



TESTIMONY OF
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MANAGING DIRECTOR IN PUBLIC FINANCE INVESTMENT BANKING, PIPER JAFFRAY
ON BEHALF OF SIFMA
BEFORE
THE SECURITIES AND EXCHANGE COMMISSION

FIELD HEARING ON
THE STATE OF THE MUNICIPAL SECURITIES MARKET, BIRMINGHAM, ALABAMA
JULY 29, 2011

Good morning and thank you for the opportunity to be here.

My name is Bill Henderson and I am a Managing Director in Public Finance Investment Banking at Piper Jaffray, a leading middle-market investment bank and asset-management firm. I am here today representing the Securities Industry and Financial Markets Association, or SIFMA¹.

I have 28 years of experience providing financial advisory and underwriting services to governmental and not-for-profit borrowers throughout the Midwest. I oversee the activities of the Kansas City, St. Louis, Milwaukee and Des Moines public finance offices of Piper Jaffray.

Given our limited time today, I would like to highlight several key points related to the municipal bond market and particularly, small issuers.

The U.S. municipal bond market is broad and diverse. It includes frequent issuers who come to the capital markets multiple times a year, large issuers whose transactions can exceed a billion dollars and whose bonds have been marketed globally. It includes small issuers who sell just a few million bonds every few years, as well as one-time issuers who never intend to issue bonds after their first sale, and everything in between.

The definition of small issuer is not even clear. To some, a small issuer might mean a city that sells \$25 million bonds per year. To others, it might be a school district that sells \$3 million bonds once every five years. One could argue that Carrollton, Texas, ably represented at this hearing, with a population of 122,000, is not a small issuer in comparison to many other communities that sell bonds.

We believe that the SEC and other regulators should take care not to impose rules which would impede the ability of municipal bond issuers of all sizes to access the market efficiently and cost-effectively.

¹ SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association. For more information, visit www.sifma.org.

We understand that some commissioners and staff may be of the opinion that small issuers need greater regulatory protection from dealers, advisors and others than large issuers. It is important that issuers of any size have the knowledge and ability to understand not only the financial terms and impacts of the transactions they undertake but also the responsibilities that come with borrowing in the capital markets. If an issuer does not, they can seek the assistance of an advisor that will guide them in the transaction or pursue other alternatives for borrowing. Regulations should not discriminate against issuers based only on size.

In the securities business, our philosophy is that we serve our clients regardless of the size of the deal or issuer. We want a state government borrowing \$500 million to fund a roads project or a community that is borrowing \$3 million to build a new water tower project both to get the best financing possible. We try to ensure that an Issuer's needs are measured against the depth and breadth of the investor market, so that the best financing outcome can be achieved for all parties.

To achieve that goal, a banker needs to bring significant knowledge and expertise to the relationship. Bankers often provide market color, suggest financing alternatives and timing for transaction pricing, provide indications of investor demand, outline refunding options and provide other value-added functions.

SIFMA has concerns with several pending regulatory proposals.

We have several concerns about the SEC's proposed rule related to the registration of municipal advisors under the Dodd-Frank Act. The proposal appears to go far beyond Congress' intent in enacting Section 975 of the Dodd-Frank Act: to bring previously unregulated municipal financial advisors under a regulatory umbrella.

The proposal also seems to take an overly broad approach to what activities contribute to being a "municipal advisor." Traditional investment banking services such as responding to requests for proposals, providing deal ideas and information, structuring escrows and other funds, and other functions which form the basis for any good investment banking relationship with an issuer client should never cause a banker to become an advisor and have a fiduciary duty toward the issuer. Unfortunately, a fiduciary relationship between an underwriter and issuer is unworkable once the process comes to the price negotiation. Effectively prohibiting underwriters from providing ideas and information to issuers is contrary to the interests of issuers.

SIFMA has submitted a detailed comment letter on the advisor proposal and we have had several follow-up meetings with Commissioner Walter and SEC staff on the issue. We are hopeful the SEC will revise its proposal before it is final to address our concerns.

Thank you for the opportunity to present our views. I look forward to your questions.