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SEC's Cross Says Shine a Light on Tax-Free Market: Muni Credit.

John Cross says it's time to bring the individual buyers who dominate the \$3.7 trillion municipal-bond market out of the dark.

Cross, who's set to step down next month as director of the Securities and Exchange Commission's Office of Municipal Securities, said his successor's challenge is to enable the public to trade off the same bond prices as Wall Street firms, eliminating an edge dealers have over their customers.

Individuals own about 60 percent of the market directly or through mutual funds, benefiting from the tax-exempt income generated by municipal securities. Leveling the playing field for those investors and bolstering their confidence is crucial for the states and cities that rely on the marketplace to finance projects from roads to schools.

"It would give retail investors more direct access to assess prices, rather than having to rely on their dealers," Cross, 58, said in an interview. "That should lead to better prices, and investors would be more informed."

SEC Chair Mary Jo White this year proposed improving transparency in fixed-income markets, where the lack of a central exchange gives dealers an advantage in evaluating prices. That dynamic holds sway in the local-government bond market, where half of securities trade an average of two times or fewer each year, according to the Municipal Securities Rulemaking Board, the industry's regulator.

Trading munis can be costly. Muni investors pay brokers transaction fees that are about twice those on corporate debt, according to a report released this year by Standard & Poor's Dow Jones Indices. A study by the Government Accountability Office in 2012 found that individuals weren't receiving prices as favorable as investment firms, which are more capable of assessing the market.

Craig McCann, an economist with Securities Litigation & Consulting Group in Fairfax, Virginia, estimates that investors pay about \$1 billion in excess fees a year to trade munis.

"Quote disclosure would have a big impact," he said. "It would lower those markups."

The cost of individual bonds can vary, with broker fees frequently included in the price of securities instead of as a separate commission. For example, the price of Illinois munis maturing in June 2033, one of the market's most frequently traded bonds in the second quarter, ranged on Oct. 23 from \$95.80 per \$100 face value to as high as \$100.57.

Private Networks

"In the equity market, any investor can see prices all day long at 19 different exchanges on the buy and sell side," said Cross. "You just don't have that in munis."

Brokers use private networks to sell or bid on securities. There are dozens of such electronic

systems where broker-dealers, mutual funds and other large investors can trade, according to the SEC.

Jessica Giroux, who tracks regulatory issues in Washington for the Bond Dealers of America, which represents municipal securities firms, said the group didn't have a position on the matter, given that no concrete proposals have been advanced.

The Securities Industry and Financial Markets Association "supports reasonable efforts to improve transparency in the fixed-income markets," Michael Decker, co-head of munis in Washington for the broker lobbying group, said in a statement.

Market Scrutiny

The municipal market has attracted scrutiny from the SEC since the financial crisis, which contributed to bankruptcies in Stockton, California and Jefferson County, Alabama, and left governments nationwide reeling from investment losses in their pension plans.

The SEC's enforcement division has brought cases against borrowers, including New Jersey, Illinois, and Kansas, for making insufficient financial disclosures in bond documents.

In 2012, the SEC, which approves regulations drawn up by the Municipal Securities Rulemaking Board, released a report proposing overhauls to improve the information available to muni investors. Among the recommendations was requiring disclosure of bid and offer prices on electronic trading networks. SEC Chair White endorsed the plan in a June speech.

Disclosure Push

The rulemaking board this year began considering steps requiring brokers to disclose markups, and approved another measure mandating that they seek the most favorable prices for customers. The SEC suggested both measures.

Cross plans to return to the Treasury Department, where he previously worked on tax policy. The SEC hasn't named a successor. Since 2012, Cross has headed the municipal unit, which advises the agency. He is the first to lead the office since it was revamped under the Dodd-Frank law in 2010.

Cross's office oversaw the first step toward regulating municipal advisers, drafting the definition of which firms would be covered by the rules.

SEC Commissioner Michael Piwowar credited Cross's division for advancing the push for tougher price rules.

"They've been raising the stature — not only of the office — but just raising the issue of how important this market is to retail investors," he said in an interview. "You see momentum on these issues."

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