastructure negotiations. The possibility for a bipartisan infrastructure package still exists, however, there has been a troubling development as some lawmakers have proposed clawing back part of the $1.9 trillion of American Rescue Plan Act (Rescue Plan) relief to help fund infrastructure. Specifically, some have proposed repurposing some of the $350 billion allocated to state, local, and tribal governments. This would be a mistake.

While the economy added jobs in June for a sixth straight month, the U.S. Labor market remains injured. The Labor Department reported that U.S. employers added 850,000 non-farm jobs in June. At this rate, the country's labor market will still not return to pre-Covid levels until the middle to end of 2022.

The state and local government labor market, which previously represented one out of every eight jobs in the U.S., remains challenged. The total number of jobs is still about 1.2 million below its pre-pandemic high. This is almost 300,000 jobs less than what was observed during the post-Great Recession's low point. Jobs did not bottom-out in state and local governments until four years after the Great Recession ended in June 2009. They did not return to the pre-Great Recession peak until the summer of 2019. This sluggish recovery in state and local government jobs contributed to the U.S. economy's slow growth trajectory.

Federal policymakers are hoping to avoid a similar lag this time around, but a lag is already guaranteed, even with $350 billion in relief.
There are a number of reasons for this. The Treasury Department did not release guidance on how state and local governments could apply this funding until two months after the Rescue Plan was enacted. Additionally, many of the lost positions were related to state and local government education. Hiring should pick up this summer ahead of the 2021-22 school year. The resumption of these jobs, made possible by Rescue Plan funding, could mean a shorter recovery time than what we experienced following the Great Recession.

State and local government spending is about 11% of U.S. GDP. Without the $350 billion in Rescue Plan funds, state and local governments will resort to cutting their budgets for years and slow the U.S. recovery. If lawmakers care about a speedy economic recovery, they should not repurpose the Rescue Plan funding allocated to state and local governments.

Status of Infrastructure Discussions

Prior to lawmakers breaking for the Fourth of July holiday, President Biden, along with 10 lawmakers, stood in front of the White House and announced an agreement on infrastructure was reached. They, in fact, did not come to an agreement. The announcement was really a tactic for lawmakers to buy some additional negotiation time. From the president's perspective he was not just obtaining time to negotiate with Republicans, but he was also buying time to negotiate with progressives in his own party.

At this time, I do not think lawmakers are very close to coming to a bipartisan agreement on infrastructure. I also do not believe Democrats are close to a position where they could successfully pass an infrastructure package using budget reconciliation. The Democrats still do not have all of their ducks in a row- there are substantial issues outstanding, including whether New York lawmakers will support infrastructure if they are not able to get a repeal to the state and local government tax (SALT) deduction cap, among others.

Democrats thought a progressive agenda was possible in 2021 after seeing momentum build for some key issues in 2020, including police reform. The president tried to take advantage of the energy by proposing a $2.6 trillion American Jobs Plan and a $1.8 trillion American Families Plan, both of which included a significant expanse of the progressive left's agenda. Although the Biden administration began its first 100 days with the dual successes of increased vaccinations (which facilitated the opening of the U.S. economy) and the passage of the $1.9 trillion Rescue Plan Act, potential political support for a progressive agenda is weakening.

A key example of the pendulum swinging back in a more moderate political direction is the fact that Brooklyn Borough President Eric Adams will be the Democratic nominee (essentially making him mayor) for New York City mayor. Adams, who was a former New York City police officer and captain, stressed the importance of public safety during his campaign. Democrats will likely chart a new playbook for how to approach the 2022 midterms if Adams is victorious. This is not a surprise and was detailed in my previous commentary Violent Crime would be a credit and political challenge at the beginning of the summer.

The political reality is while Democrats and Republicans should be able to come to an agreement on infrastructure (page 5), a bipartisan package remains unrealistic. An infrastructure package that happens with only Democrats through the budget reconciliation process is also unrealistic at this time.

Today's Democrats don't want to hear it, but James Carville, Bill Clinton's former political strategist, was probably right when he said that the Democrats "don't have the votes" to be "more liberal" than Joe Manchin. Lawmakers have two weeks in July to debate and the Senate is in session during the first week of August. Following the August session, another long break occurs that lasts until the end of September. Even though it is still July, the legislative calendar is falling away quickly. If Washington, D.C. really wants to get an infrastructure package done in 2021, a political breakthrough is needed. Without it, I just don't see how infrastructure legislation is finalized this year if the current dynamic persists.

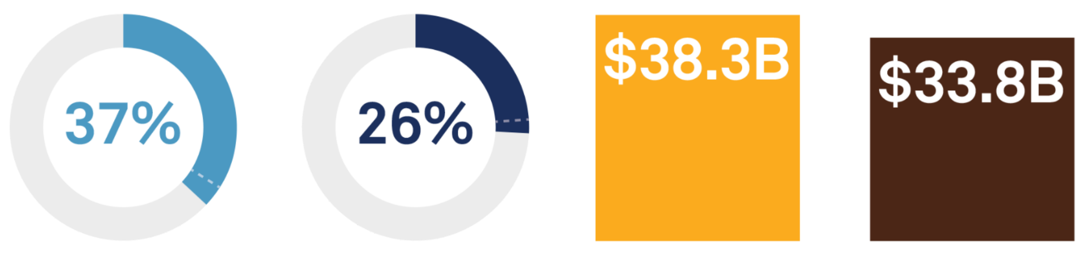
Coalition Greenwich
A division of CRISIL

E-Trading Diversifies; Dealer Inventories at Two Year Low

June Data Spotlight: U.S. Credit Trading

June 2021

Key May Metrics

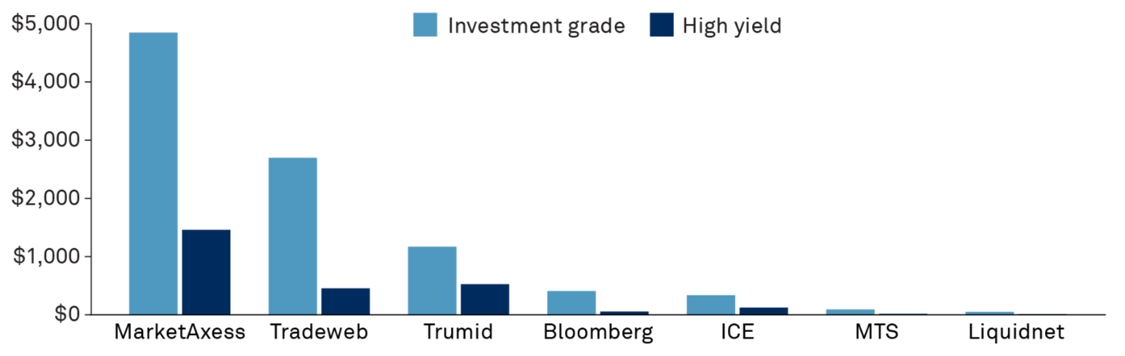


Note: Combined IG and HY as reported by TRACE

Trading Venue Activity

The seven major corporate bond trading venues in the U.S. collectively handled 37% of investment-grade and 26% of high-yield bond volume in May. These percentages have held relatively steady for the past three months despite less total market volume overall.

U.S. Corporate Bond Reported Volumes—May 2021
USD Millions



Note: Includes all volume reported as electronic trading by the platforms, including both institutional and retail. Volumes follow TRACE standards, which means intermediated (usually anonymous) trades are double counted (with the buy and sell reported separately).
Source: Greenwich MarketView

MarketAxess Open Trading accounted for 33% of the platform's trading volume year to date in 2021, up slightly from full-year 2020. This reflects the market's growing appetite for trading in all-to-all environments.

Tradeweb continued to see its volumes rise in 2021, primarily via its portfolio trading and Dealerweb Sweep offerings (discussed in last month's Greenwich MarketView Data Spotlight). We estimate those trading mechanisms account for over 60% of Tradeweb's U.S. corporate bond volume today.

And last but not least, Trumid's volume has also been up consistently in 2021. We estimate that at least three-quarters of the volume is executed via its Attributed Trading protocol, which allows dealers to stream two-sided bond prices directly to clients via the platform.

The ATS Flag

Trumid's growth is a clear tailwind for ATS reported volume as well, which hit a record percentage of total reported trade volume in May at 11.1% for investment grade and 10.3% for high yield. But the ATS flag is only somewhat useful at this point, as it both captures trades that fall outside the original intent, given their manual nature, and does not capture trades that fall within the spirit if not the letter of the rule. We hope to see continued work on this front by FINRA and the SEC in the coming months and years.

Everything Else

Corporate bond new issuance has continued at a healthy clip, given low interest rates and investor demand for any yield they can find. Dealer inventories are at their lowest level since February of 2019, having declined month over month in every month of 2021. ETF and derivative market activity has remained consistent over the past two months, with investors expecting few if any shocks given the Fed's heavy hand in the market.

We expect the entire credit market to slow heading into the summer months, however, assuming no unforeseen shocks. Despite the market's automation that we speak so much about, when real people go on vacation, the robots do too.

Kevin McPartland is the Head of Research for Market Structure and Technology at the Firm.

The data underlying this analysis, which includes but is not limited to e-trading levels, platform market share and total market volumes, is available to subscribers of Greenwich MarketView. MarketView provides continuous access to these metrics, updated at least monthly, based on the frequency of the source data. Please e-mail kevin.mcpartland@greenwich.com to learn more.

METHODOLOGY

Coalition Greenwich continuously gathers data and insights from credit market participants, including market makers, primary dealers and trading platforms. The data, once aggregated, normalized and enhanced, is analyzed by our market structure research team who identify the key trends of trading in the credit markets, with a focus on corporate bond electronic trading and trading platform market share.

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Bond Dealers of America

BDA Member Profile

THE KARN GROUP

Fixed Income Technology, Pre-Trade Price Transparency, Market Structure, Challenges and Opportunities for Middle-Market Dealers

Tell us about The Karn Group – leadership, focus, and some current projects as you work with many BDA members on regulatory and market structure challenges

The Karn Group (TKG) has been serving fixed income broker/dealers for over 15 years. We are a software as a service (SaaS) firm proving sophisticated compliance and pricing solutions. Our senior management team averages over 25 years of industry experience with expertise in compliance, trading systems, operational resilience, customer support and information technology.

In creating TKG, I drew upon my expertise in both trading fixed income bonds and software development. My previous company, MSI, was a leading provider of equity compliance services. I recognized that regulators were beginning to apply the equity compliance model to the fixed income markets, a process that is currently accelerating. This was clearly an underserved industry need.

Originally, we focused on trading exceptions and compliance workflow but soon added services in the areas of pre-trade pricing, price transparency, commissions, and mark-up/mark-down. As our customers' needs have evolved and increased, we have expanded into trading support including real-time market analysis, yield curve generation, and automated bidding. We have also added to our compliance offerings with fixed income statistics and structured product analysis.

Let's focus on one issue of immediate focus of the regulators, pre-trade transparency in the OTC bond markets. From TKG's perspective how has this regulatory issue evolved and what are the biggest challenges today for sell side bond dealers?

Historically, post trade exception reporting was sufficient to meet regulator expectations. As the markets have evolved, pre-trade compliance is becoming the best execution standard. This has resulted in the need for pre-trade price discovery and independent evaluative prices. Best practices include contemporaneous documentation of relevant market data such as last prints, offerings, and situational bids. In illiquid markets, an analysis of comparable security trades is needed.

The challenge for the sell side is how to meet this obligation without hindering trade executions with pre-trade delays and complexity. TKG has automated pre-trade compliance and price discovery to make it efficient and minimize its impact on the trading desk. Our most comprehensive solution is integrated into the dealer's order management system. It automatically performs a compliance review and flags issues before the trade is executed.

Talk about bond market structure and how it's evolved over the years. Do you see more challenges today for middle market firms? And how does TKG work with firms to bridge that gap, to help ensure competitiveness across asset classes?

Regulation and compliance obligations have been main drivers in the evolution of bond market structure. The requirements to ensure competitive bids and offerings have led to increased utilization of alternative trading systems with broad disseminations of requests-for-quotes (RFQs) and offerings. In addition, there has been an increased use of market consolidators.

This electronic marketplace has created a flood of market data and RFQs that are challenging to manage without automation. Historically, only the largest market-center firms had the information technology to implement and benefit from such automation.

TKG seeks to empower middle market firms by providing cost-effective technology as a subscription service. Through our cloud-based SaaS, we enable a broad range of broker/dealers to compete on an even playing field with the largest market participants.

How is TKG working with dealers as related to fixed income pricing and valuations?

Trading desks are challenged to find appropriate pricing for compliance and exception reporting. Most pricing services are designed to support the buy side firms for portfolio valuations. This results in missing price fluctuations driven by short term supply, demand, and liquidity. TKG pricing is designed for the trading desk.

TKG's pricing of bonds is modeled after the approach of trading desks. TKG's pricing uses a cascading series of proprietary methodologies. Actively traded issues are priced based on recent dealer trades. Issues that have traded less recently will be tracked against yield curves or an index of comparable bonds. We also track offerings and situational bids to ensure prices are consistent with the current market.

How is TKG crafting solutions for dealers and talk a little about how TKG regulatory solutions can benefit firms looking for third party solutions?

We develop solutions based on a combination of customer direction and interpretation of the regulatory environment. New products are always developed in partnership with customers. Our large pool of sophisticated customers provides us with early notice of regulatory trends and industry needs.

Our position as the largest provider of fixed income compliance solutions gives us the benefit of being well-informed of what regulators are looking for and the results of examinations. We use this knowledge to enhance our offerings and provide the most advanced solutions.

TKG was the first firm to provide a comprehensive fixed income compliance suite. As such, we have the most mature, comprehensive, and well-vetted solution in the industry.

Other product and service offerings by TKG?

TKG also offers trade surveillance and equity compliance solutions. Our surveillance system is a rules-based engine providing sophisticated visual display and workflow management. The system creates cases for trading ahead of news, wash sales, marking the close, spoofing and layering, and Reg M-105 among others.

Our equity compliance and best execution solutions for broker/dealers provides exception reporting, SEC NMS 605 type statistics and SEC NMS 606 regulatory reporting.

Banks are Rethinking Their Bond-Trading Tech as MarketAxess and Tradeweb Help Create a More Competitive Market

Author
Businesshala

- The trading desks of banks are processing more corporate bond transactions electronically.
- Tradeweb and MarketAccess have recorded record numbers in trading levels and revenue in the past year.
- The growth of third-party trading firms is prompting banks to enhance their technical capabilities.
- See more stories on Businesshala's business page.

Whether it's credit traders flipping securities in the secondary market or syndicate desks compiling orders for new bond deals, sales and trading teams are opting for digital programs instead of the telephone.

Electronic trading venues such as TradeWeb or MarketAccess are integral tools for bankers. The technology instantly connects fast-moving trading desks with clients, while enabling them to absorb pricing data from market peers.

But the same innovation has empowered buyers to execute trades without dealers, effectively locking them out of the market they have long dominated.

And high-speed traders have also been able to advance in the space thanks to electronic space, creating more competition for banks and forcing them to rethink their technical strategy.

"non-bank" liquidity

The presence of providers has encouraged traditional dealers [banks] To step up your tech game, said Kevin McPartland, head of research at Greenwich Associates' market structure and tech group.

Both parties – the bank and the trading venue – maintain a complex relationship in bond trading. In a recent report some, including JPMorgan, see MarketAccess and Tradeweb as competitors to the dealers.

But others said that venues are only a part of the electronic evolution of the market structure.

"I wouldn't call them direct competitors. They are part of the toll road for electronic transactions and fixed income products," said a senior banker. "Every stop along that toll road is worthwhile for pricing that goes to the end customer."

Bond trading venues changing the market landscape

Banks is deeply involved with third party players.

TradeWeb's board of directors includes executives from Goldman Sachs and JPMorgan. TradeWeb CEO Lee Olesky created the idea for the company while working at Credit Suisse First Boston. MarketAccess was also founded by Richard McVey, a former JPMorgan banker.

"When third-party platforms roll out new features, there's almost always a bank involved to create that functionality," McPartland told Businesshala. The key, however, is whether these locations jeopardize the bank's customer relationships.

In broadening the ecosystem of credit trading, banks are somewhat exposed. Hedge funds, asset managers, and market makers can quote both the bid and ask prices for a company's bonds, cutting out bank dealers altogether. They are effectively eating traders' lunch, a second senior banker said, and it is a trend that is increasing.

Nearly 38% of asset managers and hedge funds that took part in the Greenwich survey published last quarter said they would provide liquidity, while 25% said they would be able to or were planning to in the next year.

But banks are reshaping their businesses to do business profitably through electronic means, without sacrificing customer relationships, McPartland said. They are also important in high-yield and emerging-market bond trading where the buy-side is small and much of the trade is done bilaterally.

Importantly, it remains a lucrative business for large banks. JPMorgan's fixed-income market revenue rose 15% to $5.8 billion at the end of the first quarter, while Goldman Sachs' fixed-income revenue rose 31% to $3.9 billion.

Trading fees play a factor in banks' concerns

This does not mean that bankers are not concerned about the cost of third-party players.

Roughly 35 – 40% of investment-grade bond trading is done electronically, according to data from Greenwich, and is expected to grow as bankers rely on technology to thrive in the hybrid workplace.

According to the first banker who requested anonymity, as the percentage of electronic trading increases, this is a cost that can eat into client returns, and it did not exist before the emergence of third-party platforms.

Analysts at JPMorgan, led by Qian Abuhosin, suggested in the report that banks could deploy their own cash to develop electronic-trading capabilities. Businesshala reported in May 2019 that Goldman Sachs, Bank of America and Citi have worked with clients to facilitate direct electronic trading, effectively cutting off third-party trading venues.

But most traders said the efficiency of digital offerings, combined with the breadth of investor connectivity and robust data, outweigh the costs involved, especially as investment banks enter sales and increasing revenues in trading. The first banker described third-party trading aids as a "needed service" and a leap from communication via Businesshala's Messenger service.

Linear sales and trading desks are using technical support like Tradeweb to handle higher transaction volumes. And partnering with these firms is requiring investment from Wall Street.

"a lot [banks'] In the past the money may have been spent on the Rainmaker sales people, but some of that cash is now redirected to technological innovation or data scientists," McPartland said. "It's an important part of the franchise."

Financial firms and the future of remote and in-office work

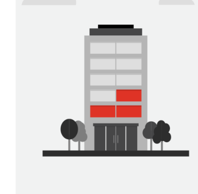
PwC's US Remote Work Survey

Financial services (FS) companies made a high-speed switch to home offices and kitchen tables in March 2020 when COVID-19 forced widespread lockdowns around the world. How did it work out for them, both employers and employees? And what happens to the FS workforce from here?

As part of PwC's Remote Work Survey, we put these questions to 50 executives and 144 employees at US financial services firms during the period from June 1 to June 12, 2020. The results clearly show that FS executives are committed to making remote work more manageable for their employees and that these arrangements can be productive. We also learned what employees want from their employers to help be successful working remotely going forward.

Commitment to work-at-home arrangements doubles

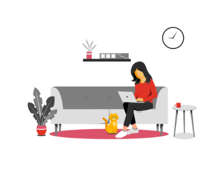
Flexible work was far from the norm and remote work was the exception for most financial institutions before COVID-19 forced shelter-in-place orders in March. Before then, we did see insurance call centers with remote workers along with mobile employees such as some financial advisors and claims adjusters. Only 29% of employers had at least 60% of their employees working from home at least once a week before the pandemic. Now, 69% expect at least three-fifths of their workforce to telecommute at least once a week. We found similar results in our recent CFO survey, with 61% of CFOs saying that they plan to make remote work permanent for roles that allow it.



Before COVID

29%

of FS companies had at least 60% of their workforce working from home at least once a week.



After COVID

69%

of FS companies expect to have 60% of their workforce working from home at least once a week going forward.

Source: PwC's US Remote Work Survey June 25, 2020: FS employee base of 144

So what happened? FS firms and employees made remote work successful. Financial services executives told us that 95% or more of their office workers switched to working from home during the crisis and, by and large, they maintained or improved productivity. Similarly, 79% of the employees surveyed had at least three in five employees working from home, and employees were satisfied with the results of their forced telework experiment. More than 70% of the FS employees said they found the work-from-home experience to be successful or very successful.

Employees also indicated that they embrace this shift. An overwhelming majority, 86%, said they support the idea of working from home at least one day a week, with a whopping 35% wanting remote work as a full-time option. This is a big change: 39% of FS employees said they had never worked from home prior to the pandemic, and 16% said they worked from home only once a month.

Takeaways

The balance between flexibility and the needs of the office should be an ongoing conversation for your firm. Depending upon the role, work-from-home may have no effect on performance or it may present a genuine struggle. For example, while employees in the accounting department may find it easy to work from home, traders may need to be in the office to access more powerful systems and lower latency. Financial advisors are often mobile because they meet their clients when and where their clients are comfortable. Commercial bankers, who were establishing relationships over business dinners, now find themselves trying to do the same using videoconferencing tools. You'll need to support these new ways of working with the right tools and different measures of success.

Establishing a work-from-home program shouldn't be left to chance. With little prior exposure to remote practices, FS employees made a cut-and-paste transfer from office procedures to the virtual world and adapted them along the way. Your firm should use the knowledge obtained during the lockdown to help build on proven successes and focus on those areas that weren't developed with remote work in mind. The areas that we are finding need the most attention: coaching, communication and collaboration.

Work remains productive, but coaching and collaboration remain a struggle

What went well? FS employees exceeded expectations for productivity during the pandemic. Seven in ten (69%) of the executives surveyed reported that their employees were as productive or more productive than before the crisis. On the employee side, over 73% said they were at least as productive. Employees stepped up in a stressful time, managing their well-being as well as their work output. These results suggest that financial firms had the technology in place to keep things running when the entire workforce was displaced and that executives and managers found ways to communicate directly with teams. Over 75% of the employees said their ability to collaborate was the same or improved during the COVID-19 lockdown.

What didn't work so well? Not all virtual workplaces ran smoothly. Of the 22% of employees surveyed who said they were less productive, the top-three reasons were choosing to work less (41%), difficulties collaborating (30%) and difficulties getting the information they needed (30%). Of course, there are only so many conclusions we can draw given the extraordinary circumstances that many employees found themselves in. For example, it's likely that employees who chose to work less were managing their children's virtual schooling, caring for loved ones and coping with other crisis-related distractions. Managers said they had to feel their way through alternative ways of coaching remote teams during the lockdown. Some firms struggled with infrastructure issues, with bandwidth constraints making it necessary to limit video calls. Extended arrangements for remote work likely will require better tools and training on remote collaboration, but we expect them to be less challenging for everyone if we can take a lesson from the recent lockdown experience.

Takeaways

In reviewing your back-to-work strategy, you may be forced by social distancing requirements to consider how many workers can return, as well as staggered schedules and accommodations for at-risk employees.

We recommend you plan deliberately how your employees will work as they move between office and remote environments. For example, managers who excel at in-person relationships building or who have little exposure to telework, may need to improve people management or team-building skills for offsite direct reports. Agile teams may need explicit redefinition of how they will collaborate and advance their teams' work. In particular, collaboration, coaching and communication standards and routines should be explicit, enabled by a robust set of tools.

FS employees need support for long-term remote work

More than other industries, our survey shows financial services firms are willing to take steps to make work from home more productive. The top three items executives said they plan to provide their workforce are more flexibility in hours, better security policies to support remote work and autonomy in their roles. Judging from their responses, employees have differing priorities in a few areas. For example, vacation flexibility was the second-highest employee preference, while employers ranked it at sixth. Employees checked a clear divide between work and home as their third-highest need. For employers, that was their lowest priority.

Looking forward, which of the following would help you be more productive when working remotely?

	All Employees	FS Employees
Better hardware/equipment (e.g., laptop, monitor, printer, chair)	32%	35%
Greater flexibility in taking time off	18%	30%
Clear rules that establish the times when people must be available	22%	26%
Greater flexibility in when I work	29%	24%
Better mobile experience for work applications and data	19%	22%
Help managing workloads	19%	17%
Rewarding new experiences, training and learning	19%	16%
More autonomy in my work	15%	16%
Better security policies to support remote work	14%	12%
Help in building networks and relationships	15%	10%

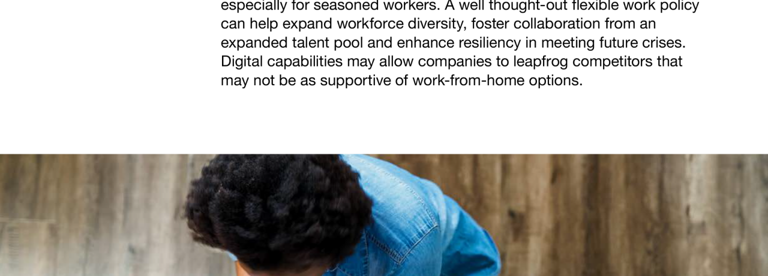
Source: PwC's US Remote Work Survey June 25, 2020: FS employee base of 144

Takeaways

Ask your employees what they need to work remotely and pay attention. Their input will help remote work be more effective and productive while improving their engagement.

We also suggest a deliberate approach to crafting policies that fit your organization. Accepting a more remote workforce does not mean accepting more risk. Novel or temporary practices during the lockdown should pass muster for governance, risk and compliance before they're adopted into the remote-work playbook.

Flexible work arrangements can also be a powerful recruiting tool, especially for seasoned workers. A well thought-out flexible work policy can help expand workforce diversity, foster collaboration from an expanded talent pool and enhance resiliency in meeting future crises. Digital capabilities may allow companies to leapfrog competitors that may not be as supportive of work-from-home options.



Preparing for the future

The COVID-19 crisis uncovered a wide range of front-office and back-office jobs primed for a successful move to a hybrid remote-office model, from business advisory to economics to financial planning. But, getting remote work right takes planning and forethought. Here's what we recommend as you prepare:

Take stock of your real estate. Think about which employees need to come back to the office and what they'll be doing when they're there. This will cascade to every decision from reviewing leases to office remodeling.

Develop your mobility plan. Determine guidelines for which roles should be predominantly on-site based on need for equipment, systems or team collaboration. Develop policies that address how often workers within each specific job type should work remotely and set clear expectations.

Design to meet your workforce preferences. Ask your employees what they need to be productive when they work remotely. Listen with an open mind and factor their input into employer-driven mobility plans. For example, you may want to adjust benefit programs to offer a menu of options that employees can customize, such as flexibility, vacation/sabbaticals, learning and more.

Enable the right technologies. Give your employees what they need to succeed and thrive when working remotely, including tools that improve productivity. Consider allowances or reimbursements for employees to equip their home offices. Continue to assess and bolster your VPN and access controls to help confirm that remote work is secure.

Define new ways of working. While FS companies have generally been successful during the crisis, there is no guarantee that these behaviors will endure. In-person mentoring and social interaction is the norm in many firms, so moving to a more flexible work-from-home model will not come easily for many. Support your managers in the immediate term to engage and direct their employees in a more virtual model, and consider changes to metrics and guidelines to help reinforce new ways of working.

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BDA Bond Dealers of America

Advocacy Priorities

Infrastructure and Municipal Bonds

The BDA and MBFA continue to press for an infrastructure package that further emboldens the municipal bond market.

Legislation has been introduced in both Chambers of Congress, and received support from the Biden Administration.

A bipartisan **group of 21 Senators has come to a soft agreement** with the Biden Administration on a $1 trillion infrastructure package. While the deal has yet to receive support from Congressional Leadership, this is a promising step.

The framework includes nearly $600 billion in new spending and relies heavily on muni provisions such as the expansion of Private Activity Bonds and creates a new direct pay bond, the American Infrastructure Bond. The AIB legislation introduced by Senators Wicker (R-MS) and Bennet (D-CO) would create a new direct-pay bond with a flat 28% reimbursement rate. In the original legislation, the AIB would be exempt from sequestration, however, **no details on the sequestration treatment** were included in the original document.

While there was no direct mention of the reinstatement of tax-exempt advance refundings or raising the BQ debt limit, the MBFA and BDA remain committed to ensuring all priorities be included in the final package once Congress and the Administration begin to write legislative text.

While the bipartisan framework agreed upon last month remains intact, some fault lines have begun to emerge, potentially interrupting next steps in the legislative process. Many questions remain on how the **package will be paid for** which at this time relies on budget gimmicks and the repurposing of COVID relief funds, and comments made by both the Biden Administration and the Democratic Caucus about a potential **additional partisan spending package** via budget reconciliation have thrown the discussions into a standstill.

In late March, the BDA Board hosted House Ways and Means Chairman Richard Neal (D-MA) for a virtual infrastructure roundtable in which the reinstatement of AR was discussed at length, among other municipal bond priorities including:

- **Expansion of PABs including for ESG uses;**
- **Raising the BQ debt limit; and**
- **Reinstatement of direct-pay bonds exempt from sequestration.**

The newly reformed Municipal Bonds for America Council has also been active in promoting muni priorities. Following the early March Ways and Means hearing titled, "Tax Tools to Help Local Governments," **the MBFA submitted testimony in support of the municipal market**.

The BDA and MBFA continue to work with our partners on Capitol Hill and in the Public Finance Network (PFN) to ensure that municipal bond provisions are well placed and considered as Congress works on additional 2021 measures such as infrastructure and public works which we believe will be addressed in the coming months.

FINRA 4210 Amendments

FINRA Rule 4210 governs customer margin requirements. FINRA has had a multi-year project to amend Rule 4210 to apply margin requirements to when-issued trades and other trades with extended settlements even for DVP accounts. Among other issues BDA has raised around 4210, we requested that dealers be permitted to take a capital charge in lieu of customers posting margin for certain extended settlement trades.

In recent months FINRA has issued two proposals regarding Rule 4210. The **first**, a concept release, would apply margin requirements to when-issues transactions that settle outside normal settlement windows. The **second**, focused on "covered agency transactions," or new issues of agency-backed MBS, was issued by the SEC as a rule proposal. BDA commented on both. We told FINRA that the Rule under both proposals would severely disadvantage regional and middle-market firms. We asked FINRA to revise the Rule so that, for example, margin requirements would not apply as long as a MBS trade settled by the published good delivery date. We have also had follow-on meetings with FINRA and SEC staff. FINRA's proposals both indicated that the current October 2021 compliance deadline will be extended yet again.

Corporate Syndicate Rule

BDA is pursuing a change in regulation to address a mismatch between the SEC Net Capital Rule and FINRA Rule 11880 which governs the settlement of syndicate accounts on corporate bond and equity issuances. FINRA rules allow syndicate lead managers 90 days after deal closing to close syndicate accounts and return funds to co-managers. However, the SEC capital rule specifies that syndicate receivables cannot count towards regulatory capital compliance. So co-managers' funds are locked up for 90 days after deal closing until the syndicate account is closed.

BDA and a group of CEOs of minority-, women-, and veteran-owned firms recently met with SEC Chair Gary Gensler on the issue, and Chair Gensler indicated his support for reducing the 90-day deadline of the FINRA rule. We subsequently spoke with FINRA staff who indicated that they are preparing a concept release with a proposal to amend Rule 11880 to reduce the deadline for returning funds from 90 days to 30. BDA will continue to monitor FINRA's activities on this issue.

SEC Rule 15c2-11

In late 2020 the SEC finalized changes to SEC Rule 15c2-11 as it relates to pre-trade issuer information. The Rule requires dealers to review issuer financial information prior to submitting quotes to trading platforms for over-the-counter securities. The 2020 changes specify that the issuer financial information must also be publicly accessible.

Rule 15c2-11 has existed for some time. Many have assumed that the rule does not apply to fixed income products. But in its release announcing the changes last year, the SEC specified that the rule does apply to fixed income products except municipals.

BDA met with SEC staff in the spring about a blanket exemption from Rule 15c2-11 for fixed income products, and we sent a draft exemptive relief request to the staff of the SEC Division of Trading and Markets. Subsequent to that, the SEC informed us that SIFMA is pursuing a similar exemptive relief request and asked whether we would be willing to combine efforts. Since then, BDA and SIFMA have been working together on a joint exemptive relief letter, which we will transmit to the SEC soon.

MSRB Rule G-13 Enforcement

FINRA recently released a settlement letter for an enforcement action against a firm for violating MSRB Rule G-13. The case represents new enforcement ground. We are not aware of any FINRA enforcement case involving Rule G-13 since FINRA has existed in its current form. The MSRB has issued little guidance around G-13. We are concerned that this case could represent a new focus for FINRA in examinations and enforcement. If that's true, we believe the industry will need additional guidance from the regulators around what constitutes a violation.

BDA has hosted numerous member calls on G-13 enforcement issues which has allowed firms to share information on compliance practices. We also sough and received informal clarification from MSRB staff on open questions regarding the scope of G-13 enforcement. We are now conducting a survey of member firms on their compliance practices around the Rule as a guide for firms creating or amending G-13 compliance procedures.

MSRB Rule G-10

BDA recently submitted a comment letter on **proposed changes** to MSRB Rule G-10. Rule G-10 requires municipal securities dealers to make certain annual disclosures about their SEC and MSRB registrations and about the MSRB's complaint resolution services. In our January 2021 letter to the MSRB on strategic priorities, BDA asked the MSRB to amend Rule G-10 so that dealers would be required to send municipal-related disclosures only to their municipal customers.

The MSRB's proposed changes to Rule G-10 would implement BDA's recommendations. The proposal would also exempt Sophisticated Municipal Market Professionals from the disclosure requirement if the disclosure information is posted on the dealer's Web site. In our comment to the MSRB, BDA generally supported the amendments and requested additional changes to Rule G-10.

2021 Events Calendar

Upcoming In-Person Events
Fixed Income Leadership Roundtable (Available Live-Streaming)
Sept 2
Four Seasons Hotel
Dallas, TX

Fixed Income Legal & Compliance (Associated with BDA National FI Conference)
Nov 3
Marriott City Center
Charlotte, NC

Public Finance Leadership Roundtable (Associated with BDA National FI Conference)
Nov 4
McGuire Woods
Charlotte, NC

National Fixed Income Conference (Available Live-Streaming – General Session Room)
Nov 4-5
Marriott City Center
Charlotte, NC

Fixed Income Strategy Session
Jan 27-28, 2022
Ritz Carlton Hotel
New Orleans, LA

Past Virtual Events (2021)
Fixed Income Legal and Compliance Webinar
April 5
Event Recap
Public Finance Leadership Webinar
June 16
3:00pm CT
Event Recap

Past Virtual Events (2020)
National Fixed Income Conference Webinar Series
November 5-14, 2020
Event Recap

Fixed Income Leadership Webinar Series
Aug 5-12, 2020
Event Recap

Fixed Income Legal & Compliance Webinar
June 11, 2020
Event Recap

Past In-Person Events (2019)
Sales Manager Roundtable
April 25, 2019
FTN Financial Office
Memphis, TN
Event Recap

Retail Fixed Income Roundtable
May 9, 2019
Wells Fargo Advisors Office
St. Louis, MO
Event Recap

Fixed Income Legal & Compliance Roundtable
June 6, 2019
Nixon Peabody Office
Washington, DC
Event Recap

Public Finance Leadership Roundtable
June 20, 2019
Quarles & Brady Office
Chicago, IL
Event Recap

Institutional Fixed Income Roundtable
Aug 22, 2019
Ritz Carlton
Dallas, TX
Event Recap

Fixed Income Legal & Compliance
Oct 23, 2019
Sofitel
Chicago, IL
Event Recap

Public Finance Leadership
Oct 24, 2019
Sofitel
Chicago, IL
Event Recap

The Bond Dealers of America has many opportunities to sponsor or exhibit at our roundtables and conferences in 2021. We will hold two virtual (Public Finance Leadership and Legal & Compliance) and two hybrid events (Institutional Roundtable and National Fixed Income Conference) to attend in-person or virtually.

Our National Fixed Income Conference is traditionally a two-day, 200+ person event; however, in 2020, attendees participated from the comfort of their desk or couch in a series of 8 webinars broadcast over the first two weeks of November. The webinars included great speakers, great topics, and the ability to interact with both speakers and other attendees. This year, we are hosting in Charlotte, NC at the Marriott City Center from November 4 – 5 (Thursday & Friday). A limited version of the conference is available virtually.

Sponsorships and exhibits (virtual and in-person) reflect these changes. We're excited about our 2021 events. Please see below for more information and contact Rebecca Rodriguez at rcrodriguez@bdamerica.org for more information.

Back to Events Calendar

BDA Annual Sponsor:

$25,000
- Can attend all BDA dealer roundtables and in the 2021 series, including the benefits National Fixed Income Conference at Gold Level ($15K)
- Pre-designated speaking or moderating role at the appropriate event
- Sponsorship recognition on BDA homepage
- Up to three attendees to meetings and can distribute marketing materials
- BDA website recognition of event sponsors, receive attendee list with emails, and Verbal and marketing recognition before and during the actual event
- Ad space in Fixed Income Insights Quarterly E-Magazine and podcast interview or podcast sponsorship

Individual Event Sponsors (Dealer Roundtables):

$10,000 Gold
- Can attend all BDA Dealer Roundtable events (virtual and hybrid) in the 2021 series
- Pre-designated speaking or moderating role at the event
- Up to three attendees to meetings and can distribute marketing materials
- Ad space in Fixed Income Insights Quarterly E-Magazine and podcast interview
- Verbal and marketing recognition before and during the actual event, receive attendee list with emails, and BDA website recognition of event sponsors

$5,000 Silver
- Can attend all BDA Dealer Roundtable events (virtual and hybrid) in the 2021 series
- Pre-designated speaking or moderating role at the event
- Up to two attendees to meetings and can distribute marketing materials
- Ad space in Fixed Income Insights Quarterly E-Magazine and podcast interview
- Verbal and marketing recognition before and during the actual event, receive attendee list with emails, and BDA website recognition of event sponsors

$2500 Bronze
- Can attend all BDA Dealer Roundtable events (virtual and hybrid) in the 2021 series
- One attendee to meetings and can distribute marketing materials
- Verbal and marketing recognition before and during the actual event, receive attendee list with emails, and BDA website recognition of event sponsors

National Fixed Income Conference (Annual Conference)

$15,000 Gold
- Premier sponsorship opportunity to increase visibility and exposure
- Branding will appear in print, email, web marketing, and in the conference program agenda
- Includes an exhibit space on the exhibit floor
- Featured speaking role in conference agenda
- Ad space in Fixed Income Insights Quarterly E-Magazine and podcast interview
- Fifty-word (50) company description on conference app & link to the site
- Receive Attendee list with emails
- Includes 4 complimentary full conference registrations

$10,000 Silver
- Premier sponsorship opportunity to increase visibility and exposure
- Branding will appear in print, email, web marketing, and in the conference program agenda
- Includes an exhibit space on the exhibit floor
- Featured speaking role in conference agenda
- Fifty-word (50) company description on conference app & link to the site
- Receive Attendee list with emails
- Includes 3 complimentary full conference registrations

$5,000 Bronze
- Premier sponsorship opportunity to increase visibility and exposure
- Branding will appear in print, email, web marketing, and in the conference program agenda
- Includes an exhibit space on the exhibit floor
- Fifty-word (50) company description on conference app & link to the site
- Receive Attendee list with emails
- Includes 2 complimentary full conference registrations