

## Is More Regulation the Right Rx for the Muni Market?

We noted with interest a recent piece by former SEC chairman Arthur Levitt (WSJ Opinion, March 9, 2007) urging an expanded federal role in the municipal securities market. The same recommendation has also been made of late by current SEC chairman Christopher Cox. It is hardly surprising, of course, that regulators would argue in favor of—more regulation! What is surprising, however, is the appeal to anecdotal evidence rather than hard data to support such a sweeping and costly proposal.

Technology has made amazing amounts of financial data on state and local governments readily accessible to anyone with an interest and an internet connection. Thousands of governments routinely produce budget documents and audited financial reports and make them available on their web site. Moreover, the quality and relevance of this financial information have improved dramatically in recent years. In addition, citizens and the press can literally watch financial decisions being made at city council, county board, and state legislative sessions. Such openness and transparency are without parallel in the corporate world. Likewise, extensive disclosure and timely notification of material events are assured through the work of the Municipal Securities Rulemaking Board. And, of course, the creditworthiness of municipal securities is subject to review by the rating agencies.

The municipal securities market differs profoundly from its private-sector counterpart. Much municipal debt is backed by the full taxing power of the issuer, reducing the risk of real default to a minimum (defaults on municipal securities have been exceedingly rare and essentially confined to bonds issued for nongovernmental purposes). Furthermore, the “poster children” for more regulation typically have been implicated in some significant failure to comply with existing rules-- hardly an argument for additional layers of regulation! Nor is there evidence that investors in similar situations involving SEC-regulated corporate enterprises have fared any better than their public-sector counterparts.

Regulatory compliance always comes with a price tag. Every dollar spent on unnecessary regulation is a dollar that cannot be spent on essential government services. In recent weeks, much attention has been focused on the cost-benefit of the regulatory burden placed on corporations pursuant to Sarbanes-Oxley. It is ironic that a move should be afoot precisely at this time to impose a burdensome regulatory regimen on the municipal securities market based on anecdotal “evidence” and conjecture that flies in the face of a decades-long track record of reliability.

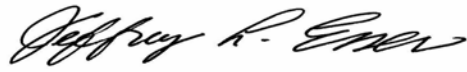
Sincerely,



Donald J. Borut  
Executive Director  
National League of Cities



Tom Cochran  
Executive Director  
U.S. Conference of Mayors



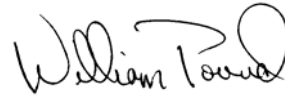
Jeffrey L. Esser  
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