I thank PSA Chairman Fenn Putman and President Heather Ruth for organizing this timely forum.

Several weeks ago, when I agreed to appear before you this morning, I thought I'd talk a bit about the past year, and how tough it's been for the muni market. Now, I'm sure many of you are thinking about the past week -- and it's not even over. You'll understand that I've put aside part of my prepared text to make a few observations about recent events.

One thing that never fails to impress me when American capital markets hit a rough spot is the strength and depth of those markets. This week, a 20-billion-dollar issuer encountered a problem. It is a significant problem, and it may cause grief and loss to many.

But our markets have been tested before -- and they will surely be tested again.

Problems will be dealt with, risk will be spread, plans will be developed to recoup losses. No other market in the world could have absorbed such a shock.

Investors deserve credit for refusing to panic -- they've shown justifiable confidence in our markets. And when the final chapter of this story is written, I expect that market participants will receive their share of credit as well.

Managing other people's money is a huge responsibility -- whether a family, a county, a state, or a nation. There is a very human and personal side to this business.

An investment bank or broker-dealer firm may reside in a stunning tower of steel and glass, but it's still called a "house"; it may be located anywhere on the face of the Earth, but it's still on the same street -- Wall Street.

When there's commotion in their house, responsible people don't run for the door. When there's trouble on the street, responsible neighbors don't lock their doors.

By and large, firms are in this business for the long haul; they want long-term relationships, and they build for them. I would hope that a balanced and calm approach to the problems in Orange County will continue.
This is an industry in which businesses cannot long survive without a fairly high level of responsibility -- indeed, firms profit only by accepting huge responsibilities and risks.

And when it comes to handling the people's money, there's plenty of responsibility to go around. I learned something about this from my father, who was New York State Comptroller. Twenty-one years ago, he released a study that examined the state's debt obligations. The report emphasized the enormous power that governments wield when they issue debt -- in effect committing taxpayers' dollars for years into the future. It emphasized the tremendous ethical responsibility borne by issuers of municipal securities.

And it concluded that "debt is at the same time one of the most important of the fiscal mechanisms available to government -- and one of the most vulnerable to misuse."

Today, the SEC is keeping a close eye on those vulnerabilities. We've been working to hold the municipal market to high standards, because the enormity of its power demands that it operate with complete honesty and integrity. And I'm gratified that the industry has worked with us every step of the way to enhance investor protection.

This pattern of industry cooperation holds true not just in the municipal market, but in all of our initiatives. When I first came to the Commission, we set four priorities for the agency: enhancing investor protections; reforming the debt markets; raising the standards of practice for brokers and financial advisors; and strengthening the international pre-eminence of U.S. capital markets. Let me just mention just a few of the things we've been able to accomplish by working together:

- The Commission was concerned about "pay-to-play" in municipal bond issues; the industry came up with a voluntary ban on political contributions, codified in MSRB Rule G-37.

- The Commission expressed misgivings about the adequacy of municipal securities disclosure in the secondary market; an industry and issuer group -- led by Jeff Greene, with Penn Putman a very active participant -- offered recommendations that served as a template for recent amendments.

- The Commission expressed apprehension about personal trading by mutual fund managers; the Investment Company Institute quickly developed guidelines to prevent abuses.

- The Commission sought greater transparency for municipal bond prices and mark-ups; the PSA and MSRB have stepped
forward with several creative proposals.

• The Commission had questions about over-the-counter derivatives; the industry formed a panel, ably chaired by Gerry Corrigan and John Heiman, to come up with answers.

The same pattern of cooperation holds true for any number of investor protection goals we've identified: Clearer prospectuses. Better broker education, and a new look at compensation. Protection of shareholder voting rights.

In each case, we've looked to the industry for an answer; in no case has the industry failed to respond. Although not every answer has been precisely the one we envisioned, partnership involves both give and take -- and on balance, together, we've done much to protect the interests of investors.

And there's never been a greater need to protect investors, with the extraordinary popularity of two investment products: mutual funds and tax-free municipal bonds.

In 1980, 1 out of 16 American households owned mutual funds; today it's 1 out of 4. These versatile instruments are almost single-handedly responsible for a new economic fact of life in America: For the first time in our history, investment company assets, at around $2.4 trillion, have surpassed commercial bank deposits. We've gone from a nation of savers to a nation of investors.

A similar pattern holds true for municipal bonds. A decade ago, individual investors held about 45 percent of outstanding municipal securities; today, that figure is 70 percent. This is a huge market, now worth a total of about $1.2 trillion. It is a market of critical importance to our nation's infrastructure. It represents the schools that teach our children, the water we drink, the power that enhances our lives and drives our economy, the roads that take us where we want to go. Yet many practices in the industry are more appropriate to the market of the past, which was dominated by a small group of mainly institutional investors, than to the market of the future, which is clearly moving in the opposite direction.

I guess if I had to sum up the key thing I want to communicate today, it would be that bringing the municipal market into the late 20th century is in the interest of us all -- investors, dealers, issuers, and the taxpayers whose hard-earned cash provides the revenue that stands behind it.

It's no secret that the bond market has taken a bath this year -- one of the worst in its history. The reasons for this have to do with rising interest rates and declining local
spending. And the bad news coming out of California certainly won't help -- as we saw with New York City in 1976, and the Washington Public Power Supply System in 1983, bad news can quickly taint public securities with private insecurities.

We survived those crises -- and we'll survive this one, too. But it's clear that we've got to continue to do everything we can to make this an honest, open, liquid, investor-friendly market, and also to ensure that it is perceived as such. Eliminating "pay-to-play" is an important step along the way. We can't afford even the shadow of a doubt about the industry. And the best way to keep the municipal market trouble-free is to serve the interests of investors -- whether individual or mutual fund investors -- above all.

Investors need a liquid market; what could possibly serve that cause better than last sale reporting for actively traded bonds? The events of the past week have shown all of us how difficult it is to "see" the muni market.

Investors want a fair price; they need to know what that is.

There are also things that investors don't want, and one of them is surprises; what could possibly reassure investors better than a system of ongoing disclosure?

We began that process with an interpretive statement on disclosure obligations in March. We continued with the adoption of rules this fall. I believe that full, accurate, and timely issuer disclosure also should be -- and will be -- the most important municipal bond sales tool to come along since tax exemption.

The bottom line is that the SEC and the industry have common interests -- because what is pro-investor is also pro-investing. In a recent Bond Buyer editorial entitled "Coming Out of the Dark," John Allen wrote, "Slowly but surely municipal bonds are joining the rest of the world, and that's good news for the long-term strength of the muni market." He clearly knows where we're coming from. We need to do our work now.

In the course of just one year, a quiet revolution has already taken place in municipal disclosure. G-37 was a remarkable achievement, and we're going to continue to move against any vestige of "pay to play," especially attempts to use lawyers and lobbyists to skirt this law. But there's much more work to be done before we can claim that, in the municipal market, the interests of investors come first.

We aim to continue -- and, with a little luck, and lots of hard work, perhaps even to conclude -- the Commission's 20-year effort to let light into the municipal market. In the spirit of
our continuing partnership to improve the industry, let me tell you what we expect to focus on in the year ahead.

With issuers now set up to report material information and events, it's time for dealers to step up to the plate with better, more public, and more current reporting of prices. Transparency seems to be on the right track; we'll have a better idea in January, when the MSRB pilot begins and the PSA gathers proposals to make prices more readily available.

In May, we'll revisit the question in light of the progress that's been made until then. And one month later, in June, we'll arrive at another milestone with the implementation of T+3 settlement. We'll need to work together closely to find cost-effective, efficient approaches to T+3.

Throughout the year, we will continue to focus attention on the derivatives market and the use of leverage. We need to ensure that all participants in this market have good internal controls and risk management procedures. We need a better framework for disclosure and better accounting procedures for intermediaries and end-users. More than anything else, we'll need to work together to make this market safer and more efficient.

We expect to be working together on many fronts. Under the recently adopted amendments, dealers must have their systems in place to monitor material event notices by the end of the year. The Commission's staff is prepared to help you and the information services with interpretive advice and guidance as you develop those systems.

As the stream of annual financial information begins to flow from issuers, you will need to make adjustments to take that information into account when advising your clients. A dealer's obligation to ensure suitability is the closest thing we have to a sacred promise; without access to information about the issuer, however, it can be a hollow promise. We want to preclude that possibility, from hereon out.

The priorities I've outlined all focus on the needs of investors because, in the long run, the interests of investors are the interests of the market -- and, lest we forget, of the taxpayers who fund that market. Having come to the SEC from Wall Street, I know how true that is. And that knowledge and experience inform everything I do as Chairman.

I believe deeply in this industry and in its power to do good. I believe in the future and resourcefulness of the markets and the people in them. My most heartfelt goal is to help make our markets better, and the professionals who work in them prouder.
That's a goal that the PSA and SEC share -- but it's a goal neither of us can reach alone. For the sake of your firms -- for the benefit of investors -- for the good of our markets: let's continue on the road to reform -- indeed, let's do even more to get there in the year ahead than in the productive year just past.

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