

Congress of the United States
Washington, DC 20515

August 28, 2014

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-7010

RE: Municipalities Continuing Disclosure Cooperation Initiative (MCDC)

Dear Chair White:

Strong enforcement of our nation's securities laws is vital to ensuring investor protection and market soundness. We commend the work the Securities and Exchange Commission (SEC) enforcement staff does to police compliance with securities laws and rules. However, an initiative announced by the SEC earlier this year, the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative, represents a departure from typical SEC enforcement practice.

Under the MCDC the SEC has asked municipal securities issuers and underwriters to self-report violations of certain laws and rules governing the issuance of municipal bonds in order to avoid more aggressive enforcement actions by the SEC related to such violations. While it is necessary for the SEC to vigorously enforce rules in the municipal market, we believe it would be appropriate for the SEC to revise the terms of the MCDC to address issues faced by market participants participating in the program.

The MCDC covers rules governing disclosure practices by state and local government bond issuers. Regulators' activities in the area of municipal disclosure have been evolving rapidly in recent years. While the current regulatory regime covering issuer disclosure has been in place for many years, the SEC and Municipal Securities Rulemaking Board (MSRB) in recent years have introduced significant changes in the operation and interpretation of these rules and in their expectations about the activities and procedures market participants should employ to comply with these rules.

In July 2009, the MSRB finalized work on its centralized disclosure information repository, the Electronic Municipal Market Access (EMMA) system. In March 2012, the SEC's Office of Compliance Inspections and Examinations (OCIE) issued a "risk alert", which, for the first time put dealers on notice as to what the SEC expects regarding continuing disclosure compliance.

The MCDC Initiative is generating significant confusion and expense among municipal bond issuers and underwriters. There were roughly 73,000 primary offerings of municipal securities during the period June 2009 through June 2014, the approximate time period covered by the MCDC. In order to participate in the MCDC, issuers and underwriters must review each of those transactions to determine compliance with disclosure rules, an extremely resource-intensive undertaking.

Indeed, a key reason why the SEC put the MCDC program in place is presumably because the SEC determined that it could not justify expending the resources required to review these transactions itself. In the case of municipal bond issuers, significant state and local taxpayer funds are being expended by those governments participating in the program. In addition, issuers and underwriters are confused as to what constitutes material violations of information disclosure rules covered by the MCDC.

On July 31, 2014, the SEC announced changes to the MCDC Initiative. The SEC extended the self-reporting deadline for issuers and obligors, but not underwriters, from September 10, 2014 to December 1, 2014 and revised the civil penalty caps for certain underwriting firms. While we believe these changes were made in an effort to improve the program, unfortunately, the changes create additional conflicts between municipalities and underwriters seeking to participate in the MCDC Initiative. In the interest of fairness and efficiency, the SEC should further amend the program.

First, we urge the SEC to extend the self-reporting deadline for dealers to match the deadline for issuers. There is simply no justification for separate reporting deadlines. Giving dealers additional time to communicate with their issuer clients before self-reporting violations would promote cooperation and help ensure consistency in self-reports. Second, while amending the civil penalty caps for smaller underwriters is welcome, basing the penalty on gross dealer revenue from all sources, as specified in the July 31 release, does not appropriately relate fines under the MCDC to the sizes of dealers' municipal underwriting businesses.

Therefore, we urge the SEC to adopt a penalty cap structure under the MCDC which better reflects the relative sizes of the underwriting firms participating in the MCDC Initiative and is based on revenue derived from firms' municipal underwriting activity or, alternatively, revenue derived from firms' municipal securities business, which is a line item on FOCUS reports, subject to the overall cap of \$500,000 per firm as currently provided under the MCDC Initiative. Penalties based on the sizes of firms' municipal securities businesses would help ensure that fines are proportional to firms' footprints in the municipal market.

Due to the rapidly approaching September 10, 2014 deadline we respectfully request a response by September 5, 2014. We look forward to working with the SEC to address these issues and urge the SEC to take action immediately per the impending deadline. If these concerns remain unaddressed, then Congress will step in to provide relief to MCDC program participants.

Thank you for your consideration of our concerns, and we look forward to your response.

Sincerely,



Steve Stivers
Member of Congress



Kyrsten Sinema
Member of Congress

cc: Commissioner Luis Aguilar
Commissioner Daniel Gallagher
Commissioner Michael Piwowar
Commissioner Kara Stein
Andrew Ceresney, Division of Enforcement
Peter Chan, Division of Enforcement
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