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## **Hoping for Change: Remarks at the SEC Joint Compliance Outreach Program for Municipal Market Professionals**

Washington D.C.

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Commissioner Hester M. Peirce

Good afternoon, and welcome to the second day of the Joint Compliance Outreach Program. My views are my own as a Commissioner and not necessarily those of the SEC or my fellow commissioners.

About 100 years ago, my hometown of Cleveland, Ohio, which sits on Lake Erie and is bisected by the Cuyahoga River, was grappling with the growing pains of a new century. The city had grown mightily on both sides of the river, and traffic snarled the existing thoroughfares, which only connected certain parts of the city. Rapid industrial growth had led to massive pollution in Lake Erie, which threatened Cleveland's clean water supply. Faced with these challenges, Cleveland did what municipalities do when encountering an infrastructure challenge: it issued municipal bonds and built.

To handle the traffic, Cleveland built the Hope Memorial Bridge, famous for the Art Deco statutes called the Guardians of Traffic, from which Cleveland's baseball team now draws its name.<sup>[1]</sup> To handle the water pollution, it built the Baldwin Water Treatment Plant, a groundbreaking technological achievement at the time.<sup>[2]</sup> Both structures are still standing and operating today, a testament to the importance of what is accomplished by your industry.

Over the past century, the physical structures of the Hope Bridge and Baldwin plant have been updated repeatedly in response to new technologies and innovations. While the municipal securities industry has also adopted new technologies and innovations, we must be honest: the pace of change here has often been slower than in other corners of our capital markets. Today I want to briefly touch on a potentially transformative innovation—tokenization—which is drawing a lot of interest in those other corners of our capital markets and may soon come to yours.

Tokenization offers potential benefits, including atomic settlement, facilitation of extended hours trading, and easier pledging of assets as collateral. Some of those benefits may not be relevant to municipal securities, but others, such as the ability to offer smaller minimum purchase amounts or the potential to enhance secondary market liquidity, may be highly appealing to municipal issuers or investors. As many of you likely know, the first tokenized offering of municipal securities in the United States occurred in 2024 in Quincy, Massachusetts.<sup>[3]</sup>

Wide-scale tokenization of municipal securities is not inevitable. Unique features of the municipal securities market—including its retail nature, the sheer number of issuers, and the complex interplay between state law, securities law, and tax law—may nullify some of the benefits of tokenization. Regulators are not good predictors of—let alone good drivers of—innovation. But we

ought to work hard to accommodate technological change. So I want to extend an invitation: please come speak to us as the efforts involving tokenization—or any new technology—develop. Tell us when you encounter issues or rules that may be obstacles to change because they were written in an era of ink and paper, without these new technologies in mind. Ask us for clarity when needed. Do not wait until that new technology is knocking on your door. Come talk to us when you see it walking down the street toward you.

To highlight an example of what happens when our rules languish unaffected by the changing world they govern, we need only look at the recent off-channel communications cases. During the previous administration, the Commission brought a series of enforcement actions against broker-dealers, municipal advisors, investment advisers, and nationally registered securities rating organizations, which netted billions of dollars in penalties. The SEC claimed that virtually everyone had violated our recordkeeping rules by failing to capture electronic communications like text messages or WhatsApp chats.

I had a lot of issues with these cases, and they are, in my view, a prime example of what happens when regulators fail to accommodate technological and societal changes in how humans actually interact. One of today's discussion panels concerns enforcement, and compliance with these recordkeeping obligations may be a discussion topic. Rather than forcing our registrants to try to figure out how to comply with rules written for a different world, the SEC should work with industry to modernize these rules for all affected entities with a sensible pragmatism. The Commission, firms, investors, and other market participants are all better off when our rule books reflect the realities of the world in which we live.

Thank you again. I hope you have a fascinating and productive discussion today.

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