

Bond Case Briefs

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Commentary: Remodeling the Rule Book.

In our fast-moving society, yesterday's exciting innovations are today's antiquated has-beens. Every industry faces pressures to evolve in response to a rapidly changing political, economic and technological environment. Our brand-new smartphones become relics days out of the box, our state-of-the-art kitchens look dated within the decade, and yes, our long-standing regulations can risk hindering rather than advancing the fairness and efficiency of the municipal securities market.

But when it's time to remodel the kitchen, step back before swinging a sledgehammer. While some features are destined for the scrap heap, others stand the test of time and deserve preservation. The Municipal Securities Rulemaking Board (MSRB) takes a methodical, participatory approach to keeping its regulations for municipal securities dealers and municipal advisors up-to-date.

One of the major advantages of the MSRB's structure as a self-regulatory organization is having experienced cooks in the regulatory kitchen. The MSRB's regulatory activities are informed by the insight of participants in the municipal securities marketplace who serve on the Board of Directors. An incoming class of new members joins the Board each year, ensuring that the MSRB receives fresh input on the practical realities of its rules from professionals who embody the diverse perspectives and activities of broker-dealers, banks, municipal advisors, municipal bond issuers, investors and others. Board member input is one of the most important ways the MSRB considers, on an ongoing basis, the need for review of certain industry practices or changes to existing rules.

When the MSRB identifies the need to further draw on the expertise and perspectives of market participants, it rallies a "kitchen cabinet" in the form of ad hoc advisory boards or committees to advise on topics of market interest. For example, the MSRB has convened an Investor Advisory Group to ensure our investor protection proposals, such as potential changes to MSRB rules on primary offering practices, are informed at the earliest point of consideration by input from investors in municipal bonds.

For kitchen remodelers, construction plans must be vetted by everyone who will use the revamped space. So too with the MSRB's plans to update or modernize its existing rules. The MSRB may issue a concept release to solicit insight from market participants and other interested parties on the underlying issue, including possible alternatives to rulemaking. If rulemaking is pursued, the MSRB generally publishes a request for comment so that the public and regulated entities can provide input on the proposed rulemaking. The MSRB's policy on the use of economic analysis in rulemaking ensures that available data and information on any anticipated burdens of implementation are considered at the earliest stage of the rulemaking process.

It is the policy of the MSRB to regularly consider and evaluate its rules retrospectively and propose amendments as appropriate and consistent with the public interest. As anyone who has tackled a kitchen remodel can attest, these projects can impact the rest of the house. Taking a hard look at a specific regulation in the MSRB's rule book of roughly 45 standard-setting rules inevitably prompts consideration of other related rules. MSRB rules are helpfully categorized by their intent to foster fair practice, uniform practice, market transparency, professional qualification or operational standards. When one rule within a category is identified as in need of updating, other rules within

that category also receive scrutiny. To further support retrospective rule review, the MSRB solicits public input on the entirety of its rule book and body of interpretive guidance, as it did in December 2012.

The MSRB does not close the door to input and conversation once updates to its regulations are adopted. Rather, we conduct extensive outreach to municipal securities dealers, municipal advisors, municipal entities, investors and fellow regulators on a regular basis to solicit feedback that informs the MSRB's policy initiatives. MSRB Board members and staff frequently participate in industry events around the country and engage regularly with industry trade associations, issuer associations, investor representatives and other stakeholders. The MSRB's outreach initiatives often lead to the development of interpretive guidance or compliance resources that help facilitate understanding of MSRB rules as they evolve.

Market feedback received throughout the year is synthesized and incorporated into the MSRB's formal strategic and operating planning processes. Periodically, the Board meets in a dedicated strategy session to review the MSRB's strategic direction and goals, which it did most recently in January 2017. These planning sessions are also informed by market conditions and relevant priorities of policymakers. The MSRB's strategic goals guide the development of the annual operating plans that prioritize activities the MSRB will undertake in any given year to best serve its mission. This process includes identifying MSRB rules that are candidates for amendment, consolidation, streamlining or deletion in the interest of achieving greater efficiency, effectiveness or alignment with current behaviors and conditions in the municipal market. For example, the MSRB last year made two sets of amendments to its uniform practice rules, to modernize close-out procedures for municipal securities and to pave the way for the industry-wide transition to a two-day settlement cycle.

The MSRB recognizes that to be effective and best fulfill its mission, its rules must be responsive to changes in the municipal securities market and broader landscape. Our self-regulatory structure, participatory processes and commitment to stakeholder engagement support the MSRB's ongoing efforts to create and maintain efficient and effective municipal market regulations. The MSRB welcomes industry and public feedback and pledges our continued focus on rule maintenance and modernization.

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