



**“The Changing Face of Municipal Market Regulation”**

**Remarks of Alan Polsky, Chair**

**Municipal Securities Rulemaking Board**

**at the**

**Minnesota Women in Public Finance Forum  
First Annual Meeting & Conference**

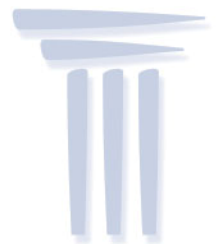
**Minneapolis, MN**

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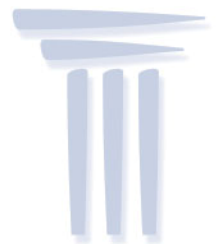
- Thank you so much for inviting me here to discuss the MSRB's role in municipal market regulation.
- The last several years have been among the most active in terms of legislative and regulatory attention focused on the municipal market— activity that has raised the profile of our market dramatically.
- Financial challenges of state and local governments, issues surrounding market transparency, the tax-exempt status of municipal bonds and regulation of municipal advisors are among the ongoing developments likely will affect you in your business activities, if they haven't already.
- I hope to shed some light on these developments for you today.
- I think that many of you are familiar with the MSRB and the role we play in the municipal market, but you may not be aware of all of the things we are doing to ensure a fair and efficient market.
- We of course establish professional rules of conduct for municipal securities dealers and municipal advisors to ensure that investors and state and local governments are protected.
- And while we are a regulator, an important aspect of the MSRB's mission is to make information available to market participants so that they can make more informed decisions that are appropriate for them.
- Our information systems, most notably our EMMA<sup>®</sup> website, provide transparency to the market and help make municipal securities-related documents and data freely available.
- Through rulemaking, market transparency, as well as outreach initiatives such as this meeting here today, the MSRB is working on many fronts to protect investors and state and local governments that are active in the municipal market.
- You are probably aware that federal scrutiny of the municipal market has increased in recent years.



- The Securities and Exchange Commission, which approves all regulations proposed by the MSRB, has become more interested in the municipal market. In the last two years the SEC has set up an enforcement unit focused on the municipal market and also conducted a broad market review based on public hearings held in 2010 and 2011.
- The SEC is expected to soon produce a report that could include recommendations for legislative and regulatory changes regarding disclosure in the municipal market and on price transparency.
- In the last two years, Capitol Hill also has demonstrated an increased interest in the municipal market. The federal financial reform legislation of 2010 – the Dodd-Frank Wall Street Reform and Consumer Protection Act – resulted in expanded oversight of the municipal market—including a significantly enhanced role for the MSRB to protect state and local issuers of municipal securities.
- Today, Congress and the White House continue to consider the elimination of tax-exempt bonds as a deficit reduction measure. This of course has caused considerable concern by many market stakeholders because of its potential to raise borrowing costs for state and local governments—and the cost of financing the nation’s infrastructure.
- As a regulator, the MSRB does not take a position on the merits of this proposal but we are concerned about any changes that could disrupt the market’s operations. The municipal market provides an efficient means for capital-raising and investment opportunities, and a dramatic change to the tax structure could have far-ranging consequences.
- Our nation’s infrastructure needs cannot be ignored, and changes to the municipal market’s tax structure could make it even more difficult to address the challenges we face.



- I'd like to now turn to the subject of municipal market regulation, which changed significantly when Congress passed the Dodd-Frank Act in 2010 mandating regulation of municipal advisors by the MSRB.
- We know that there are nearly 900 such professionals working in the market, and perhaps many more, depending on how municipal advisors are ultimately defined by the SEC.
- In 2011, the MSRB advanced a core set of proposed rules for advisors regarding their fiduciary duty to state and local government clients, their obligation to deal fairly and the potential conflicts of interest, such as pay to play, that arise in the course of their business.
- Implementation of these proposed rules is now awaiting action from the SEC on establishing a permanent definition of municipal advisor. When it does, the MSRB will be able to restart the rulemaking process for this group of financial professionals.
- The MSRB would like to see appropriate regulations in place as soon as possible and is prepared to move forward following action by the SEC.
- We think our proposed rules will go far in ensuring that the interests of state and local governments are protected.
- As part of our goal to protect state and local governments, the MSRB is evaluating dealer rules and adjusting them where appropriate. We are currently awaiting SEC approval of truly groundbreaking new rules regarding the duties of dealers to disclose certain information to their state and local government clients regarding their role in a transaction, dealers' compensation, and conflicts of interest.
- Dealers also would be required to disclose the material financial characteristics and risks of complex municipal securities financings (such as VRDOs with swaps), that are known or reasonably foreseeable by the underwriter, among other things. In an environment when many state and



local governments are fiscally challenged, these types of disclosures are more important than ever.

- As I mentioned earlier, the MSRB also plays an important role in market transparency. Our EMMA website has had a significant impact on improving municipal market transparency and is widely used by market participants.
- We launched EMMA four years ago, and in the years since, have built it out to become a true industry utility containing all key documents, data and disclosures about the municipal market.
- We continue to enhance EMMA in ways that will improve the fairness and efficiency of the municipal market. In November, the MSRB incorporated the display of current municipal securities credit ratings into EMMA. We also recently added the availability to receive an end-of-day alert when a particular security trades in the market.
- Through EMMA, the MSRB encourages timely and complete disclosure to ensure investors have the information they need to make informed decisions.
- It is also important that state and local governments have access to timely information to ensure they are getting the best price for their securities and paying competitive fees.
- The MSRB views EMMA as a platform for state and local governments to communicate directly with investors. In addition serving as a repository for disclosures required under continuing disclosure agreements, state and local governments can make other information available to investors on a voluntary basis.
- For example, state and local government issuers can post pre-sale information, such as preliminary official statements, to EMMA. They also can post information about the timing and accounting standard used to prepare annual financials.



- We also are developing a service for state and local governments that will permit them to easily extract trade data about their bonds from EMMA.
- We see this as a way to assist state and local governments in monitoring their secondary market trading and better understand how their bonds are being bought and sold.
- The MSRB recently published a long-range plan for market transparency that sets out a vision for future development of the EMMA website, including some of the things I just mentioned. The plan is available on the MSRB's website, at [msrb.org](http://msrb.org), and we are encouraging feedback from market participants.
- It probably goes without saying but following the expansion of the MSRB's mandate to protect state and local governments, outreach and education have become an even more important part of the MSRB's mission.
- Our outreach is two-way. On one hand we engage in activities like this to help inform market participants about the market and changes that will affect them. But we also depend on input from market participants to create rules and information systems that balance the interests and meet the needs of the municipal market.
- If there are ways you believe we can improve the municipal market, please let us know.
- I have time for a few questions. If you have any questions, comments or concerns that are not addressed now, please feel free to follow up with me later and I will be happy to listen. Thank you.

