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One of the Most Lucrative Regulatory Jobs in Washington Is Now Open.

Municipal-bond regulator searches for new chief, a role where salary exceeds $1 million

One of the highest-paying jobs in public service just became available: heading a small but powerful regulator responsible for overseeing the $4 trillion market for state and local bonds.

The job leading the Municipal Securities Rulemaking Board currently pays more than $1 million. That is roughly six times the salary of the chairman of the Securities and Exchange Commission, which oversees the board—an entity some policy makers have criticized in recent years as too cozy with Wall Street.

Lynnette Kelly, who has headed the industry self-regulator since 2007, plans to retire at the end of September, the MSRB said last week. Ms. Kelly's tenure was marked by improvements to the transparency of the municipal-bond market, such as the creation of a website where mom-and-pop investors can see pricing data and financial disclosures from the issuers of their bonds.

"We had been filing all the information for 20 years, but nobody could find it to read. EMMA fixed that," said Ben Watkins, director of Florida's Division of Bond Finance, referring to the nickname for the board's website.

Ms. Kelly is among several staffers departing from the board. Lanny Schwartz, the MSRB's chief regulatory officer since last year, resigned just before the board announced Ms. Kelly's departure, according to people familiar with the move. And Jennifer Galloway, who had served as the MSRB's longtime chief communications officer, left last month, the regulator said.

MSRB officials said they are in the early stages of a national search to replace Ms. Kelly. They declined to comment on the additional departures.

The board, which has 21 directors and a full-time staff of about 120, crafts regulations for banks and other firms involved in the sale of bonds by states and localities, such as restrictions on political donations to officials involved in the awarding of bond business. It has no enforcement power.

The SEC and the Financial Industry Regulation Association, another self-regulatory body for the brokerage industry, enforce MSRB rules. The board is funded by industry fees and sets its own budget, including for compensation.

"The MSRB has deployed lots of different tools to reach retail investors, to protect retail investors, to help educate and inform them," Ms. Kelly, 59 years old, said in an interview last week. "That's a legacy that will remain and hopefully be built upon."

Ms. Kelly said she has discussed stepping down for a long time to pursue other opportunities. She declined to elaborate on her plans.

For 2017, the most recent year for which records are available, Ms. Kelly's salary was $865,397 and she received another $169,966 in other compensation. SEC Chairman Jay Clayton made $165,300 last year.

The MSRB says it benchmarks its salaries to other self-regulators, such as the much-larger FINRA, whose chief executive Robert Cook was expected to receive approximately $2.5 million this year, according to the organization's annual report.

Congress targeted the MSRB for an overhaul following the financial crisis, after it was slow to speak out against banks' urging unsophisticated municipalities to enter into complex financial instruments that ultimately soured during the crisis. The 2010 Dodd-Frank financial law gave the board an added mission to protect municipalities and required a majority of its directors to be representatives of the public, with the aim of better insulating the regulator from industry influence.

It also put in place tougher rules on advisers to municipal governments, for example by extending to such firms pay-to-play restrictions that previously applied only to banks.

A decade later, the board came under fire for delays on a new requirement that banks disclose their profits when they buy or sell certain bonds for retail clients. The MSRB completed the rule jointly with Finra only after prodding from the SEC, which signs off on regulations written by both entities. The rule went into effect in 2018.

Some lawmakers say the MSRB remains beholden to banks that underwrite municipal bonds. The board has appointed to its public board a number of retirees who spent their careers working at large banks. That has made the board reluctant to aggressively regulate the market, its critics in Congress have said.

Sen. John Kennedy (R., La.) said the board is unduly secretive and run by insiders who receive inflated salaries. A former state Treasurer who applied twice to join the board but wasn't selected, Mr. Kennedy said the group remains too insular and opaque in how it selects directors.

"It's like being voted into a fraternity or a sorority," he said.

MSRB officials say they will review their governance practices but haven't committed to making changes.

Mr. Kennedy has introduced legislation aimed at making the MSRB's public directors more independent. The measure has support from Democratic presidential candidate Sen. Elizabeth Warren of Massachusetts, along with Sen. Doug Jones (D., Ala.). Still, it faces a difficult path to becoming law in a gridlocked Congress.

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