



November 28, 2018

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street, NW - Suite 1000
Washington, DC 20005

RE: MSRB Notice 2018-20: Request for Information on the Accessibility, Methodology, and Utility of Indices, Yield Curves and Other Benchmarks

Dear Mr. Smith:

The National Association of Municipal Advisors (NAMA) is a professional association representing independent municipal advisory firms, and individual municipal advisors (MAs) from around the country. Due to the nature of the work of our members, we appreciate the opportunity to comment on market issues such as indices, yield curves and other benchmarks (collectively, “benchmarks”) used in the municipal marketplace.

Municipal Advisors and Use of Benchmarks

Municipal advisors use benchmarks to help their clients – to which they have a fiduciary duty – price their bonds in negotiated sales and prepare for and then evaluate the results of competitive sales. By using this data, along with other evaluation tools, municipal advisors are able to provide clients with necessary information to provide overall market impressions to support decision-making on when and how to issue bonds and then to assist with executing the new issue offering on the most favorable terms possible.

Municipal advisors typically utilize the same benchmarks and market data used by virtually all underwriters and other municipal market professionals together with other benchmarks, spreads or similar information found on EMMA and other sources, to benchmark yields on new or potential offerings and to assist their clients with understanding market conditions, the impact of credit quality on pricing and the quality of transaction execution for their issues. Many benchmarks, however, have limited transparency and data capabilities or come at high subscription costs which creates a barrier for entry for some professionals, especially small MA firms, and undermines the ability to provide a multi-dimensional view of the marketplace into which issuers are selling their new issues.

Current Market Practices and Benchmarks

Currently, one benchmark has a predominant position among municipal market participants. While there are other providers of similar information, the fundamental inertia of market practices makes it difficult for other benchmarks to gain traction in this market. A basic concern is that having the industry dependent on the work of one entity could expose the entire industry to (i) market disruption if anything were to happen to its infrastructure or business, or (ii) market distortions if flaws or biases (whether intentional or otherwise) in its analytic framework should develop.

**National Association of Municipal Advisors
1990 MacArthur Boulevard – Suite 1100 | Irvine, California 92612 |
844-770-NAMA | www.municipaladvisors.org**

Additionally, the current commonly used benchmark has characteristics that concern our members and many other market participants. First, the inputs and other variables used to set the benchmarks are quite opaque. Benchmarks in this market – as well as other capital markets – should be based on transparent quantitative data that is available to and understood by users. To the extent that qualitative inputs or other adjustments are applied to such quantitative data to produce a benchmark, the reason for and nature of such inputs or adjustments, and the manner in which they are applied, should be clearly disclosed so that users can gain a meaningful and nuanced understanding of the construction and integrity of the benchmark. Our members, and others, are often at a loss to point to the underlying data sources used to formulate this benchmark. Second, the manner in which the commonly used benchmark is developed – by seeking input from the very participants who are involved in bond pricing – lends itself to at least an impression that the benchmark could be manipulated by such inputs to serve the interests of a respondent and places that person in a conflict of interest situation that they may wish to avoid. It would seem that these business practices should be avoided in general, and, if such practices persist, must at a minimum be fully transparent to the marketplace.

Moving Forward

While it is unlikely that the need to improve benchmarks in the municipal securities market rises to the occasion of regulatory action or further direct involvement by the federal regulators, we would welcome market participants gathering together in an effort to understand and address the current flaws and future needs of a healthy benchmark ecosystem, as practitioner “buy-in” to improve this system is necessary in order to achieve constructive change to enhance market transparency and liquidity. In particular, we would suggest –

- Review of the IOSCO’s “Principles for Financial Benchmarks” related to transparency as a potential framework for improved practices;
- Discussion of other market benchmarks that are available and how, when and why participants may currently or in the future utilize those as a supplement to or in favor of the benchmark widely used today;
- Discussion of how the currently relied upon benchmark can be improved;
- Market benchmarks be made accessible to all market participants on terms that are reasonable and equitable given the nature and composition of various parties (including issuers, retail investors, and small MA firms); and
- Development of market practices to ensure the disclosure of the benchmark being used in a particular offering to better facilitate the evaluation and determination of the transaction pricing and the overall success of the offering by all parties.

We hope our comments assist the greater discussion in the marketplace on addressing the important issues related to the development and use of benchmarks in the municipal marketplace and can help facilitate further discussion on the matter.

Sincerely,



Susan Gaffney
Executive Director