

**Oral Testimony of Municipal Securities Rulemaking Board
Ronald Stack, Chair**

to the

**United States Senate
Committee on Banking, Housing, & Urban Affairs
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Good morning Chairman Dodd, Ranking Member Shelby, and Members of the Committee. I am Ronald Stack, Chair of the Municipal Securities Rulemaking Board. I am pleased to testify today on behalf of the MSRB at the Committee's second hearing on Enhancing Investor Protection and the Regulation of the Securities Markets.

The MSRB was created by the Congress in 1975 in the midst of the New York City fiscal crisis to write rules for municipal securities dealers -- many of whom at the time were unregulated and

unsupervised or registered by the SEC. Our mission was and remains clear: to protect the investing public and promote a fair and efficient market for municipal securities. This \$2.7 trillion municipal market is fundamental to financing our nation's infrastructure. Indeed, over 55,000 entities issue municipal securities -- which is ten times the number of corporate issuers. We are absolutely committed to preserving municipal access to capital, market integrity, and investor protection. This is our mission.

One of the most important ways to protect investors and preserve market integrity is through a culture of transparency that makes information available to all. Historically, access to public disclosures about municipal bonds has been hindered by a severely fragmented disclosure system that was cobbled together over the years. This system does not promote public access to disclosure

documents and it does nothing to shine a light on the disclosure practices of issuers, good or bad.

The MSRB has developed a comprehensive website that is transforming municipal disclosure and transparency for all investors, - large and small, institutional and retail. The MSRB's Electronic Municipal Market Access system -- which we call "EMMA" -- is so advanced that it exceeds disclosure systems for any other fixed income market, including corporate bonds.

With EMMA, all investors have free access on the web to an incredible amount of information about municipal securities. We've had real-time trading information up since 2005 and have added Official Statements and information about auction rate securities. Starting next week, we'll add data about variable rate bonds. And, finally, in July of this year, we'll be including all continuing disclosure

filings from municipal bond issuers, pursuant to a rule amendment passed by the SEC.

Our new system of making continuing disclosure available easily and on the web will be a vast improvement over the current system. EMMA will serve as a red flag for poor disclosure by issuers, just as it reveals good disclosure practices.

But good, timely dissemination of disclosure is only one of our myriad responsibilities.

- We require municipal securities dealers to observe the highest professional standards in their dealings with investors -- full disclosure, suitability, fair pricing.
- We are the only federal regulator that has successfully implemented a ban on pay-to-play.

- We test dealers' professional qualifications and require them to take continuing education courses.
- We have a complete set of rules regulating municipal dealers that we constantly review, modify, and change as necessary -- all with the approval of the SEC.

Unfortunately, we continue to read reports about other municipal market participants engaging in pay-to-play and similar activities. Some are alleged. And some are still under investigation. But, whatever the ultimate outcome, the market suffers from an "appearance" problem -- and that is not good for the municipal market or, for that matter, any market.

Earlier this year, we wrote to you and your colleagues on the House Financial Services Committee about the potential for regulation of some of these other market participants. They serve

critical roles in many of the complex financings and related derivative transactions that have become so commonplace in the municipal securities market today. They advise state and local governments -- big and small -- on how to structure a bond issue, how to sell it, how to market it, what type of securities to sell, how to invest bond proceeds, whether to use swaps, and other related derivative transactions. We believe that these and other similar market participants should be registered with the SEC and regulated by the MSRB, with rules similar to those that already apply to dealers. Many of them are fiduciaries and they should be subject to standards of professional conduct. Pay-to-play should be prohibited, just like it was prohibited for dealers in 1994.

I want to emphasize that I know that most of these participants and individuals are ethical and well-qualified. But, unfortunately, not

all of them are, and the activities of a few can taint the entire municipal market, by fact and by appearance. That's something that we can't afford -- especially in this current financial crisis. During this time of market stress, it is crucial that clear guideposts exist and that investor confidence in the municipal securities market is not undermined by questionable practices. Preventing pay-to-play throughout the municipal market is even more important now as the Congress has recognized the importance of rebuilding the nation's infrastructure and supported that goal through the stimulus bill. Also, as Treasury seeks to find solutions to assist the municipal bond market through the financial crisis, ensuring that all market participants adhere to the highest professional standards is essential.

The MSRB looks forward to working with the Committee, as well as other regulators and market participants, to ensure that the

level of investor protection provided in the municipal securities market
is second to none.

Senators, thank you once again for inviting the MSRB to
participate in this important hearing.

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