[Bond Case Briefs]

Municipal Finance Law Since 1971

[MSRB CEO Mark Kim’s Remarks at the U.S. Securities and Exchange Commission's Fixed Income Market Structure Advisory Committee (FIMSAC) Meeting.]

Meeting Occurred on October 5, 2020.

Good afternoon Chairman Clayton, SEC Commissioners, Commission staff, FIMSAC Chair Heaney and FIMSAC colleagues.

On behalf of the MSRB, I thank you for this opportunity to share the views of the Board on risks in the municipal securities market.

As we have seen from the panel presentations this morning, the pandemic caused a significant dislocation in the municipal securities market.

During this past March and early April, many state and local government issuers did not have access to the primary market and liquidity was scarce due primarily to mutual fund outflows. Secondary market trading in March increased to levels not seen since the financial crisis of 2008-2009.

Fortunately, the dislocation was relatively short-lived, and the muni market showed its resilience in the following months. Liquidity from mutual fund inflows returned to the primary market with issuance volumes and secondary market trading in the months of May and June returning to historical levels.

However, there is one significant risk that the Board would like to take this opportunity to share with the Commission, and that is the risk of credit quality in the municipal securities market.

With the pandemic continuing to dampen economic activity across the country, state and local governments are facing increasing financial pressure with reduced tax revenues.

As you know, these are the very same tax revenues that support the repayment of most municipal bonds.

The Board is monitoring the ongoing impact of the pandemic on state and local governments’ revenues and their continued ability to make timely payments of principal and interest on their municipal bond issues.

In our current low interest rate environment, and subsequent spread compression across all rating categories of bonds, it remains challenging for investors to fully evaluate and price credit risk in the municipal securities market. This is especially true for “main street” or retail investors, who remain an important part of the buyer base for municipal securities.

The Board’s response to this risk has been to provide the market and investors with greater transparency. We are leveraging technology to analyze the continuing disclosures and event notices submitted by issuers that disclose material information about the impacts of the pandemic on their operations and finances.

We applaud your efforts, Chairman Clayton, and the efforts of the Office of Municipal Securities, to draw attention to the broader issue of disclosure in the municipal securities market.

And we applaud the efforts of state and local government issuers to address this risk by providing the market with more timely and more complete information about the impacts of this pandemic on their finances and operations.

In conclusion, the municipal securities market has proven itself to be resilient in the face of external shocks. But as we all know, markets don't like surprises. And as this pandemic continues to add complexity and uncertainty to the economic outlook of state and local economies, the risk of an unexpected or sudden deterioration in credit quality in the municipal securities market could undermine investor confidence.

Thank you for the opportunity to share the views of the MSRB with the Commission.