

MEMO# 15782

March 20, 2003

INSTITUTE COMMENT LETTER ON MSRB TRADING HALT PROPOSAL

[15782] March 20, 2003 TO: FIXED-INCOME ADVISORY COMMITTEE No. 5-03 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 4-03 RE: INSTITUTE COMMENT LETTER ON MSRB TRADING HALT PROPOSAL The Institute has filed a comment letter with the Securities and Exchange Commission in opposition to the proposal to grant the Municipal Securities Rulemaking Board authority to institute trading halts in the municipal securities market during an MSRB-declared market emergency. The letter is attached, and it is summarized below. At the outset, the Institute questions the necessity of imposing a trading halt rule given the decentralized, interdependent nature of the municipal securities market. The letter explains that the present system, which facilitates trading on a bilateral basis and enables market participants to make alternate settlement arrangements as circumstances warrant, obviates the need for any such rule. To illustrate, the letter points to the market's resiliency that was evidenced during the events of September 11, 2001. The letter also points to the adverse effects a trading halt rule could have on an investment company's ability to fund redemptions and price securities, particularly during the duration of a trading halt. Next, the letter identifies several flaws in the MSRB's proposal, including that the proposed definition of "market emergency" is subjective, overly broad and ill defined, and grants the MSRB too much discretion in determining what constitutes a market emergency. The letter adds that the lack of objective parameters with respect to the declaration (or cessation) of a trading halt could adversely affect an investment company's ability to satisfy its daily pricing obligations under the Investment Company Act of 1940. Furthermore, the letter notes that under the proposed modified quorum requirement the authority to close the entire municipal securities market would rest in the hands of only three of the MSRB's 15-member board. Finally, the letter recommends that a better way to develop an effective crisis response infrastructure for the municipal securities market would be to continue the numerous ongoing contingency-planning initiatives undertaken by market participants and regulators, including initiatives that encourage contingency planning by the Depository Trust and Clearing Corporation and other market participants regarding critical clearance and settlement systems. Barry E. Simmons Associate Counsel Attachment (in .pdf format)