

MEMO# 28745

February 18, 2015

SEC Commissioner Aguilar Issues Statement on Municipal Securities Market

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TO: MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 5-15 RE: SEC COMMISSIONER AGUILAR ISSUES STATEMENT ON MUNICIPAL SECURITIES MARKET

Last week, SEC Commissioner Luis A. Aguilar issued a statement entitled Making the Municipal Securities Market More Transparent, Liquid, and Fair. [*](#) His statement describes the current state of the municipal securities market, identifies some key issues that merit prompt consideration, and provides a number of proposals as to how this market can better serve both retail and institutional investors.

Some key points from the statement include the following:

- The municipal securities market places retail investors at a significant disadvantage. Retail investors receive less favorable prices and pay higher mark-ups than do institutional investors. By one estimate, investors paid in excess of \$10 billion in excessive markups and markdowns between 2005 and 2013.
- Retail investors lack access to reliable price information about the municipal securities they may want to buy or sell. As a result, it is exceedingly difficult for retail investors to determine if the prices they are offered and the fees they are charged by their brokers are reasonable. Retail investors consequently pay an average spread that is more than double the spread paid by institutional investors.
- Issuers too often fail to provide disclosures, or they provide disclosures that are incomplete, inaccurate, or untimely. Accordingly, in many cases, investors cannot obtain information they need about the municipal securities they own or wish to buy. Unfortunately, the Commission is prohibited from directly regulating the public offerings of municipal issuers and the disclosures they provide to investors.
- The structure of the municipal securities market is undergoing a profound transformation in the wake of the financial crisis. Dealers have reduced their inventories of municipal securities by 65 percent since 2007. This may make it more difficult for retail investors to buy or sell municipal securities, particularly if the Federal Reserve raises interest rates and bond prices drop sharply. These changes also mean that retail customers may receive less favorable prices, and may have to

pay higher fees to trade in the future.

- Recent regulatory initiatives have helped to level the playing field for retail investors, but much more needs to be done. For example, the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB) should adopt rules requiring dealers to disclose their markups and markdowns prior to executing a transaction for a customer. Investors have a right to know how much dealers are charging them for their services.
- The Commission issued a report in 2012 that included a number of recommendations to improve how the municipal securities markets work, and to enhance the quality of the information investors receive. Almost none of these recommendations have been implemented. Commissioner Aguilar accordingly urges that the following steps, among others, be taken as soon as possible:
 - Congress should repeal the Tower Amendment and give the Commission direct authority to regulate the information that municipal issuers provide to investors;
 - The Commission should amend Rule 15c2-12 to ensure better disclosure practices by issuers;
 - The Commission should update its 1994 interpretive guidance regarding issuers' disclosure obligations; and
 - The Commission should explore ways to help retail investors get pre- and post-trade accurate price information about the municipal securities they wish to buy or sell.

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endnotes

*See Statement on Making the Municipal Securities Market More Transparent, Liquid, and Fair by Commissioner Luis A. Aguilar, U.S. Securities and Exchange Commission, Washington, DC (February 13, 2015), available at <http://www.sec.gov/news/statement/making-municipal-securities-market-more-transparent-liquid-fair.html#.VONqEChXrGU>.

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