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Piowar Wants to Improve Muni Price Transparency.

WASHINGTON — Securities and Exchange Commission member Michael Piowar has asked the staff of the Office of Municipal Securities to give him some proposals that he can push through the SEC to improve price transparency in the municipal market.

Piowar, a Republican who joined the commission last year, replacing Troy Paredes, suggested in a speech in January that dealers should be required to disclose markups and markdowns in riskless principal transactions, But he told The Bond Buyer in an interview that he is looking for other ideas as well.

It was Piowar's first post at the SEC that kindled his interest in the muni market. He was working as an economist in what was then called the Office of Economic Analysis in 2002 when he was approached by the SEC's chief economist and offered the chance to go in a different direction.

"I came here and thought I was going to work on equity market structure issues," Piowar said. "That was my area of research. Literally my second day here our chief economist at the time, Larry Harris, said, 'Do you realize we have every transaction in municipal bonds for a one year period?' I said 'No.' He said, 'Do you want to work on a research project?' I said 'Yes.' He said, 'Good, because if you had said no I would have fired you.' So I spent basically a year learning as much as I could about the muni market."

Harris, who is now a professor at the University of Southern California, remembers Piowar as playing an important role in helping to shed light on the understudied bond market.

"He was a very promising young economist," Harris said. "He was already quite accomplished when he came to the SEC."

Harris and Piowar's study, eventually published in a financial research publication, was an examination of spreads and markups in the bond market. Piowar said the goal was to figure out why investors paid additional costs in some cases, and to determine what might affect those costs.

"What we wanted to try to do was figure out what were the effects of adding transparency to the market," he said. "I just looked at the spreads in this market and I thought, 'There is something wrong here.' It must be off by a decimal place, the spreads are just too wide. Especially at retail sizes."

Unfortunately for the researchers, data available from the Municipal Securities Rulemaking Board didn't allow them to isolate the effects of adding transparency to the market, Piowar said. But they observed a decrease in spread size correlating to transparency in the corporate bond market. Piowar said his work during this time demonstrated to him that while institutional muni investors could call around to different broker-dealers and find the best prices, retail investors generally could not do that and might not even be aware of where they could find data available.

Harris said Piowar really dove into the project and learned a lot of difficult muni-specific concepts

in a hurry. Harris said the study was influential in helping the SEC to decide to require real-time trade reporting, and said Piowar deserves much credit for that work.

"Mike was instrumental in making that happen," Harris said.

Piowar said more can be done.

"Now I'm back, so there is an opportunity I think to continue doing some work in this area," he said.

Piowar moved around both before and between his stops at the SEC, staying no more than four years in any one place - nothing new for the product of a Navy family who moved from coastal city to coastal city in California, Virginia, and elsewhere before earning a B.A. in foreign service and international politics from the Pennsylvania State University, an M.B.A. from Georgetown University, and a Ph.D. in Finance also from Penn State.

The economist said he began his college career believing he would be a diplomat and perhaps ambassador to a foreign country, but jokingly recalled that he was soon disabused of the idea.

"I did an internship at the State Department," he said. "What I learned is that if you work really hard in the foreign service, you get to be an ambassador to a country that hates us. If you want to be an ambassador to a country that likes us, you go out and you make a bunch of money and donate it to the guy that becomes president."

He taught finance courses at Iowa State University from 1998 to 2002, prior to his first stop at the SEC. After leaving the commission, Piowar worked as a principal at the Securities Litigation and Consulting Group, which provides assistance to law firms and others involved in complex securities litigation. During and just after the financial crisis, he served for one year at the White House as a senior economist at the President's Council of Economic Advisers under both Presidents George W. Bush and Barack Obama. While there, Piowar also served as a staff economist for the Financial Regulatory Reform Working Group of the President's Economic Recovery Advisory Board. Most recently, he was the chief economist for Republican members of the Senate Banking Committee and worked on the Dodd-Frank Act.

Piowar won Senate confirmation for a five-year term as commissioner in August 2013, and created a stir at his first public meeting by criticizing SEC chairman Mary Jo White for not giving him enough time to review the municipal advisor registration rule. He voted with his fellow commissioners to approve that major muni rule unanimously, but many observers commented that Piowar's comments were unusual. Piowar is outspoken about the need for detailed economic analysis of market rulemaking. He is the only current commissioner who is not an attorney. When it comes to specific muni issues, Piowar shows interest, but is not strongly opinionated.

"I don't have a particular view on broker's brokers," he said when asked about them. The SEC's 2012 Report on the Municipal Securities Market recommended broker's brokers and alternative trading systems be required to start making some of their pricing information publicly available in order to improve price transparency. The SEC's Office of Compliance Inspections and Examinations, possibly as a prelude to that, is examining the extent to which dealers using alternative trading systems and broker's brokers are engaged in anti-competitive practices such as blocking or filtering out competitors from being able to bid on their municipal securities. Piowar said he previously wondered if more market transparency would eliminate the need for brokers' brokers.

"They obviously seem to be filling a role that the dealers think is useful, or else they wouldn't use them," Piowar said. "Maybe there is a particular niche that they are filling."

The commissioner said he views the pricing question as a very difficult one for the muni market. Some muni securities trade so infrequently, it is difficult to benchmark the price, he said.

He has gone public with his view that money market mutual funds need to be reformed and that investors should possibly be able to choose whether to invest in funds that have either a floating net asset value or funds that have fixed NAVs but can restrict redemptions to prevent runs during times of economic panic.

Piwowar said the time to act on some muni reforms is now, whether they are those included in the commission's muni market report or new ideas developed up by the muni office. Aging baby boomers will be shifting their investments away from equities and towards less risky bonds, he said. Interest rates are going to rise, further complicating the landscape for investors who may not understand the effect that has on their investments.

Piwowar said if the muni office can identify three or more pieces of "low-hanging fruit" that the commission could coalesce around, there is a chance to get things done quickly.

"Here's a real opportunity where we could work together," he said.

BY KYLE GLAZIER

MAR 7, 2014 11:13am ET