



**american securities association**

*America's Voice for Main Street's Investors*

June 24, 2022

The Honorable Gary Gensler  
Chair  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Dear Chair Gensler:

The American Securities Association<sup>1</sup> writes regarding some of the potential changes to fixed income market regulation that are being contemplated by the Securities and Exchange Commission (SEC) and self-regulatory organizations (SROs).

The ASA is particularly concerned about new mandates that could apply to the municipal bond market, a well-functioning and transparent market that has weathered multiple crises over the last three decades remarkably well.

### **Generally**

Municipal bonds facilitate the financing of schools, local infrastructure and water projects, public health facilities including hospitals, affordable housing, renewable energy, and other critical projects that benefit the environment and enhance the quality of life for millions of Americans. Municipal bonds are also attractive for investors given their tax treatment and historic return profile.

The municipal bond market has also come to be known for its low default rate and ability to withstand market shocks. There were no municipal defaults related to the height of the COVID-19 pandemic in 2020, and the average five-year municipal default rate since 2011 has been just 0.12% - over 60 times less than the corporate debt default rate during the same period.<sup>2</sup>

Municipal bond dealers are also highly regulated by the SEC and the Municipal Securities Rulemaking Board (MSRB) and are subject to net capital and transparency requirements that

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<sup>1</sup> The ASA is a trade association that represents the retail and institutional capital markets interests of regional financial services firms who provide Main Street businesses with access to capital and advise hardworking Americans how to create and preserve wealth. The ASA's mission is to promote trust and confidence among investors, facilitate capital formation, and support efficient and competitively balanced capital markets. This mission advances financial independence, stimulates job creation, and increases prosperity. The ASA has a geographically diverse membership of almost one hundred members that spans every region of the United States.

<sup>2</sup> [https://www.fidelity.com/bin-public/060\\_www\\_fidelity\\_com/documents/fixed-income/moodys-investors-service-data-report-us-municipal-bond.pdf](https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/fixed-income/moodys-investors-service-data-report-us-municipal-bond.pdf)



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have made the municipal bond market a unique facet of the American capital markets. There is no body of research, investor demand, or market failure that would suggest fundamental changes to municipal market regulation are warranted.

It is, therefore, extremely concerning that the SEC appears to be actively considering new and potentially costly regulations for the municipal bond market. One idea that has been suggested is a requirement that all municipal bond trades be reported to the MSRB within *one minute* of being executed. While it is true that many municipal bond trades are currently reported within that timeframe, many are not, and it is unclear how such a short time frame would benefit investors or increase transparency, especially given the episodic nature of trading in this market.

### **Trading**

The bonds of some municipalities may trade only a few times every week given that they may have a low level of bonds outstanding, or the individuals or institutions that invest in the bonds buy and hold them and have no interest trading them. As MSRB has demonstrated in the past, only an extremely small fraction of trades may not meet the current 15-minute reporting window, and the vast majority are typically reported within the first 10 minutes.<sup>3</sup> A uniform mandate to report all trades within a minute is entirely unnecessary and not supported by the data or by the needs of investors.

The new issue municipal market also needs to be considered given the odd lot nature of each new issue having on average two to thirty different CUSIPs, and ultimately different buyers and allocations. When a deal gets “dropped” into the syndicate for trading and reporting – some to buy-side market participants that don’t have to report but also many to other dealers - having all of these occur within one minute is unrealistic. New issues should be exempt from any proposed reporting time frame.

Similarly with secondary trading, on larger bid lists where a dealer is buying 20-30 different CUSIPs, having them all “drop” into the reporting queue within one minute would be a significant challenge.

### **Today's Macroeconomic Environment**

The current economic environment, which consists of increasing inflation and the Federal Reserve rolling off its balance sheet will undoubtedly impact markets and liquidity in ways we do not yet understand. This will inevitably impact municipal projects like public housing, school and hospital construction, and public transportation.

<sup>3</sup> <https://www.msrb.org/Rules-and-Interpretations/Regulatory-Notices/2013/2013-02>





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Municipalities will also face challenges as costs rise and revenues potentially fall. The ASA believes that further regulation, especially when there seems to be no clear benefit to investors, is unnecessary at a time when the municipal market is already facing significant challenges.

### **Conclusion**

The ASA is not reflexively opposed to all new regulations for the municipal or fixed income markets. Given how rapidly the capital markets evolve, it is reasonable to update regulations as necessary. However, broad new mandates that disrupt an otherwise well-functioning market can inflict great harm on investors and raise costs for municipalities looking to issue debt. We urge the SEC to only address true market failures through any proposed regulation.

Sincerely,

*Christopher A. Iacovella*

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CEO

American Securities Association

Cc: Mark Kim, CEO Municipal Securities Rulemaking Board  
Commissioner Hester Peirce  
Commissioner Mark Uyeda  
Commissioner Caroline Crenshaw  
Commissioner Jaime Lizarraga



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