When I came before you almost one year ago, I spoke frankly of the changes that were afoot in our debt markets. I told you that my tenure as Chairman of the SEC would be characterized by two overriding concerns: protecting investors, and improving the way our debt markets serve investors.

As the Commission launched its agenda of reform for municipal finance, you raised a number of concerns.

You wanted to know why we had embarked on a crusade when there was little evidence of problems.

You raised the specter of an intrusive federal government, invading state turf without regard to cost. Some even attempted to characterize disclosure requirements as an "unfunded mandate."

You were right to ask questions: A year ago, no General Obligation bond of a major issuer had ever approached the default line; a year ago, no "pay-to-play" operative had ever been caught with a hand in the public cookie jar; a year ago, the municipal market had never experienced the volatility we were to witness in the spring and fall. And a year ago, Congress had little interest in federal regulation of municipal debt.

What a difference a year makes!

Last year, my message to you was that we needed to raise the standard of practice in the municipal debt markets. State treasurers, above all others, understand that the more the public comes to view our markets as open, forthright, and fair, the more we will be able to use those markets to finance our vital infrastructure needs.

When we met last March, the Commission was just a few days away from issuing a series of major proposals; action on MSRB Rule G-37 was pending; and investigations into pay-to-play and other unsavory practices were underway.

As you well know, the Commission has acted on those proposals:

- We issued an interpretive release on disclosure obligations and we reminded municipal issuers that the antifraud provisions apply to their statements that can be reasonably
foreseen to affect the secondary market for their securities;

- We adopted revisions to existing municipal broker-dealer rules to facilitate better annual disclosure of financial information, as well as timely disclosure by issuers of material events that affect the value of municipal securities;

- We have been an active participant in discussions with the MSRB and the PSA to create, for the first time, a system of market transparency for the municipal bond and other debt markets; and

- We approved MSRB Rule G-37, outlawing "pay to play" practices in the municipal bond market.

We did all these things because the municipal market, formerly dominated by institutional investors, had been transformed into an individual investor market, without the protections the public requires: disclosure, transparency and the assurance, as far as possible, of integrity in the offering process. It's an enormous market, where outstanding issues now exceed $1.2 trillion -- 76 percent of which are held directly or indirectly by individual investors, as compared with 44 percent just a decade ago.

With these initiatives, we have meaningful new tools that will allow the Commission to seek the very highest standards in bringing public debt to market.

You've been our partner in the raising of standards. This past summer, you undertook important initiatives aimed at many of the same concerns. You called for disclosure of agreements between financial professionals for negotiated transactions; meaningful campaign finance reform legislation at all levels of government; and the disclosure, at an appropriate state agency, of contributions made to state treasurers. You also adopted standards of conduct for your members.

These measures aim to preserve the strength and integrity of the municipal market. They are proof of our common interest in a fair, vibrant, and efficient market for the debt issued by your states and all their subdivisions. A market that enjoys the full confidence of taxpayers and investors alike. A market where decisions are based on merit and cost, without even a hint of conflict of interest or impropriety.

I am mindful also of the role state treasurers played in formulating amendments to Rule 15c2-12, to reduce the impact of the new secondary market rules on small, infrequent issuers without diminishing the goal of improving the flow of
information. The final rule is in many ways the product of an unprecedented partnership between regulators and the marketplace. Your thoughts and concerns were a vital part of the process.

As much as the past year has raised concerns about municipal finance reform, it is likely that in the year ahead, both of our agendas will be dominated by those concerns.

On December 6, 1994, Orange County, California, and the "Orange County Investment Pools, an instrumentality of the County of Orange," filed for bankruptcy under Chapter 9 of the federal Bankruptcy Code. These filings began the largest municipal bankruptcy in our nation's history. The full effect of these proceedings may not be known for some time. Today, however, we can safely say that the consequences are broad reaching, affecting not only the citizens of Orange County, but possibly even residents in your states, as taxpayers and bondholders.

The bankruptcy of a local government with a double-A credit rating and a substantial amount and diversity of outstanding municipal bonds presents a host of important issues. Many of the provisions of Chapter 9 have yet to be interpreted. Furthermore, the approximately 187 local agencies invested in the bankrupt Pools also are, in many instances, issuers of municipal bonds. Decisions affecting deposits in the Pools by local agencies may have an effect on holders of their municipal bonds. There may be ramifications in your states from these decisions, which will concern the community of municipal bondholders as well.

The Commission has exercised its statutory right to enter an appearance in the Orange County bankruptcy proceeding, so we can monitor the legal proceedings related to liquidation of the securities. We will take action as appropriate to ensure safe, orderly markets.

Since the beginning of this year, I have been called to Congress twice to speak to the state of regulation of the municipal market. I understand that more such appearances are expected.

You will be interested to know that last month, when speaking to Congress about our municipal initiatives and the prospect for additional legislation, I said that the Commission's municipal disclosure initiatives were quite recent, and the rulemaking will be effective for offerings beginning in 1995. I suggested that Congress may wish to assess the efficacy of these initiatives before considering any legislative action to change the largely exempt status of municipal securities under the federal securities laws -- because such action would have profound effects on the municipal bond market and, given the 52,000 issuers of municipal securities, could require significant resources to administer.
On the same occasion, I expressed reservations about possible federal regulation of state and local investment pools and practices. I said that "the Commission generally does not have, nor does it seek, the ability to regulate investment decisions by municipalities or other end-users of securities. Investors seeking higher than average returns generally undertake higher than average risks. That decision generally should be made by the investor. In the case of state and local public instrumentalities, investment decisions should be made with the guidance and oversight of state and local governments."

We were not surprised to see similar thoughts expressed in your own testimony before the Senate on the day following ours. The truth is, in most areas of state and local finance, we share common ground.

Nevertheless, legislation has been introduced in Congress that would remove the exemption from the registration and reporting provisions of the securities laws for state and local government bonds.

Many alternative scenarios have been painted, from requiring audited financial statements from municipal issuers, to providing the SEC with direct statutory authority to set disclosure requirements; from imposing civil liability on those who sell municipal securities by means of material misrepresentation, to rescinding the exempt status of municipal bonds under the securities laws.

But we don't need new tools, as much as we need to utilize those we already have. Your voluntary efforts with the GASB, for example, to strengthen accounting standards or to improve the provision of continuing financial information, would surely help you keep the initiative.

For my part, I repeat my belief that Congress should assess the efficacy of the Commission's disclosure initiatives before seriously considering legislative action to change the exempt status of municipal securities issuers under the federal disclosure laws. The impact of these disclosure initiatives should be measurable in early 1997.

Whether or not these steps fall short will be determined by many of you in this room today and your colleagues in state and local governmental finance offices around the country. The President's Working Group last month convened government finance officers from around the country to discuss ways to provide greater protection to public funds. I offer whatever assistance the Commission can give to your efforts as you address these issues. This is an area where uniform practice makes sense. I recognize that NAST has been a leader in developing guidelines
for state and local investment practices, and I commend your efforts to keep them up to date to reflect market changes.

You have a key role also in looking at better procedures and oversight mechanisms for municipal end-users of volatile instruments and derivative products. There is much that can be done to provide guidance to both sophisticated municipalities as well as to the proverbial "widow and orphan" municipalities.

There is also the continuing question of how lawyers, consultants, accountants, and other professionals are selected, and attempts to use them to circumvent the new rules.

My friends, there has hardly been a better time to bring about major improvements in the municipal bond business. Investors are paying closer attention now, they are kicking tires in ways they never did before. Sooner or later, the market will bounce back, stronger than ever. You'll be better able to market your debt if investors can be sure that your disclosure is up-to-date and not hiding any unpleasant surprises; and if they are confident that there are no conflicts of interest involved in the selection of underwriters.

I hope it's evident that the SEC is deeply committed to strengthening the municipal bond business. To us, this thriving market represents much more than money -- it represents the schools that teach our children, the water we drink, the power that drives our economy, the roads that take us where we want to go. It represents the faith of our taxpayers and the future of our communities. This market deserves the highest ethical standards and the lowest regulatory burden.

It seems to me that the best way to achieve that is to talk less about "turf" and more about common ground. I hope I've done that today -- and I hope we continue to do so in the months ahead.

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