

September 27, 2014

Ronald W. Smith, Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, Virginia 22314

**Re: Comments of Kevin M. Bronner, Ph.D. Concerning the Municipal Securities Rulemaking Board Strategic Plan.**

**Recommendation:**

The Municipal Securities Rulemaking Board (MSRB) should require state and local governments to provide a one page simple risk dashboard presentation outlining the significant risks associated with debt securities when they present a Securities and Exchange Commission offering statement. The simple risk dashboard presentation should also be included on the Electronic Municipal Market Access (EMMA) database for all securities. This will help the MSRB Market Efficiency goal and the Price Transparency goal which are designed to support a fair and efficient marketplace and to improve price transparency for investors and issuers. This one page presentation like the one shown in Appendix A will be an enhancement to the (EMMA) database.

**Background:**

The MSRB published a *Regulatory Notice*<sup>1</sup> on September 8, 2014 requesting comments on the MSRB strategic plan and priorities. Specifically, the request for comment documents discussed MSRB activities associated with:

1. Regulating municipal securities dealers and municipal advisors.
2. Operating market transparency systems; and
3. Providing education, outreach and market leadership.

The Regulatory Notice also listed the MSRB's strategic goals:

1. **Municipal Advisor Regulation:** Implement regulatory requirements and standards for all professionals providing municipal advisory services.
2. **Municipal Entity Protection:** Expand MRSB's protection efforts beyond municipal issuers to all municipal entities.
3. **Market Efficiency:** Clarify, create and tailor rules and guidance that support a fair and efficient marketplace.
4. **Price Transparency:** Improve price transparency for investors and issuers.

A series of four specific questions were also presented in the MSRB *Regulatory Notice*. The comments presented here address the following two specific questions (using the numbering system) in the *Regulatory Notice*:

#2: What are the top issues, risks or challenges in the municipal market and how might the MSB proactively address them?

#4: To what extent should the EMMA website add additional features and functionality and how can the MSRB best determine which developments contribute the most to a fair and efficient municipal market?

### **Proposal:**

The EMMA database allows investors to obtain information about specific debt issues for state and local governments. This tool can be enhanced to permit investors to see a one page simple risk presentation outlining the key risks associated with the security being offered. If you examine any of the formal Securities and Exchange Commission (SEC) offering statements on the EMMA data base it is evident that there is

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<sup>1</sup> See the Municipal Securities Rulemaking Board *Regulatory Notice MSRB Seeks Input*

a large amount of information for each of the security issues. Discussions of risk are often included in the offering statement, and in the financial statements attached to them. In many cases hundreds of pages of information must be examined to make a risk assessment. In order to make a proper risk assessment, investors are required to analyze numerous pages of information often presented in separate sections of the offering statement. This can make a real risk determination by an investor a problematic exercise since there is too much information to analyze and it is often presented in a format that is difficult to follow.

The disparate risk information presented in the SEC offering statements is in conflict with MSRB Goal #3 “Market Efficiency” which requires a fair and efficient marketplace. The complicated offering statement risk assessment is also in conflict with MSRB Goal #4 “Price Transparency” which attempts to provide improved price transparency for investors and issuers.

One solution to the problem would be to have the MRRB require a simple one page risk assessment presentation to include a list of the major risks associated with the bond offering. Appendix A contains a model risk assessment that could be used. The risk assessment would list the major risks associated with the bond offering and present metrics to quantify the amount of risk involved. The mutual fund industry uses a similar concept in the prospectus offered for each mutual fund. Mutual funds with hundreds or thousands of investments provide a list of the 10 largest investments in the portfolio aggregated to illustrate the percentage of the fund assets invested in each security. This helps investors understand the key risks involved with the overall mutual fund.

Appendix A shows a one page generic risk assessment that could be presented for any state and local government included in the EMMA data base. The document lists the key risks involved in order of dollar terms. For instance, if a declining or stagnant tax base is a key issue it should be included on the list. Other items might include large pension and other postemployment liabilities, low fund balance and cash flow risks and other items.<sup>2</sup>

This type of data should be presented in the EMMA database and in the SEC offering statement for each state or local government security. The presentation is designed to support MSRB Goal 3 (Market Efficiency) and MSRB Goal 4 (Price Transparency). The need for a one page risk assessment presentation also addresses two questions in the *Regulatory Notice*. Regarding question #2 the proposal would allow the MSRB to proactively address the problem of addressing risk in the municipal securities. Also, the proposal addresses question #4 in the *Regulatory Notice* addressing specific proposals to improve the Emma website.

### **Summary and Recommendation:**

It is difficult for investors to make a proper risk assessment for municipal securities because a simple to follow transparent risk assessment is not included in the offering statements required by the Securities and Exchange Commission and in the EMMA data base maintained by the MSRB.

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<sup>2</sup> The use of a formal risk assessment is a recognized securities analysis tool. For instance, see the risk profile for investing in bonds contained in *Bond Markets, Analysis and Strategies*, Eighth Edition by Frank Fabozzi (2013) at pages 8-11.

Recommendation: A simple way to improve the risk assessment for each state and local government would be to require them to provide a simple one page risk dashboard to help investors analyze the large risks facing the state or local government. An example is provided in Appendix A.

Thank you for the opportunity to provide comments in this important regulatory proceeding.

Sincerely yours.

-S-

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## Appendix A

### Generic Risk Assessment for a State or Local Government

#### 10 Largest Risk Items

Risk Item	Type of Risk Issue Involved	(\$ Funds/Other)
1	Declining or stagnant tax base	\$1.5 billion
2	Large pension cost liability	\$ 200 million
3	High amount of labor payroll involved	\$500 million
4	Significant other postemployment benefit costs	\$250 million
5	Large investment in poor low performing enterprise funds	\$100 million
6	Fund balance too low or negative	Less than 1%
7	Outstanding debt level too high	75% debt ratio
8	Cash balance too low	Less than 1%
9	Poor or inadequate budgeting practices	State Audit
10	Aging of infrastructure	Average Life 35 Years