



OFFICE OF THE  
INVESTOR ADVOCATE

UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

October 31, 2014

**Submitted Electronically**

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

**RE: Regulatory Notice 2014-16  
Request for Comment Regarding MSRB Strategic Priorities**

Dear Mr. Smith:

Pursuant to Section 4(g)(4) of the Securities Exchange Act of 1934, the Office of the Investor Advocate at the U.S. Securities and Exchange Commission is responsible for, among other things, identifying areas in which investors would benefit from changes in the regulations of the Commission or the rules of self-regulatory organizations. As the Investor Advocate, I look forward to making recommendations about specific rule proposals at the Municipal Securities Rulemaking Board (the “MSRB”), and I am grateful for the MSRB’s willingness to provide the Office of the Investor Advocate with a full briefing regarding the MSRB’s work and current initiatives. I also appreciate the opportunity to make proactive suggestions regarding the strategic goals and priorities of the MSRB as described in Regulatory Notice 2014-16 (the “Notice”).<sup>1</sup>

The Notice lists four long-term strategic goals: (1) municipal advisor regulation; (2) municipal entity protection; (3) market efficiency; and (4) price transparency. According to the MSRB website, the MSRB’s long-term strategic goals are consistent with its current shorter-term priorities: (1) municipal advisor regulation; (2) price transparency; (3) municipal entity protection; and (4) rule rationalization. In short, while I believe each of the four strategic goals is appropriate and important, I recommend that you assign a higher priority to price transparency on a longer-term basis.

To fulfill its mission of protecting investors, municipal entities, and the public interest by promoting a fair and efficient municipal securities market, the MSRB engages in three core activities. It establishes rules for dealers and municipal advisors, collects and disseminates market information, and provides market leadership, outreach, and education. Efforts to improve price transparency, through a combination of new disclosure rules and technological enhancements, are squarely within the ambit of the MSRB’s mission, and those transparency initiatives would engage all three aspects of MSRB’s core activities.

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<sup>1</sup> The comments provided in this letter are solely those of the Office of the Investor Advocate and do not necessarily reflect the views of the Commission, the Commissioners, or those of any other Office, Division, or Commission staff. The Commission has expressed no view regarding the statements of the Office of the Investor Advocate expressed herein.

Moreover, the MSRB should *always* place a high priority on initiatives that will have such a direct benefit for individual investors. The municipal market is unique because of its historic and continuing reliance upon the individual investor. Therefore, reforms that benefit investors, including improvements in price transparency, will likely make the markets healthier and will ultimately benefit municipal issuers as well as investors.

As described on the MSRB website, banks and securities firms operated in the municipal securities business without regulatory oversight until the mid-1970s. However, the number of new issues increased sharply in the early 1970s, at the same time that individual investors began to enter the municipal bond market in search of tax-exempt securities. Among other things, this led to the creation of the MSRB in 1975, and investor protection has always been at the heart of the MSRB mission.

The municipal markets continue to have a high concentration of individual investors. According to SEC staff estimates, approximately 50.2 percent of municipal securities were held *directly* by individual investors as of December 31, 2011, and another 25 percent were owned indirectly by individual investors through mutual funds, money market funds, or closed end funds and exchange-traded funds.<sup>2</sup>

Given the large number of individual investors that participated, and that have remained invested, in the municipal markets since the early 1970s, the interests of individual investors should be reflected as a high priority in the MSRB's strategic goals. In particular, the Office of the Investor Advocate strongly urges the MSRB to re-prioritize its strategic goals to accord price transparency a higher priority in its rankings of strategic goals.

Similar to the MSRB's work to improve market efficiency, the Office of the Investor Advocate believes efforts to improve market transparency should be a continuous endeavor. Disclosure practices in municipal securities offerings have developed as a result of the antifraud provisions of federal and state securities laws, Exchange Act Rule 15c2-12, Commission interpretative guidance, MSRB rules, and voluntary guidelines published by various industry groups. There have been significant improvements over time in the disclosure practices of issuers in the municipal securities market, including the widespread use of the internet and the creation of the MSRB's Electronic Municipal Market Access system ("EMMA"). However, more needs to be done, particularly in the area of pre-trade transparency.

Individual investors are major participants in the municipal securities market, which is described as a "buy-and-hold" market because many investors hold municipal securities until maturity. Thus, it is no surprise that following the initial purchase, municipal securities trade infrequently. Those that do trade do so in a market that is illiquid and opaque. Although there have been improvements in the availability of post-trade pricing information, the secondary market for municipal securities remains opaque. As a result, individual investors have limited access to information regarding which market participants would be interested in buying or selling a municipal security and at what price.

Market participants also have varying degrees of access to price information. Bond dealers and institutional investors tend to have greater access to pricing information while individual investors have access to very little pricing information and generally have limited knowledge about the execution options available to them. The primary market has some mechanisms in place to provide such pricing

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<sup>2</sup> SEC, *Report on the Municipal Securities Market*, July 31, 2012, at 12, <http://www.sec.gov/news/studies/2012/munireport073112.pdf>.

information on a broader scale, but the secondary market is in need of considerably more price transparency.

Transparency is vital to promoting competition, and it enables customers and regulators to assess whether market professionals are appropriately serving their customers. The Office of the Investor Advocate believes that enhancing price transparency and promoting widespread access to price information could improve market efficiency, promote competition, and ultimately facilitate the best execution of individual investor orders in municipal securities.

I commend you for your significant efforts to enhance price transparency for individual investors through your enhancements to EMMA and your recently proposed reforms, and I encourage you to keep these types of issues high on your agenda. Please do not hesitate to contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Rick Fleming", written over a faint, larger version of the same signature.

Rick A. Fleming  
Investor Advocate

cc (electronically): Lynnette Kelly, Executive Director