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NATIONAL ASSOCIATION OF BOND LAWYERS
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Great changes are afoot in our debt markets. Some of them were set in motion by the SEC, some by the industry -- but all of them will benefit the investor.

I'm especially pleased to have this opportunity to talk to the National Association of Bond Lawyers, because this organization has a continuing and crucial role to play in bringing those changes to the market.

My tenure as Chairman of the S.E.C. is characterized by two overriding concerns: protecting the individual American investor, and improving the way our debt markets serve those investors.

The simple fact is, public markets depend upon public trust. Trust is developed through clear and accurate information.

The more the public comes to view our bond markets as open, forthright and fair, the more we will be able to use those markets to build a vibrant infrastructure in our cities and our states -- to sustain a truly competitive country in the century ahead.

The S.E.C. is doing much to help ensure that our municipal debt market remains healthy and operates ethically:

- We are working to rid the industry of practices that erode

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investor confidence in the market, such as "pay to play";

- We are demanding more information for investors and better disclosure of market practices and pricing;
- And we are improving our enforcement and oversight activities to deter those who would subvert our markets for illicit gain.

In a market that cleaves mightily to tradition, these are monumental changes, perhaps even historic. They will clearly transform the marketplace. They will certainly change the world in which you practice. But from our perspective, we're simply trying to bring the debt markets into the 20th century before we open the 21st.

In pursuing these goals, I've been told that I've intruded on states' rights, trampled the First Amendment, and unilaterally instituted campaign finance reform, all without provocation. You may believe, as others have, that I've impugned your honor. I don't believe that's true. Quite the opposite -- it is a profound sense of respect that brings me here today to ask you directly for your help. <u>We need to raise the standards of practice in the municipal finance business</u>.

The SEC's mission is to protect investors and market integrity. We have focussed on the municipal market because its corridors are no longer the exclusive haunts of commercial banks and institutional investors. The retail investor has taken over, whether through unit investment trusts, bond funds, or individual

purchases. Bonds are now mass-merchandised to a national consumer pool.

The market has evolved. Regulation must evolve with it.

We all know that federal financial regulators have limited authority over the public debt markets. We've taken steps to address the areas within our jurisdiction: the conduct of municipal underwriters, and the disclosure of information to investors. NABL has been a valued partner in this effort. Your participation in the group of issuer organizations led by the Government Finance Officers Association broke a longstanding deadlock on issuer disclosure. Your continuing involvement in the comment and adoption process is vital if we are going to have a high quality disclosure process that works.

We recognize the special difficulties this poses for the legal profession, whose every instinct is to limit a client's exposure.

But changing times are upon us. The debate has been opened and the issue joined. We're on a new road -- a higher road -- and there's no turning back.

Let's recall that during New York City's fiscal crisis in the 1970's, we found crushing -- but undisclosed -- financial problems at the time of a four-billion-dollar short-term securities issue.

The most disturbing fact is that the issuers were probably meeting the disclosure standards of the day. We've been talking

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about enhanced disclosure ever since. It's been a long conversation -- too long.

Today, thanks in part to SEC intervention, we demand a greater flow of information for our markets and market participants. Some have resisted additional disclosure requirements. But while the Commission is sensitive to concerns about the cost of disclosure, our experience over the last 60 years has repeatedly demonstrated the benefits of disclosure to the markets.

Primary market disclosure has come a long way since the New York City debacle; the same cannot be said of secondary market practices. Although the majority of the trading market consists of securities from issuers who are constantly in the market, a significant number have no secondary market disclosure at all.

That is why the Joint Statement in response to our call for a market-sponsored solution was so important.

That diverse group agreed that "all market participants should support the efforts of various organizations to collect and make available information relevant to investors...." The S.E.C. is going to continue to be an active partner in this process and will do what it takes to ensure comprehensive disclosure not only at the time of the issue, but throughout the life of the bonds.

I take this opportunity to thank you again for your leadership -- and to remind you that NABL will have a leading

role in bringing all the changes I've discussed to the market.

Issuers and brokers will turn to you for counsel. They'll need your guidance.

We, too, would like your help in implementing the proposals we issued in March. The market is already starting to focus on the next set of issues, such as the nature of the proposed repository for issuer information. The Commission deliberately chose not to propose a centralized system, because of the interest of certain states in serving as repositories for their own municipalities.

But at the risk of being branded a "federalist," let me say that a system with many repositories is something like a creature with many heads -- frightening to confront and difficult to subdue. Disclosure without access is not disclosure; and system inefficiencies will breed market inefficiencies. We've got to give this serious thought.

Another question on which we welcome your input is how to handle disclosure for "conduit" issues. The Commission has recommended legislation to remove the exemption from federal securities laws for such nominally municipal issues, where the obligation is really a corporate obligation. Pending passage of the legislation, the Commission and its staff are carefully considering the treatment of conduit issues under our proposed disclosure rules. Should they be able to use the exemptions we've proposed for small municipal issuers in secondary markets?

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We'd like to know your opinion.

The changes in the municipal market affect you in many other ways. In March, we advised you of our view that the anti-fraud rules apply to statements made after bond issuance, which may reach investors' ears. I've been told that in the past, some bond lawyers have advised their clients not to make secondary market disclosure because of the possibility that some of it won't pass anti-fraud muster. I won't comment on the soundness of that advice; our interpretive release speaks for itself. You are now being called upon to assist clients in developing disclosure programs and practices. Our view on the scope of the anti-fraud provisions will be a factor to consider.

You will also be providing counsel to your clients on the evolving ethical standards that will henceforward govern contacts among issuers, dealers, and other market participants -- the standards proposed in the voluntary ban and incorporated into MSRB Rule G-37. You will need to evaluate your own role carefully, for in this instance, you are clearly participants as well as counselors.

We all know the kinds of conflicts that arise when a government official accepts money from someone who is seeking business. The SEC has been devoting a significant amount of enforcement resources to such conflicts in the municipal bond business. We believe we have adequate reason to be talking about what is and isn't good practice.

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We want your help. You might consider ways in which you, as a group and individually with your firms, can address the perception that conflicts of interest are ingrained in the process of issuing debt. I asked the state treasurers in just so many words to consider how the issuance of debt can be made less susceptible to patronage at every level. I now ask you to do the same.

We at the SEC know you have begun this process. We appreciate the first step you took with the Statement of Principles you adopted in March. We will be looking for your continued attention to the problems of the municipal market:

- Problems with the selection of lawyers and other consultants -- we should all be concerned about the bond counsel to the city who is also the Mayor's chief fundraiser or campaign treasurer;
- Problems like the proliferation of functions on offering statements -- where three law firms, or two accounting firms, now do the job that one firm used to do;

In short, problems that raise questions about the competence of advice rendered, and about hidden costs to taxpayers and investors. Problems that put a dent in consumer confidence.

NABL could provide much valuable guidance to issuers, through uniform practice recommendations on questions such as more open procedures for selection of bond counsel; disclosure of potential conflicts; and a central source, such as the MSRB, for

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disclosure of political contributions.

We have provided interpretive advice on the disclosure obligations of participants in municipal underwritings. They deserve close attention. They are what we believe is the law today, and was last week and last year. Financial and business relationships, including political contributions by lawyers, may constitute material information if they could influence decisions about municipal offerings. If so, they should be disclosed.

The municipal securities bar will be making these decisions about materiality. We would like to work with you.

It's appropriate that you be out in front on this -- for who is to lead the way to the higher ethical standards we seek, if not the bar? Who else can chart a course through the minefield of conflicts of interest?

Your actions to date have been constructive. We recognize the problems you face -- yet we need you not only to sign on to the changes we're instituting, but to help make them a reality.

It's in the interest of the market.

It's in the interest of the bar.

And it's clearly in the interest of the American investor.

I believe that we're dealing with a force as inexorable as wind and tide. Whether G-37 stands or falls, whether conduits are ultimately exempt from federal securities laws or not, the demand for increasing disclosure will continue. The winds have changed, and we need to set our sails accordingly or risk

foundering.

We at the SEC are committed to protecting the American investor through the changes I've outlined. It's been said that revolutions never move backward, and it's true. We've got to move forward. And as we do, I expect NABL will continue to be out there, in front, helping us lead the way to higher ethical standards in the municipal market.

We could hardly do more to protect the American investor. We can certainly do no less.

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