

Bond Case Briefs

Municipal Finance Law Since 1971

MSRB Identifies Potential Risks for Retail Municipal Market Investors.

Washington, DC – In a [recent letter](#) to the Securities and Exchange Commission Investor Advocate on potential risks to retail investors in the municipal market, the MSRB identified disclosure practices, price fairness and transparency, types of ownership of municipal bonds and senior investor protection as areas of particular concern.

“As the primary regulator for the municipal market, it is our responsibility to identify areas where we believe retail investors may be at risk,” said MSRB Executive Director Lynnette Kelly. “Our letter aims to communicate to the Investor Advocate our top concerns, in addition to highlighting what the MSRB is doing to address these concerns.”

The first area of concern involves issuer disclosure practices, including bank loan disclosures, the timeliness of submissions, selective disclosure practices and clarity of general obligation pledges in high-profile municipal bankruptcies and restructurings. The MSRB promotes the transparency and availability of municipal market information, and is continuing to emphasize the importance timely disclosures submitted to its Electronic Municipal Market Access (EMMA®) website by issuers.

The MSRB’s letter identifies price fairness and transparency in the municipal market as another area of concern. The MSRB has led multiple initiatives this area including implementing a best-execution rule for municipal market transactions and adding additional post-trade data to EMMA®, and additional initiatives are underway. The MSRB has asked the SEC to approve a proposed rule to help investors better understand the cost of buying and selling a municipal bond, and will continue to make enhancements to EMMA® to support pre-trade price transparency in the market.

The letter also warns that changes in the “ownership profile” of municipal bonds since 2010 have increased the risk that a rise in interest rates could lead to market dislocation and reduced liquidity in the municipal market. The letter cites greater mutual fund ownership and reduced dealer inventories as factors in the risk for investors, and highlights the decline in the number of municipal securities dealers, which has fallen 19 percent since 2012.

MSRB provides multiple free investor education resources related to interest rate risk including Impact of Market Interest Rate Movement on Municipal Bond Prices and Yields, Evaluating a Municipal Bond’s Interest Rate Risk and The Importance of Monitoring Municipal Bonds. “Municipal bond investors can use these resources to learn about the risks of interest rate changes and considerations to discuss with their financial professional,” Kelly said. The MSRB also makes available an online course aimed at financial professionals called Rules and Risks: Applying MSRB Rules in Relation to Municipal Market Risks.

The MSRB’s letter to the Investor Advocate also identifies protection of senior and vulnerable investors as an issue of increasing importance. The MSRB is focused on bringing awareness to existing protections for these investor groups, and helping financial professionals better understand the needs and risks surrounding these investors.

The MSRB wrote to SEC Investor Advocate Rick Fleming in response to a request that the MSRB identify products and practices within the municipal securities market that may have an adverse impact on retail investors.

Date: November 10, 2016

Contact: Jennifer A. Galloway, Chief Communications Officer
(202) 838-1500
jgalloway@msrb.org

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com