Home | Previous Page

U.S. Securities and Exchange Commission

Speech by SEC Commissioner: Key Note Address at the National Association of Bond Lawyers (NABL) 35th Bond Attorneys' Workshop

by

Commissioner Elisse B. Walter

U.S. Securities and Exchange Commission

Grand Hyatt San Antonio
San Antonio, Texas
October 28, 2010

Introduction

Thank you, Faith, for that kind introduction. I am thrilled to be here today to speak with you about municipal securities. This is a topic that I care deeply about. I first got involved in municipal securities over two and a half decades ago, when I was the Deputy Director of the Commission's Division of Corporation Finance — in fact, the last project I worked on before leaving the Commission in 1994 related to municipal securities disclosure — the anti-fraud release written by Amy Starr. Given the importance of this topic, when I had the honor of presenting the Tenth Annual A. A. Sommer, Jr., Lecture on Corporate, Securities, and Financial Law at Fordham Law School in New York last fall, I spoke in depth about municipal securities.[1]

I am pleased to report that the municipal securities market is still at the top of my priority list. The Commission's regulatory agenda to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act") is pressing on many fronts, including some that relate to the municipal securities market and many that do not. Yet, I believe that now is precisely the time for us to set our course — and I mean all of us — toward achieving a regulatory structure with enhanced protection for those who invest in the municipal securities market. Before I continue my remarks, though, I should remind you that they represent my own views, and not necessarily those of the Commission, my fellow Commissioners, or members of the staff.[2]

Despite its size and obvious importance, the municipal securities market today lacks many of the protections customary in many other sectors of the U.S. capital markets. Investors in municipal securities should have the same rights as investors in other types of securities to receive accurate and timely financial and other material information. These precepts are central to informed investment decision-making and investor protection.

It was because Chairman Schapiro shares my desire to strengthen protections for investors in municipal securities that she asked me to lead the Commission's series of field hearings across the country to elicit the analyses and opinions of a broad array of municipal market participants.[3] We embarked on this "learning tour" last month, when we held our first field hearing on the state of the municipal securities market in San Francisco.[4] We learned a lot. Over the course of the next several months, we anticipate holding additional field hearings in Washington DC, Tallahassee, Austin, Birmingham, and Chicago. Each field hearing will include participants from the local region and the issues covered in each hearing will vary, although with some overlap.

I view these field hearings as an opportunity to take a fresh look at the way the municipal securities market works. At the conclusion of all of the hearings, the Commission staff will prepare a report concerning what we have learned, including their recommendations for further action that we should pursue. These may include recommendations for changes in legislation, regulations, and industry practice. These hearings will be instrumental in informing those recommendations. And, although I have spoken about municipal securities issues for a long time, and have some preliminary personal views, I myself look forward to learning much more, deepening and broadening my knowledge base, and reexamining and (perhaps) changing my own opinions.

As a sidenote — concurrent with our series of field hearings, Commission staff is also consulting with the Government Accountability Office ("GAO") on their studies relating to the municipal securities market pursuant to Sections 976, 977, and 978 of the Dodd-Frank Act. These studies will examine the muni market in general, disclosure issues in particular, and issues related to the Governmental Accounting Standards Board ("GASB"). We hope that the field hearings will help to inform the GAO as they conduct their studies — and vice-versa — that the GAO studies, to the extent they are underway during our series of field hearings, will help to inform our efforts.

I'm delighted to report that our San Francisco hearing was quite productive. Among our panelists were state and local governmental officials, advisors, investors — both institutional and retail, a regulator, and your very own president, John McNally — who was kind enough to sit on two panels. Panelists were engaged and forthcoming. The full-day hearing consisted of five panels addressing topics relating to disclosure; ratings; significant liabilities; internal controls; and the investor experience.

Because the hearing was so informative and interesting, I thought I would devote the majority of my remarks today to sharing with you some of what we learned. As I tell you a bit about each of the panels, please keep in mind that I will be providing some background and repeating what we heard, without giving my own opinion on these issues. And, many of the opinions we heard differed strikingly. If this summary piques your interest, I would encourage you to have a look at our website, where you can find the entire transcript for the San Francisco hearing.[5] We will also be posting transcripts of all the hearings going forward.

After summarizing the field hearing, I'd like to briefly highlight two issues in which I am particularly interested — first, something that I hope we'll be able to address in the shorter term — namely, the quality and timeliness of information provided to investors; second — a longer-term goal of mine — improved pre-trade price transparency and the market structure for municipal securities.

Disclosure

Our first panel in San Francisco was entitled "Selected Disclosure Practices: Transparency and Presentation." As you well know, municipal securities offerings are exempt from the registration and reporting requirements of the federal securities laws, but are subject to the antifraud provisions. In the absence of any mandated disclosure regime, these antifraud provisions, Commission regulation of market participants, demands of market participants, and voluntary efforts are the forces that shape disclosure by municipal issuers. As a result of these combined forces, a municipal securities disclosure regime — both for primary offerings and on an ongoing basis — has developed.

During our first San Francisco panel, we heard some positive feedback regarding certain elements in the muni disclosure realm: we heard that GASB GAAP generally represents a high-quality set of accounting standards; others noted that huge strides have been made in the last 20 years in primary market disclosure due, in major part, to the efforts of NABL; some participants also noted the positive impact that the Commission's 1994 antifraud release had on the quality of reporting; and people were unanimously thrilled about the Municipal Securities Rulemaking Board's ("MSRB") EMMA system, both as it is now and its potential for the future.

As you can imagine, however, not all the reviews of muni disclosure were glowing. With respect to GASB GAAP — while many of those who use it seem to be pleased with it — it also draws criticism both for being unduly burdensome for small issuers and for purported conflicts of interest inherent in its leadership and funding mechanism. In addition, the issue of accounting for pension and other post-employment benefits ("OPEB") drew mixed reviews.

Next, while primary market disclosure has improved tremendously, thanks in no small measure to all of you — we also heard the view that it still has a way to go. Moreover, secondary market disclosure continues to be "spotty," according to at least one of our panelists, who cited a prevalence of incomplete filings and poor quality of material event notices and urged that interim financial disclosure is needed from all issuers. She called for annual updates for assessed valuation, property tax delinquencies and tax appeals in the general obligation bond context and for operating information for water and sewer systems or sales tax collections in the revenue bond context.

In terms of what disclosure should be forthcoming from muni issuers, we were told by some hearing participants that a one-size-fits-all approach cannot work in this context — a theme that was also prevalent on the topic of internal controls. Two participants argued that disclosure standards need to recognize the differences among issuers, the types of municipal debt issued, and the relative security of the investment. Yet others argued in favor of a minimum "floor" for disclosure with mandated timing and greater than annual frequency. These panelists opined that it would not be unduly burdensome to require quarterly or even monthly disclosure, since muni issuers prepare updated financial information for other purposes. One suggested approach would be to require disclosure of monthly budget reports, which we were told are often posted on an issuer's website — at least by large issuers. On the other hand, we were cautioned that issuers may not be comfortable disclosing unaudited information and that counsel need guidance from us on how to protect their issuer clients.

Ratings

Our second San Francisco panel related to ratings. As you listen to the highlights, you should know that the credit rating agencies did not participate, so their views are not reflected here. We are hopeful that they will be at future hearings.

Perhaps owing in part to the relative age of financial information that's available, and also to the high proportion of individual investors in the muni market who may not be inclined or equipped to analyze creditworthiness of prospective bond purchases themselves, credit rating agencies have taken on a position of special importance in the muni market. One of our panelists stated that credit ratings serve, in large measure, to reduce the informational asymmetry between an issuer and a prospective investor. However, in the last few years, rating agencies have come under intense scrutiny for their part in the major financial crisis we have witnessed.

A theme that we heard repeatedly from panelists on this topic was the disadvantage that municipal bonds have faced in comparison to corporate bonds. One participant presented statistics suggesting that a corporate bond with the same rating as a muni bond would be 100 times more likely to default. Another stated that historically, credit rating agencies have held municipal issuers to a higher standard than their corporate bond counterparts.

A possible means of addressing this purported disadvantage is the new global rating scale that all three major rating agencies say they are currently using. Historically, as you likely know, muni bonds have generally been rated on a separate rating scale from corporate securities. The move to a global rating scale has been criticized as somewhat diminishing the granularity in municipal ratings, but also praised for improving the ability of investors to compare investments in municipal bonds to corporate bonds.

Three participants endorsed the principle of a global rating scale. However, one pointed out that during this time — where some rating agencies are moving to a global scale — investors may find it increasingly difficult to compare municipal credits against each other. Further, he thinks that despite recalibration, investors will continue to have a hard time comparing munis to corporates because municipal risk remains overstated relative to corporate risk.

Several others were critical of the notion of a global rating scale, arguing that municipal bonds and corporate securities are just not comparable. One panelist stated that munis should not be rated on a scale that focuses on default risk and recovery, since governments rarely default. Some of the participants would prefer a new rating scale for governments that could be tailored to the unique characteristics of governmental entities. We heard suggestions for a simple pass/fail scale, a three-part scale or a scale of 1-100.

Another area of concern was the impact of ratings on the cost of issuance. One panelist pointed out that higher ratings lead to lower borrowing costs and lower ratings lead to higher borrowing costs. He and a co-panelist highlighted the consequence of lower ratings: increased costs to taxpayers for financing critical infrastructure projects.

Participants also stressed the importance of accountability and transparency on the part of rating agencies. One of the panelists argued that accountability will cause the rating agency to allocate more resources and to set a better rating. We also heard calls for accurate, fair, and easily understandable ratings that reflect the true nature of risk inherent in the investment. A panelist also suggested that we look at the methods by which rating agencies review and change ratings post-issuance.

Yet another complaint in this realm is that municipal issuers have relatively weak bargaining power vis-à-vis the rating agencies. We learned from a major credit enhancer that his organization's guidelines require an investment grade rating from at least two of the rating agencies in order for his organization to enhance the underlying security. We also heard that investors — and, in particular, institutional investors — also require certain minimum ratings by certain firms before purchasing bonds. It was suggested that these factors, perhaps compounded by lack of competition in the rating agency business, lead issuers to feel that they have no real leverage to negotiate what they view as contracts of adhesion.

Significant Liabilities

Our third panel in San Francisco focused on disclosure issues relating to significant liabilities: specifically, an issuer's pension and OPEB liabilities and its exposure to financial instruments such as derivatives. Municipal issuers face unique challenges in ensuring they provide timely and accurate disclosures to the market, concerning current and future significant liabilities that may impact their financial health and ability to repay their debt obligations.

During this panel, there was a lively discussion about accounting for pension liabilities. One panelist criticized the practice of some governments who discount pension liabilities at a high rate. He explained that those governments discount their pension liabilities at the rate they hope to earn on the capital held and invested by the public pension fund in order to minimize reported liabilities — which, he argued, has the perverse effect of incentivizing state and local government pension funds to make risky investments in the hopes of actually achieving those returns. Through this practice, he claimed that state and local governments are understating pension liabilities by 2.5 trillion dollars — and for vested defined benefit plans, taxpayers are left to make up for any pension shortfalls.

Another panelist pointed to GASB's current deliberations on a preliminary document that would require issuers to state in their financial statement a liability that is closer to the expected future payout or the discounted present value of the expected obligation. Of course, any improvements by GASB only reach those issuers that actually apply GASB accounting, and we heard from some that it's difficult for smaller governments to meet all of the requirements of GASB.

With respect to municipal issuer exposure to derivatives, one panelist suggested that the vast majority of issuers that have used derivatives have done so successfully. Let me share with you some of his disclosure suggestions for issuers engaging in derivatives transactions:

- First, issuers should provide a “plain English” summary of the derivative product — including, for example, information about when they traded, whether the derivative instrument is tied to specific bonds and what series of bonds they are, how big the trade is, when it ends, who the counter party is, what the mark-to-market is, and why the issuer did the trade;
- Second, GASB 53 (reporting of derivatives) provides for consistent treatment of derivatives from an accounting standpoint — but issuers should supplement GASB's requirements with more information to avoid misleading investors; and
- Third, issuers should disclose in the official statement, through their website or annual report, what the mark to market is of each derivative product in their portfolio and how that would change as interest rates change in the future.

He also indicated that most issuers that do engage in derivatives trading have some sort of derivative policy in place — and that any such policy would likely include a prohibition on using derivatives for speculation.

Internal Controls

The next topic covered was internal controls — or policies and procedures for disclosure. The issue of disclosure controls by issuers of municipal securities has gained significant attention in recent years. Notably, both the City of San Diego and more recently, the State of New Jersey have implemented policies and procedures for disclosure, in connection with the settlement of securities fraud actions with the Securities and Exchange Commission, in each case related to their pension funds. Yet, whether all municipal issuers should adopt policies and procedures for disclosure is a subject of an ongoing debate in the issuer community.

One panelist stated that one of the key lessons coming out of implementing the Sarbanes-Oxley Act of 2002, is that disclosure controls and procedures, and internal controls, particularly over financial reporting, do make a difference in ensuring improved and timely disclosure and financial reporting. He argued that the key is to have a disciplined approach to disclosure controls and procedures, and to look at internal controls and governmental structures more broadly, noting specifically, that too many checks and balances and controls can hinder productivity. He posited — the threshold questions are to what extent those lessons learned are translatable to the muni sector, and how do you go about translating them.

As an illustration of an effective system of internal controls in public finance — we heard a lot about the recent improvements implemented by San Diego. The principal components there included:

- Adoption of written disclosure controls and procedures, which serve as a road map, and include a process for review of the annual financial statements and related disclosure along with requiring certification by key officials;
- Formation of a “Disclosure Practices Working Group” which functions at an operational level to make sure there's a process for calling on the right personnel and for providing a check and balance;
- Creation of an Audit Committee, including citizen members with financial expertise;
- Establishment of an independent internal audit function, which in the case of San Diego, is a Legislative Budget Office;

Development of a robust training program; and

- Establishment of a hotline within city government for people to report up.

However, it was emphasized that a layered approach is essential — and that one size does not fit all. As for how to achieve the goal of making internal control systems more prevalent — a panelist listed a variety of means, including use of the Commission's public spotlight (I guess that I'm guilty of doing just that); enforcement actions, such as the recent settlement with the State of New Jersey; regulation under the existing framework; legislative change to allow for broader regulation; and a voluntary commitment process, similar to what the MSRB has initiated with respect to continuous reporting.

One panelist, who argued for a "hands-off" approach by the SEC, suggested that governments inherently apply internal controls as a basic means of doing business, pointing to ubiquitous governmental objectives of transparency, process, and control, and listing a number of GFOA publications and best practice statements that issuers can turn to. This panelist and others cautioned that issuer size and issuing activity level make a difference. They stated that, given the costs and resources involved in establishing and running such a system, there may need to be scaling to account for size — in other words, smaller issuers may need to implement a pared down version of an internal controls system.

Investor Experience

We concluded our San Francisco hearing with a panel on the investor experience. The investor base for municipal securities, particularly tax-exempt municipal securities, has experienced a long-term shift from one in which large institutional investors were predominant, to one where individuals play an ever-increasing role. In fact, retail investors hold approximately 36 percent of outstanding municipal securities directly, up to another 34 percent indirectly through mutual funds and closed-end funds,[6] and retail-sized trades account for roughly 81% of trading volume.[7] During this panel, we asked retail investors to describe their personal experiences investing in municipal securities, and to let us know whether any improvements would be helpful to them. The discussion focused largely on disclosure issues and market access.

As to disclosure, the investors called for more fulsome substantive disclosure as well as more digestible straightforward disclosure. They complained of insufficient and untimely financial disclosure following offerings. Panelists also suggested different forms of short-form disclosure. One recommended that the offering statement include a one or two page "tear sheet," referring by analogy to the summary prospectus in the mutual fund context. Another suggested that brokers provide retail investors with a checklist of information including risk level, size of issue, overview of where the funds are going, where the income is coming from, date of last prior sale, amount of that sale, lien to value ratio, and commission mark-up, among other things.

With respect to market access, we heard that access for retail investors has improved: for example, access to information has improved greatly in recent years — with real-time transaction reporting, and written disclosures available via EMMA and other websites; also, access to online self-service platforms has improved with brokers offering enhancements to enable sourcing, analyzing and purchasing of securities.

Nevertheless, one investor argued that the dealer community is strongly incentivized to maintain control over prices and orders, and this control creates significant low risk profits. While access to dealer inventory may be more directly available to retail investors today than in the past — one investor noted that he does not have the opportunity to see other investors' potential interest, nor the ability to transact directly without dealer intermediation. Moreover, he argued, when retail investors choose to sell municipal securities, they suffer a punitively expensive and opaque process where the implicit execution costs of selling are measured in points, not basis points. He proposed that the muni market establish a mechanism whereby a retail investor can place a limit order that is displayed to the entire marketplace. Doing so, he argues, would narrow spreads, improve price discovery, and drastically lower execution costs — as well as improve investors' confidence in the efficiency and fairness of the municipal securities market.

Field Hearings — Summary

I hope that this summary has given you a sense of the diverse viewpoints shared by our panelists. Of course, if you have observations or opinions that you would like to share with us, please pick up the phone and call — or write in.

We were delighted to have John McNally's participation in San Francisco, and his written remarks on behalf of NABL. We would also be pleased to hear from you on an individual or collective basis on any aspect of the municipal securities market. In that vein, we have been encouraging investors and all other interested parties to submit comments related to the field hearings and other municipal securities market-related topics. Comments may be submitted by using the comment form on the SEC website or sending an e-mail to munifieldhearings@sec.gov.

These comments, along with the field hearings and, where relevant, the GAO studies that I mentioned earlier, will inform the Commission staff as they determine whether to recommend possible changes to laws, regulations, or best practices to better protect municipal securities investors.

Looking Forward

You've heard today a wide range of issues that we'll be thinking about as we go through these hearings and as the staff works on a set of recommendations. And, today's summary reflects only five of the topics that we're intending to cover over the course of the six anticipated field hearings. So, clearly, we have our work cut out for us.

At our future hearings, we look forward to gathering information and opinions from others about these critical topics, and covering additional topics, such as: investor protection; investor education; financial reporting and accounting; the MSRB; municipalities acting as conduit borrowers for private companies or non-profit entities; market stability and liquidity; offering participants, professionals and market intermediaries; sales practices; pricing and quotation issues; Build America Bonds and other taxable municipal securities; and 529 Plans.

I want to briefly come back to two of the issues that were raised at the San Francisco hearing – because I feel strongly about examining these issues closely. The first is one that I hope we'll be able to address in some way, shape, or form as a result of these hearings – and that is the quality and timeliness of disclosure. The second is one that I would have to assume is a longer horizon project – and that is the issue of pre-trade price transparency and more generally, market structure for municipal securities. I'd particularly like to hear your views on these issues.

Quality and Timeliness of Disclosure

As I have previously stated, I believe that our principal goal should be to improve the quality and timeliness of information available to those who buy municipal securities.[8] Complete, timely, and accurate disclosure is essential for the proper functioning of the municipal securities market, in particular for efficient pricing.[9] I believe that the amendments to Rule 15c2-12 under the Securities Exchange Act of 1934 that we adopted in May move us in the right direction. As I'm sure you know, Rule 15c2-12, as it has been amended over the years, generally prohibits underwriters from purchasing or selling municipal securities unless they have reasonably determined that the municipality or other designated entity has agreed to make certain key information available to investors on an ongoing basis. The recent amendments strengthen the rule's requirements with respect to the scope of securities covered, the nature of the events that issuers must have agreed to disclose, and the time period in which disclosure must be made.

I was also pleased that, in connection with our adoption of the recent 15c2-12 amendments, the Commission staff simultaneously approves a proposal by the MSRB to enhance EMMA to, among other things: (1) permit issuers and their designated agents to make voluntary submissions of official statements, preliminary official statements and related pre-sale documents, and advance refunding documents and (2) facilitate the recognition of municipal issuers that have voluntarily agreed to file annual financial information within 120 calendar days after the end of the fiscal year and prepare audited financial statements in accordance with generally accepted accounting principles by offering so-called "gold star" status. I would like to see us continue our close work with the MSRB to enhance the usefulness of the EMMA system with respect to electronic collection and availability of information in the secondary market.

Of course, there is always room for more improvement. Among other things, while our options seem to be limited absent legislation, we should further leverage our current antifraud authority to improve the quality and timeliness of disclosures. In fact, as we've discussed with NABL, the Commission staff is actively at work on updating the guidance that the Commission issued in 1994.

Through the muni field hearings, we'll be evaluating other ways to address the many aspects of disclosure that are ripe for improvement – such as the ones that were highlighted by panelists in San Francisco – among them, accounting standards; minimum disclosure requirements; and disclosure of interim financial statements or budgets. Some have suggested looking to the corporate disclosure scheme as a framework for municipal disclosure. I believe that we can learn from the corporate world, but it is also essential that we recognize the differences in the municipal and corporate finance worlds and that we work together to evaluate what an appropriate framework for municipal finance disclosure should be in the future.

While I have stated repeatedly – today and on many other occasions - that I am embarking on this "learning tour" with an open mind, and I intend to keep my mind open throughout – I can comfortably say that I believe that I know the proverbial "what" and "why" on this topic. "What" we need is better and more prompt disclosure. "Why?" Because investors deserve it. As to the "who" "where," "when" and "how" – my mind continues to explore the options. "Who" should be responsible for providing the disclosure? "Where" should that disclosure be made? "When" should that disclosure be made? And, "how" should that disclosure be made?

I look forward to learning more about the particular challenges faced by market participants and gathering ideas for answering these crucial questions as we travel from city to city and read the written comments that are submitted to us.

Pre-Trade Transparency and Market Structure

Turning to pre-trade transparency and market structure, municipal securities – like other types of bonds – are mostly traded through decentralized, dealer intermediated, over-the-counter (OTC) markets. An unfortunate characteristic of OTC markets is the lack of pre-trade transparency – in other words, the lack of publicly available information about quotes and trading interest.

Municipal bonds have not always traded OTC – at least in the 1920s, municipal bonds traded actively on the NYSE, until that trading collapsed at the beginning of 1929.[10] In contrast, today, trading in muni bonds is spread widely across numerous online platforms such as MuniCenter, Bonddesk, Tradeweb Retail and Knight's BondPoint and among broker-dealers. Of course, the trading characteristics of municipal bonds vary widely, including many that trade rarely, if at all. And, as one of our investor panelists in San Francisco pointed out - only dealers can provide quotes, which means that investors cannot compete directly to supply liquidity.[11] Furthermore, there is no standard centralized mechanism for presenting, aggregating and reporting bids and offers for municipal bonds. All of these factors contribute to the relative lack of pre-trade transparency in this market.

In testimony before Congress, the now former head of the Long Municipal Bond Group from Vanguard suggested that certain characteristics of the municipal bond market make it likely that OTC trading will continue to dominate going forward: market size and trading volumes; number of issuers and lack of concentration.[12] He argued that "the diverse and decentralized features of the municipal bond market make it difficult to centralize trading at a limited number of trading locations, and it is unlikely that an organized national exchange will evolve in the municipal bond market in the immediate future."[13]

Nevertheless, the reason I believe we should be talking about pre-trade transparency is that knowledge about buying and selling interest can be used both to refine one's opinion about the value of a security and to strategically plan the execution of a trading goal to minimize transaction costs.[14] Interestingly, one study compares trading costs today to those in the pre-1929 period and finds transaction costs today to be much higher.[15]

As I've said today – while it may take time to effect change in the muni market structure, I would prefer to see a market structure that provides investors more options and more readily available information. I have been incredibly impressed by the great strides that have been made in terms of post-trade transparency of trade information in the last few years, thanks to real-time reporting and EMMA. However, because of the low liquidity levels of many municipal bonds, trade data can be weeks or months old – and therefore, not very helpful to investors who are trying to assess bond pricing. Again, that is why I believe that improved pre-trade transparency is an important goal. Investors need better information and better access both to tap and provide liquidity in the market.

One challenge going forward will be to figure out whether, and if so, how to make pricing information – if not firm quotes – available to the general public in a timely manner – even for bonds that are thinly traded. One interesting suggestion that I've heard recently would be to require broker-dealers to publicize or report their nightly marks on inventory and customer holdings. Another approach might be to create a national listing service – akin to MLS in the real estate space – where all municipal broker-dealers could list their entire municipal bond inventories for public viewing. I would be very interested to hear from all of you about these ideas or other creative approaches that might enable us to shed some light on bond pricing in the secondary market. Incremental change could be quite useful.

On the other hand, perhaps something more radical should be considered. Given how advanced technology is today – and the various types of trading platforms that exist in the capital markets generally – we should think about the possibility of more sweeping change. I know that some will greet those words with dismay or even predictions of disaster, but I believe that all of us should strive to do better for investors.

Of course, any potential changes must be analyzed carefully, with their costs and benefits weighed. Yet, we have seen at least one recent example where a radical change was good. In 2002, a number of market participants fought the improvements in post-trade transparency in the corporate-bond market and argued that liquidity would dry up and spreads would widen. Their concerns did not hold true. A number of studies show that the increase in post-trade transparency due to FINRA's TRACE system implementation has resulted in lower trading costs.[16] Similarly, we have heard through the hearings and more generally, that the development of post-trade transparency in the muni world has been a very positive thing.

I hope that we can all think constructively about the possibilities for improving the municipal securities market.

Conclusion

Once again, I am really happy to be here today, and I would be glad to answer any questions.

[1] *See* Commissioner Elisse B. Walter, Regulation of the Municipal Securities Market: Investors Are Not Second-Class Citizens, 10th Annual A. A. Sommer, Jr. Corporate, Securities and Financial Law Lecture, New York, NY (October 28, 2009) *available at* http://www.sec.gov/news/speech/2009/spch102809ebw.htm ("Al Sommer Lecture").

[2] The Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publications or statements by any of its employees. The views expressed herein are those of the author and do not necessarily reflect the views of the Commission, other Commissioners, or the staff.

[3] *See* Chairman Mary L. Schapiro, Remarks at Investment Company Institute 2010 General Membership Meeting (as delivered by Andrew J. Donohue), Washington, DC (May 7, 2010) *available at* http://www.sec.gov/news/speech/2010/spch050710mls.htm.

[4] *See* generally, transcript of the Securities and Exchange Commission Field Hearing on the State of the Municipal Securities Market, San Francisco, California, Tuesday, September 21, 2010, *available at* http://www.sec.gov/spotlight/municipalsecurities/092110transcript.txt ("Transcript").

[5] *See* http://www.sec.gov/spotlight/municipalsecurities.shtml.

[6] *See* Securities Industry and Financial Markets Association, US Municipal Securities Holders (quarterly data to Q2 2010), *available at* http://www.sifma.org/research/research.aspx?ID=10806.

[7] *See* the Municipal Securities Rulemaking Board 2009 Fact Book, *available at* http://www.msrb.org/msrb1/pdfs/MSRB2009FactBook.pdf..

[8] *See* Opening Remarks Regarding Amendments to Municipal Securities Disclosure, by Elisse B. Walter, U.S. Securities and Exchange Commission, Open Meeting, May 26, 2010, *available at* http://www.sec.gov/news/speech/2010/spch052610ebw-municipal.htm.

[9] *See Id.*

[10] *See* Biais, Bruno and Green, Richard C., The Microstructure of the Bond Market in the 20th Century, August 29, 2007 *available at* http://www.tepper.cmu.edu/facultyAdmin/upload/wpaper_39493927532128_biasgreen8-29.pdf ("Biais and Green"). Biais and Green at 19. Biais and Green describe the several factors which led to this decline at 22 ("booming demand for high margin stock trading services, flat demand for lower margin bond trading services, waning interest in municipal bonds from the retail clienteles which the Exchange serves best, and reduction by the Exchange of the resources available for bond trading – combine to provide a circumstantial case that Exchange trading in municipal bonds dried up in early 1929 because floor traders had more profitable activities to pursue and institutions, which had become the main players in this market, naturally gravitated to OTC trading. As it turned out, of course, the boom in equity volume was short-lived. Yet municipal bond volume never returned to the Exchange.")

[11] *Id*.

[12] *See* Testimony of Christopher M. Ryon, The Vanguard Group Before the United States Senate Committee on Banking, Housing, and Urban Affairs, Hearing on "An Overview of the Regulation of the Bond Markets," June 17, 2004 at 4.

[13] *Id.* at 4-5.

[14] *See* Boehmer, Ekkhart, Gideon Saar and Lei Yu, Lifting the Veil, An Analysis of Pre-Trade Transparency at the NYSE, *available at* http://forum.johnson.cornell.edu/faculty/saar/Lifting%20the%20Veil.pdf.

[15] *See* Biais and Green at 30.

[16] *See* Bessembinder, Hendrik, William F. Maxwell and Kumar Venkataraman, 2006, Market Transparency, Liquidity Externalities and Institutional Trading Costs in Corporate Bonds, Journal of Financial Economics 82, 251-288; Edwards, Amy K., Lawrence Harris and Michael S. Piwowar, 2007, Corporate Bond Market Transparency and Transactions Costs, Journal of Finance 62, 1421-1451; and Goldstein, Michael A., Edith S. Hotchkiss and Erik R. Sirri, 2007, Transparency and Liquidity: A Controlled Experiment on Corporate Bonds, forthcoming, Review of Financial Studies 20, 235-273.

http://www.sec.gov/news/speech/2010/spch102810ebw.htm