



August 13, 2012

Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street  
Suite 600  
Alexandria, VA 22314

**Re: MSRB Notice 2012-36: Request for Comment on Draft  
Amendment to Limit Dealer Consents to Changes in Authorizing  
Documents for Municipal Securities**

Dear Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)<sup>1</sup> appreciates this opportunity to respond to Notice 2012-36<sup>2</sup> (the “Notice”) issued by the Municipal Securities Rulemaking Board (the “MSRB”) in which the MSRB is requesting comment on a draft amendment to limit dealer consents to changes in authorizing documents for municipal securities. We understand the MSRB’s investor protection concerns, and the difficulty in balancing those concerns with the need of issuers to update or modernize bond documents or make technical amendments to such documents. We also recognize the difficulty and expense in obtaining bondholder consents through existing processes. SIFMA did not file a comment letter in response to the prior MSRB Notice on this subject, MSRB Notice 2012-04<sup>3</sup> (the “Prior Notice”), but does have two concerns about the potential breadth of this draft amendment to Rule G-11.

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<sup>1</sup> The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit [www.sifma.org](http://www.sifma.org).

<sup>2</sup> MSRB Notice 2012-36 (July 5, 2012).

<sup>3</sup> MSRB Notice 2012-04 (February 7, 2012).

First, our primary concern with the draft amendment is that even if it is expressly disclosed in the authorizing documents for a municipal bond issue that an underwriter can provide bondholder consents, and it is also disclosed in the offering documents for the existing securities that bondholder consents could be provided by underwriters of other securities issued under the authorizing documents, such consents would still be barred. This is a significant change from the Prior Notice, in which this scenario was covered by an explicit exception in the draft MSRB Rule G-17 Interpretive Notice. In this case, investors in outstanding bond issues have been and in future bond issues would be on notice that the underwriter is able to provide bondholder consents. Altering that express authority in the authorizing documents, some which may have been outstanding for many years, by way of this rule amendment, substantively changes the contractual rights and expectations of the parties. Elimination of this exception to a proposed rule, whether as part of an amendment to MSRB Rule G-11 or an Interpretive Notice to MSRB Rule G-17, appears to be overreaching beyond the bounds of investor protection.

SIFMA feels that a more balanced approach would be achieved by reverting to the focus in the Prior Notice on whether such bondholder consents by underwriters reduce the security for existing bondholders or the value of their bonds. SIFMA agrees with the National Federation of Municipal Analysts<sup>4</sup> statement that standards which address what is and is not a material dilution of security provisions can be developed. We are willing to work with the NFMA and other industry groups towards this goal.

Second, SIFMA is also concerned that the third exception to the draft amendment is too narrow. This exception would allow a dealer to consent to an amendment to authorizing documents in circumstances where the amendment would not become effective until all bondholders affected by such amendment had also provided consent. It is too onerous to require all bondholders to consent to any such change, particularly if the bond authorizing documents only require a majority or two-thirds of bondholders to consent. Not only is this amendment likely to change the contractual agreement among the parties if less than unanimous consent is required by the bond documents, but it can be difficult to find the beneficial holders of the bonds given the limitations of the current information and systems available to DTCC and trustees. Given those limitations and as described above,

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<sup>4</sup> See, letter from Lisa Good, Executive Director, National Federation of Municipal Analysts (“NFMA”) to Mr. Ronald W. Smith, Corporate Secretary, MSRB, dated July, 30, 2012 (“NFMA Letter”).


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obtaining consents from all bondholders is an unnecessary and incredibly costly, time-consuming and labor-intensive process.<sup>5</sup>

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We would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at (212) 313-1130.

Sincerely yours,

A handwritten signature in black ink, appearing to be 'L. Norwood', written over a horizontal line.

Leslie M. Norwood  
Managing Director and  
Associate General Counsel

cc: ***Municipal Securities Rulemaking Board***  
Lynnette Kelly, Executive Director  
Ernesto A. Lanza, Deputy Executive Director and Chief Legal Officer

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<sup>5</sup> For example, consider the case where a beneficial owner of record has long failed to update an address with a broker-dealer after moving (increasingly common in these days of on-line statement delivery). Or the beneficial owner is recently deceased and the heirs know nothing about municipal bonds. In many cases, the need for majority bondholder consent is very time-sensitive. Requiring 100% bondholder consent, where the original offering documents did not require such consent, could **completely block** any ability to amend bond documents. It may actually be in the clear best interests of the beneficial owners to have the amendment occur, but a single missing or stubborn or recalcitrant beneficial owner can prevent such changes.