

MEMO# 21377

July 20, 2007

SEC Chairman Cox Calls for Municipal Market Reform

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TO: FIXED-INCOME ADVISORY COMMITTEE No. 16-07
SEC RULES MEMBERS No. 90-07
EQUITY MARKETS ADVISORY COMMITTEE No. 38-07
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 19-07
INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 20-07 RE: SEC CHAIRMAN COX
CALLS FOR MUNICIPAL MARKET REFORM

In a July 18th speech to the Town Hall of Los Angeles, SEC Chairman Cox outlined two non-exclusive approaches to reforming the municipal market: legislation and regulation. [\[1\]](#) He also suggested that improvements could come from private sector efforts, mentioning disclosure initiatives related to reporting and XBRL.

According to Chairman Cox, the current regulatory regime is woefully inadequate for the nearly \$2.5 trillion municipal market, and “today’s investors in municipal securities, in many respects, get second-class treatment.” Chairman Cox stated that legislation provided the best way to address municipal securities issues in a coherent manner. He emphasized that the costs and benefits must be considered in formulating a regulatory regime; and, consequently, “the model of full registration and regulation applicable to private companies is not necessary” for municipal securities but should serve as a “blueprint for balancing efficiency and investor protection.” Further, he said the Commission should not review the disclosure documents of municipal issuers as it does public companies.

Among his suggestions for legislative action, Chairman Cox recommended that the offering document and periodic reports for municipal securities contain information similar to that required for issuers of public securities; that investors receive the necessary information at the time they make their decision to invest; and that disclosure information is made more accessible in a timelier manner, similar to the SEC’s EDGAR system. He suggested that

large, complex and frequent issuers of municipal securities have policies and procedures for disclosure that are “appropriate to its circumstances,” and that private companies who access the municipal market indirectly by using municipal issuers as conduits meet the same requirements that corporate issuers must meet. Chairman Cox also said that legislation should mandate municipal issuer use of generally accepted governmental accounting standards, provide an independent funding mechanism for the Governmental Accounting Standards Board, and require or permit SEC oversight of the Board.

Chairman Cox suggested that a more aggressive use of existing regulatory authority by the SEC could complement legislation. By way of example, he noted upcoming focused reviews by the SEC in the municipal market, including examinations of “pay to play” practices and the system of Nationally Recognized Municipal Securities Information Repositories.

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endnotes

[1] Chairman Cox’s remarks can be found on the SEC’s website at <http://www.sec.gov/news/speech/2007/spch071807cc.htm>.

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