

BONDVIEW

207 Mineola Ave, Suite 217, Roslyn Heights, NY 11577, 866 261 9533, www.bondview.com

March 5, 2012

Mr. Ronald W. Smith
Corporate Secretary
MSRB
1900 Duke Street, Suite 600
Alexandria, VA 22314

Delivered via email

Re: MSRB Notice 2012-2014 (February 7, 2012) request for Comment on Draft Interpretive Notice Concerning the of MSRB Rule G-17 to Bondholder Consents by Underwriters of Municipal Securities

Comments from Robert Kane, CEO, Bondview

Thank you for the opportunity to comment on the application of MSRB Rule G-17 to Bond Consents by Underwriters of Municipal Securities published on February 7, 2012.

Who We Are

BondView is a provider of free information to the municipal bond market. We serve both retail and professional investors by providing objective third-party estimated pricing, market ratings and commentary on municipal bonds.

Comments on Interpretive Notice

We would like to commend the MSRB's continued leadership in improving transparency. Retail investors do not have the same tools as institutional investors nor their professional experience in the municipal market. Therefore, it is paramount that retail investors are treated fairly and that the municipal market operates as transparently as possible.

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Regarding the specific issue of *Bond Consents By Underwriters*, our suggestion is to look at the existing model for “Truth-in-Lending” standards for home mortgages which require material risks to be prominently and clearly spelled out in plain English. Municipal bond prospectuses should include the same easy to understand explanations of risks, including Bond Consents By Underwriters, stated in a highlighted section that would be required to be made known by any bond salesperson to any prospective buyer.

Bondholders should not have their security diluted through the use of actions permitted in “fine print” of the legal documents. This is special concern for retail municipal bond investors as they eventually buy and hold close to 2/3 of all outstanding bond issues. However, the realities are that retail investors are less likely to read a bond issuer’s 35 page prospectus and instead primarily rely on their trusted investment advisor. Some investment advisors work for bond underwriters and therein lies a potential conflict of interest.

The general concern is the ability of an issuer to change important covenants in the bond documents, such as debt service coverage requirements, through the use of its underwriter for a new bond issue acting as a bondholder.

These actions could adversely impact other bondholders of the issuer’s prior bond issues since the bondholders security interest could be diluted materially. This type of event should not be taken lightly by market regulators. The existence of this process should be made known to investors prior to their purchase of bonds. In this way bondholders can assess and price the risk they are taking when purchasing a security with such provisions.

The MSRB draft interpretive notice states that if an underwriter were to act as a bondholder and provide consent to a material dilution of security, then the underwriter would be in violation of rule G-17 that provides it deals fairly with all market participants, unless it met certain conditions. These conditions are stated as having the prior bond documents allowance for use of an Underwriter as a bondholder for the purpose of consent and having the new bond documents explicitly state that a future underwriter could act as a bondholder for consent purposes.

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BondView endorses this position and also suggest that the disclosure be made upfront in plain easy-to-understand language so that prospective bondholders can understand, assess and price in this risk. We suggest the risks be made clear in the 1) Preliminary Official Statement, 2) Official Statement. 3) Within “Risks” section and if possible 4) In a separate topic heading titled Bond Consents By Underwriters. In this way investors and the municipal bond marketplace are more likely to be made aware of and understand the related risks.

Thank You

Robert Kane
CEO
Bondview.com