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Subject: Regulatory Notice 21-40 - Comments from Mizuho Securities USA LLC
Date: Tuesday, January 18, 2022 11:32:20 PM

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Hi FINRA,

With regards to Regulatory Notice 21-40: FINRA Requests Comment on Amendments to Rule 11880 Shortening the Settlement of Syndicate Accounts, the following is our response to the request for comments:

1. In addition to the economic impacts identified in this proposal:
 - a. Are there other significant sources of impacts, including direct or indirect costs and benefits, of the proposed amendments to firms, issuers and investors?
 - b. What are these economic impacts and what factors contribute to them?
 - c. What would be the magnitude of these costs and benefits?
 - d. Would such economic impacts differ across firm size or business model?

Please provide data or other supporting evidence.

- While our Firm recognizes the regulatory capital benefit associated with shortening the settlement of syndicate accounts in co-manager roles (versus a bill and deliver role), we are concerned about the operational aspect of submitting all reimbursable expenses on time during the 30 day window. We believe it may not be feasible to do so in this time frame and Firm's will be incurring expenses as they will not have enough time to submit for reimbursement within the 30 day window.
2. FINRA could consider defining a "corporate debt security" as a type of "TRACE-Eligible Security" that is United States ("U.S.") dollar-denominated and issued by a U.S. or foreign private issuer. Is this the appropriate definition of "corporate debt security" for purposes of this proposal? Why or why not? Should the definition exclude a "Securitized Product," as defined in Rule 6710(m)? Please explain.
 - Our Firm believes the definition of "corporate debt security" is appropriate.
 3. What are the various syndicate manager activities, processes and related timing that must precede the final settlement of syndicate accounts? Are there specific procedures or other measures used to address unresolved or uncertain expenses? How do these activities, processes and related timing considerations differ between various types of corporate public offerings?
 - Within the current 90 period, Firm's must gather all expenses and submit to the Lead syndicate for review and approval of reimbursable expenses. It would be helpful to establish a requirement for an interim date for such draft expenses to be submitted, so that all syndicate members have enough time to review and challenge before final settlement.

4. FINRA is proposing to shorten the syndicate account settlement cycle for public offerings of corporate debt securities from 90 days to 30 days. Is 30 days the most appropriate shortened timeframe? Is a shorter timeframe feasible?
 - A shorten time frame is not feasible from an operational standpoint. If force to do so, Firm's will be missing out on potentially reimbursable expenses.

5. Are there certain types of offering costs that a syndicate manager may be unable to itemize within 30 days? For example, are fees for legal services always determined within 30 days of the syndicate settlement date? If not, when are such fees finalized? Could legal fees increase where the syndicate manager is required to settle syndicate accounts in a shorter period of time?
 - Yes, legal fees are just one example, but essentially any other reimbursable expenses such as market data, marketing expenses, printing costs, professional fees, roadshows, telecom, travel and entertainment, etc. It is difficult from an operational perspective to obtain all expenses within the 30 days syndicate settlement window.

6. Are there some types of corporate debt offerings that could not settle in 30 days? If so, what are the specific types of corporate debt offerings and the reasons 30 days is not feasible? For example, is the feasibility of a 30-day settlement impacted by the type of corporate debt security, whether the security is investment grade or non-investment grade; the number of tranches in the offering; or other factors? Please specify.
 - The type of corporate offerings, whether investment grade or non-grade, or the number of tranches in the offering, etc. are not concerns with regards to the 30 days settlement window.

7. As stated above, the MSRB shortened the syndicate account settlement period for municipal offerings from 60 days to 30 days in 2009. Are there differences between municipal and corporate debt security offerings that justify a longer syndicate account settlement timeframe for corporates? For example, to what degree are corporate debt security offerings more or less complex or time-consuming from a syndicate account settlement perspective and how do these differences impact the time needed to settle syndicate accounts? Are there circumstances in which it is not possible to completely settle all expenses of the syndicate in a municipal offering within 30 days, and if so, how is that handled?
 - Not all Firm's does municipal underwritings and hence the volume of municipal offerings is much less than corporate debt security offerings. Hence, while MSRB has required a 30 day settlement window for municipals, Firms who decide to participate in such underwritings will need to ensure their systems are sufficiently automated in order to handle the reimbursable expenses for such shorten settlement window. Many Firms may not participate or has a very small volume of municipal underwritings.

8. How do the billing and payment processes for public offerings of corporate debt securities that involve international participants affect the timeframe for settlement of syndicate accounts for corporate offerings?
 - For international participants, same issue with regards to expenses and ensuring they submit reimbursable expenses timely.

9. What technology has emerged that can support syndicate managers in syndicate account settlement billing and payment for corporate debt securities?
 - There is no standardized technology in the industry for this. Firms are left to build their own application to handle the syndicate account settlement billing and payments.

10. What systems, process or other changes must firms make to implement the proposed amendments? Will these changes affect the costs of the capital raising process for corporate debt securities?
 - Our Firm will need to further refine and automate our reimbursable expense process in order to ultimately meet a 30 day syndicate settlement window. Such automation will require some time and costs to implement.

11. Should the period permitted for the final settlement of syndicate accounts for public offerings of corporate equity securities be shortened? If so, what time frame is feasible? What impact, if any, would the exercise period for overallotment options have on shortening the period for final settlement of syndicate accounts for equity offerings?
 - Our Firm has the same process for expense reimbursement whether for corporate debt securities or corporate equity securities. Hence, we would not be supportive of a shortened settlement window to 30 days for corporate equity securities.

12. FINRA understands that overallotment options are less commonly used in public offerings of debt securities because they could increase the issued amount, making it difficult to assess the debt rating and negotiate the offering price.²³ Please provide comment on the frequency of use of overallotment options in connection with corporate debt offerings and what impact, if any, the exercise period for overallotment options would have on shortening the period for final settlement of syndicate accounts.
 - Not a major factor for our Firm.

13. An SEC staff interpretation under the Net Capital Rules provides that syndicate receivables may be considered an allowable asset to the extent a creditor issues a sole recourse loan to the syndicate member secured by the syndicate receivable.²⁴ Is adopting this approach feasible? What are the impacts of adopting this approach?
 - Not something our Firm would consider. The sole recourse loan issued by a creditor would have a costs to it (interest expense). Our Firm would not be interested in obtaining such a loan to accelerate the recognition of regulatory capital.

14. Are there additional approaches that FINRA should consider to accomplish the goals of this proposal? For example, what are commenters' views on a two-stage syndicate account settlement approach—whereby the syndicate manager must remit a percentage of the gross underwriting spread from the offering within 30 days of the syndicate settlement date, with

the balance due to syndicate members on a later date between 30 days and 90 days of the syndicate settlement date? If FINRA takes such an approach, what percentage should be required to be paid by the syndicate manager within the first 30 days? Please describe any other alternatives that FINRA should consider and why they are better suited?

- Yes, a phased approach is recommended. The phase approach can be:
 - As stated, perhaps 50% settlement within 30 days – the remaining 50% held back for expense settlement within the 90 day window; Or
 - Shorten the syndicate settlement window to 60 days first initially, then after a period of time, further shorten to 45 days and then after further period of time, shorten to 30 days – this will allow Firms sufficient time to build systems necessary to support such shorten settlement windows.
15. Are there any potential risks to member firms, the investor community or others, associated with the existing 90-day settlement period? Could such risks decrease or increase by shortening the settlement period?
- This proposal will have minimal impact on large investment banks as (1) they are likely in the Lead role, so they have collected all the cash from the issuer and able to recognize the regulatory capital earlier anyway, (2) they have sufficiently over capitalized their broker dealers so the timing of regulatory capital recognition is not material to them, and (3) they have sufficiently invested in their technology systems to allow for shorten settlement period. To force a shorten settlement window on Firms before they are ready from a technological and operational perspective, will result in a loss of revenues as expenses that are reimbursable will not be captured in the process timely.
16. Will shortening the period for the final settlement of syndicate accounts lead to an increase or decrease in member firm participation in syndicate debt offerings?
- This proposal will not have an impact on our Firm's participation in syndicate debt offerings. We will still do the same as whether the syndicate window is shorten or not. Again the main risk is expense reimbursements.

Please let me know if you need clarity on any of our responses.

Regards,
Dave

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