

MEMO# 15740

March 11, 2003

ICI DRAFT LETTER REGARDING MSRB PROPOSAL TO GRANT MSRB AUTHORITY TO INSTITUTE TRADING HALTS IN THE MUNICIPAL SECURITIES MARKET

[15740] March 11, 2003 TO: FIXED-INCOME ADVISORY COMMITTEE No. 3-03 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 2-03 RE: ICI DRAFT LETTER REGARDING MSRB PROPOSAL TO GRANT MSRB AUTHORITY TO INSTITUTE TRADING HALTS IN THE MUNICIPAL SECURITIES MARKET The Institute has prepared a draft letter regarding the Municipal Securities Rulemaking Board's proposal to grant the MSRB 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. Comments on the letter are due Friday, March 14, 2003. Please provide any comments you may have on the Institute's draft letter to Barry Simmons by the close of business on Thursday, March 13, 2003. Barry can be reached by phone at (202) 326-5923, by facsimile at (202) 326-5827, or by email at bsimmons@ici.org. The Institute's draft letter opposes the MSRB proposal and makes the following comments. First, the letter points out that the nature and resiliency of the municipal securities market raises questions as to the appropriateness and necessity of a trading halt rule. Second, the letter points to several flaws in the MSRB proposal, including that: (i) the definition of "market emergency" is overly broad, subjective, and ill-defined, and grants the MSRB too much discretion in determining what constitutes a market emergency; (ii) the rule if triggered could have adverse consequences for investment companies, with respect to their ability to price and honor redemption requests; and (iii) the proposed modified quorum requirement would vest authority to close the municipal securities market in the hands of three MSRB Board members. Finally, the draft letter recommends that instead of the current rule proposal, efforts should focus on continuing the numerous ongoing initiatives undertaken by market participants (e.g., business continuity plans) and the SEC and other regulators (e.g., industry white papers on clearance and settlement issues) to prepare for future market crises. Barry E. Simmons Associate Counsel Attachment (in .pdf format)