



Municipal Bond Summit 2012

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Remarks

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Good morning and welcome to the 4th Annual SIFMA Municipal Bond Summit. I'm so glad you could join us for this important event.

The municipal bond market is one of the most important financial markets that SIFMA serves. Munis are the backbone of America, providing the funding necessary to build and maintain the schools, roads, hospitals, and other infrastructure that ensure the livelihood of our communities. These infrastructure projects also create much-needed jobs – jobs that otherwise might not exist without the capital raised by munis. Further, munis offer a safe and smart investment option for millions of individual and institutional investors. As financial service professionals, we take pride in the central role we play to facilitate the capital formation that fuels economic growth. This is the fundamental role of our industry: to facilitate investment that stimulates economic growth and job creation across America.

Yet, the muni market is unique. Given the tax-exempt status of munis and their predominantly retail ownership, munis have important distinctions from most financial products. Already this year, muni issuance has reached \$252 billion dollars – that's up 53% from last year. Indeed, confidence has returned to the muni market despite previous alarms forecasting widespread defaults. There are no systemic credit issues, and although issuers are facing extraordinary fiscal pressures, predictions of a "muni credit catastrophe" have proven to be unfounded.

In fact, the cost of borrowing for state and local governments is the lowest it has been in 45 years, according to the Bond Buyer 20 Bond Index. Issuers would have to go back to 1967 to find a better deal, on average. That's another unique quality about the muni market - there aren't many other countries in the world where governments and non-profits big and small can borrow for up to 30 years on such good terms to finance their capital investment. And as this year's \$252 billion issuance figure proves, the muni market still offers some of the safest investment options to millions of individual investors.

So it's that much more critical that we safeguard the ability of governments and other issuers to access the market freely and efficiently and protect retail investors and their access to this



unique, tax-exempt market. SIFMA opposes recent federal proposals that threaten the tax-exempt status of munis. Eliminating the tax-exemption would raise the cost of capital for state and local governments and discourage investment in infrastructure. Especially troubling are proposals that would impose retrospective taxes on investors. That is simply not fair; it would erode the value of investors' holdings, would deter retail investors who look to munis as a key component of a balanced portfolio, and would make it more difficult and more costly for state and local governments to raise capital.

Of course, any market that is driven primarily by retail investors must take appropriate measures to protect them. The industry and regulators must work together ensure balanced regulation that protects investors without hampering the market's ability to function efficiently. The SEC has recently released the results of its comprehensive examination of municipal market structure and disclosure practices. The Commission has taken a very thoughtful look at regulatory issues, and we support some of their proposals, such as permitting information sharing between the SEC and IRS. The SEC's approach is clearly motivated by a desire to protect investors and improve market efficiency, two goals we heartily agree with.

The SEC has focused particularly on issues related to issuer disclosure and secondary market trading. With regard to disclosure, we agree that it makes sense to consider ways to improve the quality and timeliness of issuer disclosures in a way that respects the unique characteristics of the municipal market and the limitations faced by small issuers. With regard to trading, we also agree with the goals of improving transparency, reducing trading costs and ensuring fair pricing, especially for individual investors. However, those are not easy issues to tackle in ways that preserve liquidity.

The municipal market is unique in many respects. It is more diverse and fragmented than most sectors of the capital markets. Most municipals trade very infrequently, if at all. Regulatory concepts that make sense in the market for, say, equities may not translate well to the municipal market. Nevertheless, we are committed to working constructively to find ways to address the issues the SEC has raised without hurting the ability of issuers to access the market or the ability of investors to trade bonds when they need to.

From our perspective here at SIFMA, the muni market is also unique in that all facets of our membership participate –small and large firms, banks and dealers, buy- and sell-side, all are active participants. SIFMA works on behalf of our members to develop industry best practices and inform new regulation to ensure a smooth, functioning market.

Dodd-Frank presents certain special challenges to the muni industry. For example:

- SIFMA is advocating for a full exemption from the Volcker Rule for all municipal securities, including state and municipal agency obligations which make up 41% of the



market. It is vital that regulators exempt all muni securities – failure to do so would hurt liquidity in this market and make it harder for communities to raise capital.

- Additionally, SIFMA is working to ensure that new municipal advisor rules are not so overly broad that they constrict market function and harm market participants. We are encouraged by the recent passage of municipal advisor legislation in the House of Representatives that, if enacted, will set clearer parameters for what parties can be considered a muni advisor.
- We've also established industry best practices and new standards to make it easier for our members to comply with the comprehensive new disclosure requirements issued by the MSRB under Rule G-17. The more we can do to standardize this process, the easier it will be for all of you to do your jobs and comply with the rules.
- Lastly, SIFMA is pushing for balanced disclosure requirements that hold both brokers and issuers accountable for investor protection. It is critically important that the responsibility of disclosure falls just as heavily on issuers as it does on brokers to ensure an efficient market.

Today's lineup of experts will delve further into some of the most pressing issues impacting the municipal space. Before we get started, I'd like to take this opportunity to thank our sponsors listed here on this slide. Their generous support has made this event possible. [point to slide] We thank our platinum sponsors, Broadridge Financial Solutions and National Public Finance Guarantee Corporation, for today's luncheon and reception. We also thank Darcy Versions I and II, Bingham McCutchen, and Lumesis for their support in providing today's breakfast, lanyard and notebook.

It is now my pleasure to welcome our next speaker, Mr. Ken Gibbs. Ken is the president of the Municipal Securities Group at Jefferies & Company, and he is also a SIFMA board member and chair of SIFMA's Municipal Division. I'd like to personally thank Ken for his invaluable contributions and tireless dedication to SIFMA over the years. Ladies and gentlemen, please welcome Mr. Ken Gibbs.