REGIONAL BOND DEALERS ASSOCIATION

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April 21, 2008

Mr. Justin R. Pica
Uniform Practice Policy Advisor
Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, VA 22314

Comment on MSRB Notice 2008-15

Dear Mr. Pica,

The Regional Bond Dealers Association (RBDA) is pleased to comment on the Municipal Securities Rulemaking Board's (MSRB's) Notice 2008-15, the proposed Plan for Increasing Information Available for Municipal Auction Rate Securities. The RBDA is the association of regional securities firms active in the U.S. bond markets. Many regional bond dealers participate in various ways in the market for municipal auction rate securities (MARS).

Clearly, the market for MARS has experienced considerable stress and disruption over the past several months. This disruption was sparked by concerns over the standing of certain monoline bond insurers, but it has its roots in the overall credit markets correction that set in in 2007. Many hundreds of MARS auctions have failed, and liquidity for MARS has all but dried up. Many investors who want to sell MARS are unable to due to lack of liquidity, and many issuers have been forced to pay onerous penalty rates due to failed auctions. Dealers who would like to provide liquidity to the MARS market are prevented by an inability to finance positions in MARS.

Since the downturn in MARS, the market for MARS has shrunk significantly. Tens of billions of dollars of MARS have been taken out of the market as states and localities and conduit borrowers have refinanced their debt into more stable products.

The MSRB's proposal outlined in Notice 2008-15 represents a reasonable response to the problem of a lack of transparency regarding the conduct of auctions in the MARS market. We believe a system like the one outlined in Notice 2008-15 would have helped issuers, investors, dealers and regulators better understand the downturn experienced by the MARS market over the last several months. In the current environment, however, we question whether a system like that outlined in Notice 2008-15 is warranted.

Many but not all our members believe the disruptions experienced in the MARS market this year have exposed fundamental weaknesses in the structure of auction-rate securities that will make the product unattractive to both issuers and investors going forward. Many firms believe that the MARS market will continue to shrink in size and that MARS will disappear over time. These firms also believe that few or no new MARS issues will be sold in the future. This view is also held by a number of active participants in the MARS market.[1]

This fundamental weakness in the MARS product is not a result of a lack of transparency in the auction process and cannot be cured by enhancing transparency. Rather, the weakness in the product stems from a lack of a hard liquidity facility for MARS investors. As recognized in Notice 2008-15, MARS are designed so that the periodic auction process provides the principal means for investors to sell MARS in the secondary market. Failed auctions represent a loss of liquidity. While in some cases dealers try to provide "last resort" liquidity to MARS investors, they have no obligation to do so. Unlike other products designed to behave like money market securities such as variable-rate demand notes and tender-option bonds, MARS generally do not have a "hard put" facility attached to them. The lack of a put facility means that investors are dependent on market demand to sell their securities. Given the experience of recent months, the lack of a liquidity facility means that the product will no longer be an attractive choice for issuers or investors. Another factor contributing to the market's waning interest in MARS is the fact that many issuers hedge their floating rate exposure on MARS transactions using interest rate swaps based on the SIFMA Municipal Swap Index. However, that index is based on yields on variable rate demand notes, and those yields have diverged significantly from yields on MARS over the past several months. This divergence makes it difficult for municipal issuers to effectively hedge their MARS floating rate exposure.

Given that the MARS market is shrinking and will eventually disappear, we believe an investment by the MSRB and market participants in a system to enhance transparency for this product is not warranted. While the system outlined in Notice 2008-15 likely would have smoothed disruptions in the MARS market over the last several months, it simply does not make sense to invest resources in a system dedicated to a disappearing product sector. If we are wrong and there is a resurgence in MARS issuance, we would be supportive of a system like the one outlined in Notice 2008-15. If the MARS market continues to shrink, however, we believe the MSRB's and dealers' resources would be more productively directed to other initiatives.

We appreciate the opportunity to present our views. Please do not hesitate to contact us if you have any questions.

Sincerely,

/s/	/s/
Michael Decker	Mike Nicholas
Co-Chief Executive Officer	Co-Chief Executive Officer

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[1] See, for example, Martin Z. Braun, "Auction-Rate Market Will 'Cease to Exist,' Citi Says," Bloomberg.com, April 15, 2008.