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MSRB Sends SEC Revised Proposal to Lengthen Board Terms.

WASHINGTON - The Municipal Securities Rulemaking Board is asking the Securities and Exchange Commission to approve its slightly revised proposal to lengthen board members' terms to four years from three.

Market participants will have 21 days after the SEC publishes the filing in the Federal Register to submit comments to the commission on the proposed changes to MSRB's Rule A-3 on board membership. Most groups were supportive of the initial proposal in the first round of comments.

The MSRB board currently has 11 public and 10 regulated members who served staggered three-year terms. Each MSRB fiscal year, which begins on Oct. 1, seven members leave the board and seven new members join. The MSRB names each incoming group of seven the "class" of the year they leave the board.

The MSRB in its initial proposal, released on Oct. 25, said the increased board terms would "improve continuity and institutional knowledge of the board from year to year, while retaining the benefits of the regular addition of new members." The board said new members must overcome a learning curve that can keep them from being fully effective until they are more than a year into their service.

Under the proposal, the three classes of seven members that serve on the board at any given time would change into four classes, three of which would have five members and one of which would have six. The new structure would maintain the majority-public nature of the 21-member board, the MSRB said.

This latest version of the proposal differs slightly from the initial one in terms of how the transition to four board classes would occur. The initial one circulated by the MSRB for comment would have put a committee of board members not being considered for extensions in charge of nominating the members who would be eligible. Then the full board would vote on those nominees.

This latest version would make any previously elected board member whose term will expire on or after the end of MSRB fiscal year 2016 on Sept. 30 eligible for a one-year extension. The full board would then vote by ballot to determine who receives the extensions.

The MSRB says it made the change after further considerations led it to believe that it would be hard to create a special committee of members that represented the board when 18 of them could not be considered for the committee because of their eligibility for extensions. Any concerns about potential conflicts of interest in the newly proposed selection process should be mitigated by the large number of members both voting and eligible for extensions, making it difficult for any one member to affect the outcome of the election.

The MSRB proposal also describes the process it will use to transition to a four-class board, which will begin with the class selection for fiscal year 2017.

One public representative from the class of 2016 will receive a one-year extension and six new members will join the board. Then, for fiscal year 2018, one public and two regulated representatives from the class of 2017 will receive one-year extensions and five new members will join the board. Finally, for fiscal year 2019, three public and two regulated representatives from the class of 2018 will receive a one-year extension and five new members will join the board.

By fiscal year 2020, no new extensions will be needed and five new members will join the board. In fiscal 2021, there will be six new members and then five in each of the next three years. The cycle will be repeated every four years.

In addition to changing the number of board classes and the length of tenure, the proposal would also limit the number of consecutive terms a board member could serve to two and eliminate a requirement that each class must have at least one non-dealer municipal advisor.

Board members can currently only serve a consecutive term if they receive an invitation to do so because of a board-determined special circumstance or if they are filling a vacancy and are therefore only serving a partial term. The rule would keep the special circumstances rule and add the two consecutive term limit for a maximum service limit of eight years.

The elimination of the non-dealer municipal advisor requirement would prevent the MSRB from mandating that every board has four non-dealer municipal advisors. The MSRB was concerned that such a requirement could limit the representation from other regulated entities.

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