Securities and Exchange Commission Historical Society
Interview with Lynnette Kelly
Conducted on April 4, 2014 by William Thomas

WT: This is an interview with Lynnette Kelly for the SEC Historical Society's virtual museum and archive of the history of financial regulation. I'm William Thomas, and the date is April 4th, 2014. Thanks very much for talking with us today. Could we start with a little bit about your personal background, your undergraduate and graduate education?

LK: Sure. And thanks very much for including me in the oral history project. I'll start with the fact that I was born in Lafayette, Louisiana, but raised nearly all of my life in Omaha, Nebraska. So, I'm an avid Nebraska football fan and still have family that live in Nebraska. I went to the University of Nebraska at Lincoln and studied urban studies, a cross-departmental major with classes including architecture, civil engineering, political science, and other liberal arts disciplines. That was in the late '70s, at that time when colleges offered different courses of study to take advantage of a student's varied interests across different courses of study. I was really fortunate to have what I think was a really great foundation in the complexity of public policy issues. I was very interested in urban design and urban planning. I had an internship with the Omaha City Planning Department, which I thought was just fascinating – it really gelled my interests in urban planning, finance and politics, and the public policy issues that surround these complex issues.

After graduation in 1981 I received a scholarship to attend Tulane University School of Law in New Orleans. I was very interested in going back to Louisiana – and at the same

time, getting out of Nebraska – for the continuation of my education. There was a particular professor there who was exceptionally prominent in the area of municipal finance, and I was very lucky to study with him. I would describe it as a melding of the practical world of public finance with the academic discipline of public finance.

WT: Had you been thinking about doing that from your experience at Nebraska?

LK: A little bit. When I went to law school I knew what I didn't want. I didn't want a career that was adversarial in nature. I didn't want a career working on issues that spanned years and years and years, like some litigation matters. I wanted to have a career where something good happened. I wanted tangible evidence of what I was working on. I wanted a career that, by and large, was a cooperative and goal-oriented arrangement, where people got together –to figure out the best way to make something happen, and three, four years down the road you drive past and you see the school or the hospital or the roads that you helped finance. And so I think it was probably a very natural progression that I found myself interested in public finance. I don't think I was that wise about the different options, or that calculating, but I'm very fortunate that it all pointed in that direction.

WT: So then by the time you were finishing law school – you got your JD in '84, I see.

LK: Yes.

WT: You had basically decided that was the direction you were going in from your experience with – what was the professor's name again?

LK: David Gelfand. Yes, absolutely. I had a summer internship at the law firm of Kutak Rock, a very prominent municipal finance firm. And during that summer I got a little taste, an inkling of what a career in public finance on the legal side would entail, and got the bug. And after law school, I started my career at Mudge Rose Guthrie Alexander & Ferdon, a firm that doesn't exist anymore but certainly at the time was considered to be the preeminent municipal bond firm in the country. Municipal finance law and law firm life was very different in 1984 than it is today, but the work opportunities and the different sectors that I was able to work in while at Mudge Rose were just phenomenal. And – again, part luck, part planning – I ended up in the right place at the right time.

WT: So what sorts of things were you working on there?

LK: That's a long time ago.

WT: Was it bond counsel or was it something else?

LK: Well, probably a third bond counsel work, two-thirds underwriters' counsel work, but in all sectors. As a young associate I really didn't have a clear view of how all the different pieces fit together, but I was doing bits and pieces of different kinds of transactions. I remember a lot of due diligence trips, I remember a lot of state authority meetings and

city council meetings, lots of drafting, and lots of processing documents. And certainly before the days of desktop computers – so probably three, four years before that technological revolution that transformed the law firm environment – I remember hours of hand marking documents and 200-page bond resolutions, and trying to figure out how the different pieces worked together. I remember lots of long nights at the printer, lots of weekends. But it was baptism by fire, and I got the opportunity to work really hard, but learn from the best. And, again, I feel very fortunate that I had that opportunity.

WT: And there were some big changes around this time in the municipal bond market and the regulation. Of course, the 1986 Tax Reform Act.

LK: Right.

WT: But maybe you can tell us a little about how it was different at that time and what sorts of changes were going on.

LK: I started in 1984. I think one of the biggest changes was that the largest issuers and the most complicated transactions, were generally staffed by a handful of large New York firms. Clients were clients for life. There was significant loyalty to your counsel and firm. I would say face-to-face meetings were still the norm, a lot more than conference calls. Certainly, there was much more of a direct relationship with your clients: and a real history and real friendships. I think that from the personal relationship level it was very different back then. Over the last thirty years, we've certainly seen a lot more

movement of bond counsel work to the larger regional firms, and these firms have developed an expertise in public finance. And that's due to many reasons - political reasons, wanting to give the business to people that are located in your state, the expertise that those firms have been building up - so that's a big change.

The second big change is about costs. As with all procurement contracts for state and local governments, cost is a major factor - public finance is not necessarily considered to be a very lucrative practice in some law firms. And so some firms have gotten out of the business, or devoted fewer resources to public finance – perhaps allowing the smaller regional firms to quote a lower rate for their work. So there are lots of reasons why there's been that shift.

Thirdly, there's been an incredible reliance on technology, which I think is good for everybody, but it also means that there's a lot more conference calls, fewer face-to-face meetings, a lot less continuity. So, you may have been the bond counsel for a particular issuer for the past 35 years, they might be doing a new issue in six months, and they might have just picked a different counsel for any number of reasons. So I think the relationship part of the business has probably suffered since I began my career.

WT: And then of course the regulations, the '86 Tax Act, 15c2-12 two years later.

LK: Right, very exciting changes in the muni market.

WT: Yes. How did that impact the practice?

LK: I remember very clearly how important it was to finish all of your transactions before midnight, at the end of 1985. People were working around the clock. And you really wanted to get those transactions done, obviously, because the new law was coming into effect. I think that the advent of SEC Rule 15c2-12 and the '94 amendments were a wakeup call for the industry, because, number one, somebody was paying attention. It was necessary. It was important. And I really commend the SEC for taking a leadership role with respect to disclosure.

But the muni market, because of low default rates and because of the buy-and-hold nature of many retail investors, was considered to be a very safe, somewhat sleepy market. And so with these new changes, obviously the market had to adapt, which is not something I think we were used to. So, the world changes and I think that the best underwriters and the best lawyers figured out ways to incorporate and adapt to the new requirements and still serve their clients well, but there was no question that it was a different era.

WT: And so did you stay then where you were until you went – I see you went to the Municipal Assistance Corporation?

LK: Right. Again, I look back at my career and I think that I've been really one of the most fortunate people to have had the opportunities I've had, but it was a somewhat random process. I was at Mudge Rose, took some time off when my son was born to be a full-

time mom for a couple years. During that time, some colleagues from Mudge Rose had started the New York office of Orrick, Herrington, again a tremendously successful municipal finance firm. When I went back to work I joined them at Orrick, Herrington, again working in municipal finance where I was able to learn from the best. One of our clients was the Municipal Assistance Corporation for the City of New York. And I think everyone knows that MAC was the very first example of a state stepping in and helping a local government in distress. That local government, obviously, was New York City.

Fast forward many, many years, and the infrastructure put in place for New York City as a result of its financial crisis has served it well. So New York City now has strict controls, high caliber financial stewardship, and really talented people that run their public finance area. At that time MAC was recruiting for a general counsel. I had familiarity with the team there, and was selected. I think there were a couple of real takeaways from the experience at MAC. One was the ability to use public finance experience as well as your judgment about any number of things. I think I grew as a leader and as a person tenfold, because I was given that opportunity to serve as MAC's general counsel.

The second takeaway was that our board of directors was comprised of the most senior, most well regarded people within the public finance community, within the City of New York, within the government structure, and I had the opportunity for the first time to work closely with a board of directors. And it was eye-opening, and it's something that has served me well as I work with our board of directors here at the MSRB. The

seriousness with which they took their responsibilities, the oversight role, the very difficult policy decisions that were made and I was able to really see that from the inside out. So again, a huge opportunity and great learning experience for me.

And then, as I look at all of the different financial control boards or different kinds of oversight entities that various states have employed for distressed communities throughout the country, in many cases they look very much like MAC, because it was a model that worked very, very well. So I'm quite familiar with that structure. I think it's very important to have that oversight authority, but it's certainly fraught with lots of political issues in that you take away some of the authority of elected officials. But, again, it is an interesting, innovative, creative, and necessary way to deal with some of these tough issues.

WT: What were some of the main activities and issues at MAC, fifteen years after the initial crisis?

LK: We did a fair amount of refundings of existing debt. A decision was made around that time that MAC would go out of business, that once the MAC debt was retired, MAC would cease to exist. A lot of public authorities are created for a particular purpose, with the stated intent that they will go away when their mission has been accomplished, but that rarely happens. But a decision was made that MAC would not issue new debt after the bond deals that we did when I was there, and that MAC would go away when its existing debt was retired.

And I remember going to the closing event when MAC ceased to exist, and it was quite a celebration because it existed for a very important purpose, it exceeded every expectation, it accomplished its mandate, and it went away as it was supposed to. So I think that that's a good lesson. I think that oversight boards and financial control boards serve a purpose, but I do feel like they need to be limited in their duration, depending obviously on the unique facts and circumstances of each case.

WT: So you were there until '93, and I guess that did, in fact, go out of business –

LK: Not in '93, but –

WT: Later. When was it, '96, '97, somewhere in there?

LK: Oh, you know, I'm trying to think. I think it was maybe in the late 2000's, but I'm not sure.

WT: Right. So you yourself went on then to Brown & Wood.

LK: Right. Brown & Wood was the bond counsel for the City of New York. And in my capacity as a general counsel of MAC, I dealt with all of the New York City and New York State officials, so I had a lot of familiarity with them when I went to Brown & Wood. I was a mother with a young child, so I joined as an "of counsel." But I got the

opportunity to work with Frank Robinson, who is considered one of the deans of the public finance bar as well as some of the other partners at Brown & Wood – again, just phenomenal experts in what they do.

And some of the clients that I worked on included the Commonwealth of Virginia and Fairfax County Virginia. I worked on several bond banks where smaller governments pool their loans and issues are done at the state level, so it allowed me to have a very different perspective working with very small local governments. So, I had, again, just additional kinds of experiences because the client base was so different.

WT: Is that pooling similar to what was happening in Orange County, or is that a totally separate structure?

LK: Totally separate. An example of a bond bank structure is where the bond bank would issue bonds instead of each little county or school district and it would be issued at the state level, so you would get a better rating and better efficiencies. The proceeds would be loaned to these local governments. However, diligence, documentation, a real understanding of the projects' tax issues and the like, would need to occur.

Having worked at an issuer, having worked as an attorney representing the different facets of the business, and then working at The Bond Market Association, which was an advocacy group representing the interests of the dealer community – I feel like I'm one of the few people who have had opportunities to immerse themselves and really understand

all of the different issues that come to bear during a bond transaction, issues that dealers face and issues that municipal issuers face. Obviously, there are a lot of different stakeholders in a transaction, so I think I have a very unique perspective, given this background.

WT: So you would have seen the growth of, well, first the MSIL system, and then the NRMSIR system from that side.

LK: Yes, painfully, painfully.

WT: Yes. Tell me a little bit about that, how that looked from the issuer side, from the underwriter side.

LK: Well I think you have to remember that most business was paper-based. Gosh, at one point, we didn't even have laser printers. So there's been a huge technological advance, so most people thought it was a good idea to ask issuers to file ongoing disclosures. The policy issues, the rationale, made perfect sense. I think issuers might disagree or have a different perspective, but I think for the well-functioning of the market it made perfect sense.

I think the execution was probably the best they could do at the time, but it didn't work. As you know, the NRMSIR system was a decentralized, paper-based, private-sector business, where issuers would FedEx their documents, or mail their documents in,

without any indexing. The NRMSIRs themselves would index the documents. Some did a better job than others. We do know that there was not a consistent collection amongst all of the NRMSIRs. We know that the indexing was different at each of the NRMSIRs, and we know that there were significant mistakes. It's a very complicated system with over 50,000 different municipal issuers.

So the NRMSIRs probably did as best they could, given the complexities of the market, but it is, I think – fast-forward to the creation of the Muni Council and then ultimately to the MSRB's building of the EMMA system –with that experience people in the business better understood that the NRMSIR system didn't work. But there was no technology at the time that would have created those efficiencies that EMMA does now. There was not a sense about who would pay for this, so to have a private sector company pay for it or run it – it was hard to figure out who was going to fund it. There were lots of issues that just made it very, very complicated, even though people I think went into it for all of the right reasons.

WT: Were you in the position where essentially you were one of the people who were helping issuers get the disclosure correct in this period of change?

LK: In some cases we had issuer clients who asked for our help to craft their disclosures and to file their disclosures. Some of the more sophisticated issuers did that internally. Some asked or relied on their financial advisor for help, or their bond counsel, so I have had some experience doing that. And I remember very clearly that you'd get all the FedEx's,

and you'd send them out, and you would keep evidence so that if there was ever a problem you would have evidence that something was filed. But you really had no idea what was going to happen on the other end.

WT: And was the new pay-to-play regulation, Rule G-37, was that something that came across your desk, so to speak?

LK: Well, obviously, when you're an attorney at any bond counsel firm you have to be very aware of new regulations. And I do remember there was a fair amount of real-time education about tax law changes or Rule 15c2-12 - anything new coming up, even things at the state level sometimes. G-37 would have absolutely impacted the dealer community, so I know that in-house lawyers and in-house compliance experts were very busy implementing policies and procedures, training and documentation to implement the new pay-to-play restrictions, so I think that the main burden fell on those folks.

There were also external law firms that were experts in federal election campaign issues or broker-dealer regulation, so they were probably called upon to help develop and implement these policies and procedures. As an underwriters' counsel, though, on a particular transaction it would not necessarily have been something that I would have dealt with hands-on, but we were all very aware of the change. Lawyers were hit up for campaign contributions in the same way that broker-dealers were. Frankly, everyone in the industry was, and it was a practice that evolved over time. Maybe there were plenty of innocent requests for contributions, but it certainly was a practice that reflected very

poorly on the integrity of this market. In some instances it was very clear that you don't get in the door unless you've made a significant political contribution, and that's just not the way you want people to feel like. The market is fair and transparent and that people get the work based on their ability, not based on a political contribution.

So it was radical, because of course it certainly has issues with free speech, political contributions and the like. It was challenged in court, so I commend the MSRB for taking a leadership position on this issue. You may know that MSRB Rule G-37 was the very first pay-to-play rule in the federal securities laws, and it is one that has been copied by the SEC for their Investment Adviser Rule, by the CFTC and by other regulators. So the very small, very focused MSRB was the leader in pay-to-play rulemaking, and it is something that this organization is incredibly proud of, as we should be.

WT: Okay, I wanted to come back to the question of consultants, because I know that that became controversial a little later on.

LK: Right.

WT: But first, why don't we discuss how you got to The Bond Market Association.

LK: Sure. When I was recruited to go to The Bond Market Association, they were looking for someone to run their municipal securities division. The Bond Market Association was the advocacy group for dealer interests in the fixed income markets, so they addressed

issues relating to corporate bonds, treasury securities, mortgage-backed securities, the repo market, and municipal securities. I had the right résumé. I was intrigued, because when you work as an attorney on transactions you're really working on the front end of the deal, you're putting the financing together, working with the issuer, you're getting the bonds issued, but you then move on to the next deal. You don't have the experience of knowing what happens next. What is secondary market trading like? What is the impact of secondary market trading on the issuer or a new issue of bonds coming up? What are the issues relating to how much capital a firm might want to commit to holding bonds in inventory? Clearance issues, settlement issues. It was the other part of the market– it's so much bigger than bringing the deal to market, and very, very complex.

So the intriguing part of The Bond Market Association opportunity was that I would be immersed in the totality of issues facing dealers in the municipal market, not only the frontend issues: pay-to-play rules, syndicate rules, relationships with clients, with their issuers, but also a tremendous amount of issues for the back end: sales, trading, operations, and compliance. And I thought that was fascinating, because I realized that while I had great training on transactional work, I didn't really have a clear understanding of the ongoing issues that impact the dealer community. So, again, I felt like it was the next logical step in having a grounding in the totality of municipal finance issues.

WT: So when you got there, what was on the table, were there hot issues?

LK: Well, the first step was trying to get a sense of the priorities of the dealer community. So, at that time, and I think it's true now, each of the heads of the Bond Market Association Municipal Division (now SIFMA) membership, which comprised a significant percentage of all the municipal finance dealers – so all of the big New York firms, many significant regional firms, and a number of smaller broker-dealer firms would be involved. The heads of underwriting, the heads of sales and trading, the heads of investment banking at these member firms, these were the leaders in the municipal finance business, and we would have meetings and every firm was represented. These were fierce competitors, but very committed to this market.

One thing to remember is that people could make a lot more money in other parts of the securities industry, but people in municipal finance were there for the right reasons. They cared about government, they cared about infrastructure, they cared about local government decision making and sound public policy. So the Bond Market Association would have these meetings of twenty-five people or so, each of whom was running a multimillion-dollar business, and were competitors as I said earlier, but sitting around the room and talking collectively about this market and the issues in this market, what are some of the challenges, what should we be focused on.

I think there was a misperception that an advocacy group just pushes back and tries to stop any regulation, any change or any new developments in the market, and I couldn't have discovered anything less true. I thought these people were incredibly constructive, and when there were proposed regulations the reaction was not do everything you can to stop this. The reaction was let's figure out the best way to solve the problem but in a way that

is the most cost-effective and effecient. It was just a very constructive, very cooperative process back and forth.

WT: They didn't want to suppress activities that were on the whole healthy.

LK: No, no. And if you talked to the people around that table about a pay-to-play rule, I think everyone – I wasn't there at the time, but I would imagine every single person said this is a problem, and we need to support the MSRB, and let's look at the words on the page, let's make sure that there are no unintended consequences. So I found my experience at The Bond Market Association eye-opening, and I was so proud to be a part of this business because I felt like the leaders in this marketplace were very constructive, and, again, wanted what was best for the market.

There were any number of operational issues. We looked at issues like standard documentation, so that if you use a standard agreement among underwriters, or a selling group agreement that everybody in the industry would be on the same page about what the document says, how should people conduct their business, how it works. So, not so glamourous, maybe, but certainly hugely important because the standardization creates significant efficiencies in the market.

I have files and files and files about all the different things we worked on. We tried to do a lot. We wanted to make sure that the regulators in Washington had access and knew the business people so that there could be effective communication between people on

the ground doing the business and the people writing the regulations. So, there was a fair amount of healthy, constructive dialogue. So that was really innovative.

When I was at The Bond Market Association we created what's called the Muni Council, and led to the creation EMMA. We got representatives from all the municipal market stakeholders: issuers, investors, bond lawyers, the advisers, the buy side, the dealers of course, really everyone who participated in this market. We really tried to tackle the issue of the NRMSIRs because it wasn't working. Technology had rapidly advanced to the point where we might be able to come up with a system where there was a central location for all of these disclosure documents, where access could be free, access could be from a desktop anywhere in the world. It was an exciting vision. There were lots of issues still, but this group met for years in an incredibly cooperative manner, to develop a framework for what a central repository would look like.

WT: Now, Ernie Lanza was mentioning to me that MSRB was only in the Muni Council itself for – it continued to consult with it, of course, but that it only was part of it for a couple of years, is that correct?

LK: Really for about a year. It was the MSRB that brought the group together. It was the group itself, though, that determined that there might be more open, more free conversation without a regulator in the room. So the group continued many years thereafter without the MSRB. But then the conversation started to turn towards what would a central repository of documents in the municipal market look like.

WT: And the first step was the Central Post Office?

LK: That's right, exactly, the CPO. There were some incredible leaders during that time period. First and foremost, an organization in Texas called the Municipal Advisory Council – it was a state-run information repository, so they had a significant amount of experience being the repository/clearing house for a significant amount of financial information for issuers in the state of Texas. They stepped up and developed the Central Post Office, for free, so it was the first time ever that issuers, instead of filing to all of the NRMSIRs, would file to the single portal and then from that portal the documents would be sent to the NRMSIRs. And the big difference was that the issuers themselves were asked to index and categorize what they were filing.

So when you have the creator of the document filling out the information to properly index the type of transaction, the data quality goes up exponentially. So not only were we able to ensure that all of the NRMSIRs got every document, we also were able to ensure that they got the indexing information directly from the issuer. That was absolutely a huge interim step, very important, but also the quality of information in the existing NRMSIR system just was so much better. By that point I think we were down to three NRMSIRs. We had started, I think, with nine private companies wanting to get into that business. I think pretty early on they realized how expensive it was, how cumbersome, how difficult, and so slowly companies started getting out of the business.

WT: So, in your time at TBMA, was this the first time that things like yield burning, later bid rigging, Miami and San Diego, things like that, the controversies came on to your radar?

LK: Well, it was probably just a continuation of more focus on the municipal market. So of course you had Orange County – WPPSS was earlier on in my career –you had some very high-profile issues, defaults or near defaults. And I think it also was a time where the media became a lot more interested. And remember, for the first time ever, documentation became available, so taxpayers, academics, the media – there was more access to information – also became aware. So there was a steadily increasing focus on the market, and again, from the newspapers, from the regulators, from enforcement agencies, even from states attorneys general.

I think most people thought that was great. I think that there was some frustration that – and you hear it today too, you can't open the paper without hearing about Detroit and all the problems – but the reality is that a significant percentage of municipal bond deals operate exactly as intended. The issuer gets access to low-cost capital, investors are very happy with tax-exempt income, the market works great, the bond proceeds are used as intended, but that's not an interesting headline. And it's also true with Capitol Hill. When you're focusing on the outliers it's important to remember that in general the market works exceptionally well.

WT: So there were also more complex products in this time: derivatives, auction-rate securities.

LK: Right.

WT: Could you tell me a little bit about your perspective on that?

LK: At that point we monitored new products and new structures, so there were tender option bond programs, certainly different kinds of products, the SPDRs for example. And every product had an acronym. There were auction-rate securities of course. Some people don't know this, but so many innovations that we see in the broader financial markets had their roots in the municipal market. Securitization, for example, really started in the municipal market. So it is a very, very innovative market. The people in this market are wickedly smart and innovative, and you have to be because you're dealing with fifty different states, fifty different state constitutions and laws and ordinances at the local level. So there's no such thing as a cookie-cutter deal. Every deal is very unique to the needs and the legal issues for that particular jurisdiction. So, given that, people have to be very innovative.

I would say that the auction-rate securities, for example, certainly served a purpose. I think that the problem was that there was not a clear understanding of whether or not the dealer would be providing liquidity for stress situations, and there was not enough disclosure about what would happen if rates moved in one direction or the next, or if you couldn't get enough buyers on the reset date. So it's like anything, right, it works great until it doesn't, and so I think that the expectations or the lack of clarity in the disclosures

was a real problem. I think that there are plenty of examples where there were misleading disclosures from the dealers to the issuers and to the investors. Some customer statements actually listed auction-rate securities as cash equivalents, which means that they're immediately able to be liquidated. That obviously wasn't the case.

So I think that the system worked as it should. There were issues, there were problems, these issues were brought to the attention of the state and the federal regulators and there were a significant number of enforcement actions and settlements. Investors were made whole to some extent. I think it's a good lesson to really understand what you are doing and be aware of the risks. I think the same thing with derivatives. I think they're an incredibly useful tool for people that understand them. I think that they were oversold. They were sold with less than complete disclosures, and they were sold to issuers who were not in a position to withstand significant interest rate movements.

So what you've seen, though, is a reaction to those crises, both with the SEC and the MSRB – so not only in terms of enforcement actions but you've seen a lot of new rules addressing those past issues. Our Rule G-17 now requires dealers to make certain disclosures to their issuer clients, all the risks of the transaction – what is their legal relationship to the issuer, how are they getting compensated – so that the issuer has the totality of information necessary to make an informed decision. I think it's important to remember that the dealer is not the guarantor of the transactions. If they are misleading the issuer, if there's illegality, if there's corruption, those are all obviously criminal activities or actionable rule violations, but issuers do make bad decisions sometimes. But

it's incumbent upon the dealer to make sure that issuers have all of the information necessary.

And that wasn't necessarily the case fifteen years ago, but it is very much now. So the compliance function to insure that that you have documented all the different disclosures you're making to the issuer, really making sure that the training of your investment bankers is at the very highest levels, is really prioritized today. I think that the tone of that relationship between the dealer and the issuer has gone from being more friendly – "Hey, Joe, how are you doing?" – to one with many disclosures. Do you understand what this transaction is or what this new product is? Do you know the nature of our legal relationship? You have to go sometimes to the highest elected official or very senior people within the state or local government to make sure that you have appropriate signoffs. There are a lot more safeguards put in place because of these derivatives and auction-rate securities problems. These new safeguards have impacted the market in a positive way.

WT: I think we'll try and get into the shift over to MSRB, but there would have been a couple of issues, I guess, where you'd have an interesting perspective on either side of that divide. First, the consultants and the decision to amend G-38 to ban them. Kit Taylor was telling me a little bit about this a couple days ago, but we left it on a bit of a cliffhanger because we were getting ahead of ourselves.

LK: Right.

WT: And then of course the current issue of the day, the municipal advisors.

LK: Sure. Kit is the expert on G-38, and he was certainly in the thick of things during all those conversations. It's complicated, and we are currently working on a pay-to-play rule for municipal advisors and all of these issues come up again. We are approaching the twentieth anniversary of the pay-to-play rule, so we plan over the next several years to take a comprehensive look at that rule. There have been recent court decisions, there's been a lot of other pay-to-play regimes in other markets, so it's certainly time to look at that rule – what works, what needs to be updated, how we can give appropriate guidance to the dealers – and then of course at the same time constructing a rule for municipal advisors that take into account their unique fiduciary duty that they have to their issuer clients. So there are definite differences between municipal advisors and dealers, and the rules have to reflect those differences.

WT: Now, in the consultants, of course TBMA, and then SIFMA of course, was against the ban, is that right?

LK: I think that's right but I have to go back to my records. I think that the consensus of the group at that time was that there isn't a clear connection between consultants and the making of campaign contributions, and that consultants in some areas or in some ways provide an appropriate level of service to the dealer, but let me defer to Kit on that.

WT: All right.

LK: Thanks.

WT: Okay, so why don't we talk then about your coming over here to MSRB. Of course, Kit had been here for nearly twenty-nine years. It was a big transition.

LK: Right. He was a tough act to follow. At the time, when I mentioned the leaders in the industry who were the members on the Municipal Executive Committee at The Bond Market Association, those are the same people who serve on the MSRB board of directors: leaders in the industry, people with high, high ethical standards. And so, when they were recruiting for a new executive director, I was a known quantity. I had been living in New York. I had no desire to move to Washington. I certainly was very interested in who they were going to pick but I was not interested at all, and then got a steady stream of phone calls from people who said, "You should think about this, you'd be really good at this."

I got a call from the headhunter that they had retained and with every phone call I got just a little bit more interested, a little bit more. I think it was a period of maybe six months where I went from not the least bit interested to being very, very interested. I started interviewing with the headhunter. I think that there were many, many incredibly qualified people interested in this position. I met with the board of directors, or the search committee of the board, and was offered the position in April or May of 2007 and

I started in June. So it was a whirlwind, relocating my family and moving to D.C. is complicated, but I've been here since June 2007. I pinch myself every day to have this opportunity to work at the MSRB with an amazing, dedicated, smart group of colleagues and be in a position to impact the market in a very positive way.

WT: Dodd-Frank is obviously a huge watershed, so tell me a little bit about the run-up to that, and then the aftermath.

LK: I would say when I look back at my time here I really feel very proud of certain initiatives and activities, but Dodd-Frank I think was a significant turning point in the history of the MSRB. We had previously only had the responsibility to regulate dealer activity, and under Dodd-Frank we now have the responsibility to create a regulatory framework for municipal advisors. These folks were previously unregulated, so it is such a rare opportunity to create something from whole cloth in a system that works for a very diverse group of professionals, a very unique group, people with a very specialized skill set. And so, how do you follow the congressional mandate in Dodd-Frank and create a regulatory structure without having people leave the business, without the regulatory framework being unduly burdensome. So it's a very delicate balance, and not many people have that opportunity, and we do here at the MSRB, so we are taking it very, very seriously.

WT: People have given you quite a lot of credit for getting EMMA over the hump at the last gate.

LK: Well, I'll tell you that the Muni Council was the group that conceptualized what EMMA would be, but there was no one to pay for it. And when we estimated how much it would cost, it was millions of dollars every year. So there was no one to pay for it, and then, when I got to the MSRB, at the same time we had a chairman who also was on the Muni Council, Frank Chin of Citigroup, who is really considered to be one of the very best investment bankers, very best leaders in the industry. He really cares about this industry, and he was really the primary driver of EMMA. He was able to bring this idea to the MSRB board, he was able to describe it, conceptualize it. He was able to get the board behind the development and the funding of the EMMA system, and he is the person who deserves all the credit.

But I can't tell you how exciting it is. It is the only system in the securities market that combines primary and secondary disclosure documents, , trade data, market statistics, interest rate resets, the entirety of municipal market data in a centralized location, available for free. That doesn't exist anywhere, and we are so proud of our system, and it has quickly become so integral to the workings of the municipal market. It's just surpassed every expectation that we could have ever had for it.

WT: How was the implementation process, did that go smoothly, roughly?

LK: Oh, a lot more expensive than I thought it would be. And I have to give Ernie Lanza credit, because he was our internal person who really led the development of EMMA.

We started with a pilot, with just primary market disclosure documents. We added other features slowly, and so it was built and launched in a way that was very systematic, very methodical. There was a significant training component to it, because you've got to train not only the dealers, but the issuers, because they were filing their secondary market disclosures, as well as training for the users of EMMA. Our collection now is almost five years old. We have a help desk, so we're open a significant number of hours to take calls. We can walk people through it. We've got investors. Again, it has surpassed every expectation. We initially thought that only market participants would use EMMA. And we've found that taxpayers, the media, academics and the types of people who look at the data in EMMA is really staggering.

And another thing we have found is that the MSRB and the EMMA system has become a resource for policymakers elsewhere in the federal government, as well as state governments. So, we will often help a state government, for example, to manage the issuers of debt within their state and to fulfill their oversight responsibilities for these local jurisdictions– so again creating a much healthier municipal market.

We have been a resource to the Congressional Budget Office, GAO, other federal government regulators as well as policymakers and think tanks. We are a tremendous resource to explain how the market works, to share the data with them, to analyze the data with them. We've got a great research area, great data analysts. When you base decision making on data it's pretty powerful and we are the resource for all muni market data.

WT: Now I don't think we have anyone else on our interview list who can tell us much about the new version of the SEC Office of Municipal Securities, so perhaps I could nominate you to introduce us.

LK: Sure. Well, of course you know Dodd-Frank required that an Office of Municipal Securities be formed at the SEC, and that this office have a direct report to the SEC chair. So, again, it's elevating the municipal securities market within the SEC to a much higher, much more prominent position. It took a little while for them to get that new office off the ground, I think because they were looking for the perfect director of that office. They found that perfect director with John Cross, and he has spent the last year building an exceptional team of professionals . Their first task was the promulgation of the municipal advisor registration rule – very complicated, over 750 pages, and again, controversial, complicated – and they've done a nice job of trying to provide clarity on some of those issues where they can.

The SEC last year put out a report on the municipal securities market, and there are a significant number of recommendations that the SEC put forth, and so John is looking at that report and looking at ways to implement some of those suggestions. And they are also responsible for overseeing the activities of the MSRB, including our rulemaking proposals. You might know that all of our proposed rules have to be approved by the SEC, so they are primarily responsible for that review and approval process. So it's been great. We have the chairman of the SEC come speak to our board every year. She is

very interested in our market, as have other SEC chairs, so I think we're in a sweet spot. We get a lot of attention. The market is acknowledged to be hugely important, very worthy of focus and attention and resources. And I think that the partnership between SEC and MSRB, with other regulators who care about the market is in a very healthy position right now.

WT: Okay, I know our time is limited and we're coming up to the end of it so I guess I'll just ask if you have anything else to add before we conclude.

LK: When I look back at my tenure I think that the MSRB is run very efficiently. We are good stewards of the resources that the industry has entrusted to us. I have phenomenal colleagues. We're about 110 people, which by Washington regulatory standards is tiny, but the amount of exceptional work that comes out of this organization is something that I'm very proud of. Obviously, EMMA is the highlight of my career here, and I couldn't be more proud of that, and we have big plans for EMMA. Its utility and the opportunity to add more functionality and more products that is really limitless, so look for EMMA to continue to be a resource for folks.

Another thing that I'm very proud of is our SHORT system. We are the first regulator to make available interest rate resets on the short-term part of the market, so another example of where innovation in the municipal market leads other markets. Obviously, we talked about municipal advisor regulation and the importance of doing that right.

We're moving methodically and responsibly and really trying to get as much industry input as we can.

Another thing I would highlight is that I think our relationships with FINRA, the Federal Reserve, FDIC, the Comptroller of the Currency and the SEC, those regulators that enforce our rules for their regulated entities are very positive and constructive. These relationships require close coordination, and we provide a very significant amount of support to make sure that our rules are enforced vigorously and appropriately.

I don't think I have anything else to add. We're really excited that, as we approach our fortieth anniversary next year, we are working with the SEC Historical Society on municipal securities programming. We think it's hugely important. We think there's a treasure trove of history in our market, so we're very excited about making that available to everyone.

WT: All right, well, thank you very much.

LK: Thank you.

[End]