

MEMO# 3599

March 17, 1992

COMMISSIONER ROBERTS' REMARKS ON REGULATORY ISSUES IN THE MUNICIPAL SECURITIES AREAS

March 17, 1992 TO: INVESTMENT ISSUES COMMITTEE NO. 5-92 MONEY MARKET FUNDS AD HOC COMMITTEE NO. 5-92 SECONDARY MARKET DISCLOSURE TASK FORCE RE: COMMISSIONER ROBERTS' REMARKS ON REGULATORY ISSUES IN THE MUNICIPAL SECURITIES AREAS _____ SEC

Commissioner Richard Y. Roberts recently delivered a speech to the Municipal Division Executive Committee of the Public Securities Association on regulatory issues in the municipal securities market. A copy of the speech is attached. One area that Commissioner Roberts focused on is the need for improved disclosure in the secondary market. In this regard, he discussed the purchase of municipal instruments subject to a demand feature (e.g., variable rate demand notes) by tax-exempt money market funds and the lack of information in the secondary market about the issuer. He stated that he hoped that "if, and when, any amendments addressing tax-exempt money market funds are published for comment, members of the industry will have the opportunity to express their views on the adequacy of current information concerning issuers of VRDNs, and on whether an explicit information requirement is necessary to assure the integrity of tax-exempt money market funds." This recommendation varies from an earlier suggestion Commissioner Roberts had made, which was to consider restricting tax-exempt money market funds from investing in short-term municipal securities of issuers that do not pledge to provide secondary market disclosure. In response to that suggestion, the Institute submitted a letter to Commissioner Roberts to express the concern that it would inappropriately restrict only one segment of purchasers. Instead, we suggested that it would be fairer and more efficient to impose disclosure requirements directly on the issuers of these securities. (See Memorandum to Money Market Funds Ad Hoc Committee No. 32-91 and Investment Issues Committee No. 21-91, dated December 10, 1991.) In addition, Commissioner Roberts supported the MSRB's proposed pilot program to create a system that rapidly transmits pre-default notices from trustees to the market. He also noted that the scope of the system could be expanded in the future to allow the dissemination of other types of information. Commissioner Roberts also addressed the primary markets, noting that conduit offerings (e.g., nursing home and hospital bonds) accounted for roughly three quarters or more of the total dollar amount of payment defaults of all municipal securities. Individual investors in these bonds do not receive the full protection of the federal securities laws. Therefore, he stated that he intends to urge the Division of Market Regulation to draft a rule that would require any broker-dealer that "recommends" unrated municipal bonds to retail customers to fully document its reasons for determining that the investment was suitable for a particular investor. Finally, Commissioner Roberts stressed the need for the Commission to focus

more attention in its enforcement program on the municipal securities markets. We will keep you informed of developments. Amy B.R. Lancellotta Associate General Counsel
Attachment

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