Securities and Exchange Commission Historical Society
Interview with Frank Chin
Conducted on December 8, 2010, by Kenneth Durr

KD: I think this is my first opportunity to talk to somebody who studied civil engineering.

FC: Oh, good for you. It's important.

KD: Folks who study civil engineering don't usually end up in the securities business. Tell me a little bit about that interest and how you got from that into what you're doing now. MIT?

FC: Well, I went to civil engineering undergraduate, which was the Cooper Union in New York. Then after I got out of undergraduate, I went to MIT graduate school in civil engineering, majored in transportation systems planning. I got interested in aviation, but after I got out of MIT, I wound up getting a job with the City of New York, worked in the transportation administration which is the City's Department of Transportation, worked on planning, studies and the like.

I happened to be working for the city during the City's mid-seventies financial crisis. I decided I should go back to business school. I went to Harvard for my MBA, but always retained an interest in transportation. I just concluded, when I was at Harvard, that having worked in engineering, looking at designing transportation, financing them would be kind of more interesting.

KD: Tell me a little bit about your time with the City of New York in the mid-seventies. As you mentioned, that was a pretty turbulent period.

FC: When I started, which was probably in 1973, '74 timeframe, with the City, the world was fairly stable then. I think, after about two years there, the financial problems started materializing. In many ways, it's almost a rerun of what's going on today where costs are rising, the economy is slowing down, lots of pressure on the revenue side, the way a lot of cities at the time were balancing the budgets, probably reducing services and going into deferred maintenance. I argue that a lot of the challenges that government is facing today and the country is facing in infrastructure is related to really not maintaining it. I think it's kind of building up. With the general poor economy, that's put a lot of pressure on the revenue side. So it was a similar vein in the seventies, not a lot of resources, a lot of demands.

KD: When you were with the transportation administration, were you involved in issuing bonds and things like that?

FC: No, it was more classic planning group. We looked at traffic patterns and pedestrian movements. It was more of trying to manage the City's resources to deliver transportation to the citizens.

KD: So you were looking at the other side of that from a distance?

FC: Right.

KD: Okay and the MBA took you in that direction then?

FC: Really the master's degree. Then, after that I went to get my MBA after I left the City. Then I came back to New York. Because when I got out of Harvard, I decided I had the background in government. I was always interested in transportation finance. So the municipal industry seemed like a right combination of the two where I could take advantage of my experience in the City as well as my engineering bias in transportation.

If you look at the municipal marketplace, what most of the financings that the business industry does, it is really related to infrastructure, all types, we build schools, bridges, tunnels, highways, hospitals and airports. I always had a very strong interest in airports. There's a lot of airport finance done in municipals. It was an interesting connection between my engineering experience, my City experience, and kind of what I wanted to do in the finance side.

KD: So then you went into Smith Barney?

FC: I started at Smith Barney in 1978. The firm was officially named Smith, Barney, Harris, Upham. It was a mid- to small-sized broker-dealer, specialized in municipal bonds and equities. The industry itself was a relatively small industry, pretty modest in size in terms of volume, nothing near what it is today. Deals were a lot smaller. I always characterize it as somewhat of a cottage industry, relatively small, a lot of competitors, not too much concentration in terms of any particular firm, so a lot of people in the business. But it was a kind of a back-water business, actually, on Wall Street compared to what was going on.

KD: What was your role?

FC: I started as an associate. Really, the department I started at was very small, and the industry was kind of small. It was pretty much you did a little bit of everything on anything. I did all types of financings when I started. I was doing airports, turnpikes, public power transactions. I did structured financings and housing and student loans. It was pretty much you did everything. No sector was so big that really you could focus on it. So you really got a chance to do a lot of different things.

KD: How did your experience with the City make you approach this differently than some of your colleagues?

FC: I think having worked for a city, you understand what some of the drivers of government were like; what happens on the budgeting side, how the decision-making process works. I think you actually started appreciating people who work for government because I think you have very talented people who are very committed to their jobs. You get a sense of how people like that think about things. I think a lot of them view themselves as trustees to the city and their employer. It's a very different mentality from the corporate side because, whether they're making progress and how get measured is much more difficult. The tangible things are a lot more complicated, and they get involved in policy issues. They have a very complicated job. I think having worked for the government, you start appreciating some of the challenges they go through given their jobs and the really limited resources the cities and states have.

KD: That's interesting—that different mentality you talk about. Did that sort of brush off on the people in the industry who were working with them? Did you see the municipal-bond people taking a different approach because of that?

FC: I think what at least I find in the public finance municipal side, especially on the banking side, is you have people who clearly have very strong finance orientation. But to be successful, I think you have to understand budgeting. You have to understand municipal accounting. And I think you also have to have an appreciation of public-policy issues. Unlike corporations where a lot of the investment and things they do is purely return driven, in the government side, it's as much delivering services. One of the challenges for the government is trying to figure out what's the value of service. There are certain services that government provides which are probably going to lose money from a pure revenue-cost basis, but they're part of the necessary functions of government. It's a whole different mindset of why they do what they do.

When you look at a bank, for example, like Citi, when it deploys or invests capital, it's return-driven. They look at risk and stuff like that. When a governmental body pursues a project, it's trying to provide a service. It tries to provide it at the lowest possible cost, but the constant returns really don't necessarily come back. So classic evaluations they use in the corporate side of whether you deploy capital are hard to use in the public sector.

KD: Excellent, given the difference in the industry, the size—you talk about this being kind of a backwater. Take me through the 1980s and maybe into the nineties and what kind of transformations you saw.

FC: Well, the same thing. When I started in the late seventies, industry volume I think was probably well below a $100 billion a year. I think it was $60-80 billion a year. It's kind of interesting. Toward the latter half of the seventies, you saw a couple of things happening. Clearly, tax reform, the IRS started changing rules on arbitrage and the like. The other thing that was interesting was that, in the early part of the eighties, the concept of municipal bond funds really got really developed.

Early on—I think in the late seventies—the way income was treated on bond funds; it was treated as a dividend and, therefore a taxable event. I think in the early eighties, they changed the rules such that a taxable bond fund could distribute tax exempt income on a tax-exempt basis which is really a big change. With that, you saw a real explosion in that pool of assets growing over time. I think commensurate with that growth and the asset base, people were looking for municipal bonds and you saw a big growth in the municipal bond business.

A couple of things were going on. One is there were more creative uses of municipal bonds. There were a lot of single-family mortgage programs developed at that point for helping homeowners buy first-time mortgages. There were student loans. I also think you started seeing the process of municipal government taking a larger and larger role in redevelopment of infrastructure in the country. The population was growing. Schools had to be built, highways, bridges and the like.

There was a greater demand for capital, and I think it was very clear that the federal government was going to provide less and less money to build things. It was going it defer a lot of the activity to the local communities. I think that trend has continued, clearly, to this day.

KD: So this is maybe a political change that grew out of the reorientation of the 1980s?

FC: Well, if you go back in the 1950s, for example, the Federal government paid for the interstate system and built it and really never provided for the maintenance. Over time, as cities have grown and infrastructure has grown, the Feds have provided less and less money and required more on local matching, local activity. The problem at the end of the day is local communities don't have enough cash to provide all those resources, and they started borrowing. I think they started using the municipal markets as a way of raising capital to start building infrastructure.

So if you look at the building of bridges, airports in the late seventies, you had deregulation in the airline industry, so you saw an explosion in airport development. The economy started picking back up in the eighties, so you saw that growth. As populations expanded, you had to build more housing and more roads.

You saw the population in the country shifting from some of the Rust Belt states in the north, to the southeast and the west, as California's population grew. At the end of the day, you look at the municipal industry, a large part of what drives its financings are growth, the building of infrastructure to meet population growth.

If you look at the shift in population to California and Florida and Texas, for example, out of the New Yorks and Michigans and the Ohios, I think you see a pretty interesting migration pattern towards jobs, toward growth in the areas that had little population grow dramatically. You had to meet the infrastructure needs. It's pretty interesting.

KD: As you're seeing this shift from the old Rust Belt states, New York, Pennsylvania who have been doing this for generations, down to the Sun Belt, are you seeing new approaches to financing come in at the same time?

FC: If you look at the core value of municipal finance—and really most infrastructure development—by and large, you can't issue bonds without a source of repayment. In terms of the technology in the municipal industry, the core products are still fixed-rate bonds. I think the security structures are fairly straightforward. Variations on core themes but, clearly, having revenues available to repay these things.

By and large, we put them in two classes. General obligation debt is clearly a repayment obligation of a municipal government from all its resources. What we've seen a dramatic shift toward is was we call revenue bonds where specific revenues are earmarked to repay a series of bonds whose use of proceeds is also well-defined. It's almost becoming much more a user-fee-driven model. In part, that's because I think the citizens want to know where their money goes. If you look at the general obligation bond, the voters approve to issue the debt and they agree to pay for it from whatever available resources. When you issue revenue bonds, you have a much closer tie-in between the revenue source and the use of the proceeds. Most Americans would like to know where the money is going.

If you're going to build a toll road, they know their tolls are being used to pay off the debt that was used to build the toll roads. Airport fees, same thing. I think there's a much more of "I'd like to know where my money goes, and I'm willing to approve those fees as long as I see some value in exchange."

Thirty years ago, it was probably half revenue bonds, half GO bonds. Now, it's probably 75, 80 percent revenue bonds. I think the trend toward user fees is fairly pronounced and has really been accelerating.

KD: How about derivatives and things like that?

FC: If you go back to the basic model, long-term fixed-rate bonds, in the early eighties, variable-rate instruments started getting into the market, in the product mix and into balance sheets of government. That was as much driven by very low rates. Historically, short-term rates are lower than long-term rates. And because there's a certain expectation after you have short-lived assets, you should have short-lived liability, so those are matching. That was an early innovation. Commercial paper didn't show up in the municipal market until the early eighties. Variable-rate bonds started showing up probably in about that period.

That was one of the first changes. I think things like auction-rate bonds, derivative products and the like were changes to the market that occurred as different issuers had different specific financing needs and were looking for vehicles to take advantage of market opportunities as it relates to their enterprise.

Like in anything in life, I don't think there's one-size-fits-all. But like everything else, it's a good tool, properly used by people who have an understanding of what it achieves. It's not a panacea to everything but, clearly it provides certain benefits that some people have taken advantage of, to great benefit.

KD: Were these devised by the financial industry to meet their customer's needs?

FC: Derivatives, I think, have been around a long time, probably much more prevalent in the corporate sector. I think, in some ways, it took a while to get into the municipal sector for a couple of reasons. One is just the nature of municipal credits are different. They're not allowed to file bankruptcy, by and large. There's governance issues. Many states have local finance rules that preclude them from doing certain things.

It was a whole evolution. I think, going back to municipal issuers themselves, since their motivations are not profit, I think they clearly value safety above all else. I think derivatives are a product that people need to understand about. That's why, same thing, it's not a panacea; it's not a one-size-fits-all. In the proper places with the knowledgeable issuers who have the right balance sheet that can handle some of the risks associated with it, it's probably a fine product and very effective. Some of the problems that probably could arise is if people just used it without really thinking about what the consequences were.

KD: Excellent little primer there. Thank you. Let's look into your career a little bit. I assume you're moving up in Smith Barney at this point? You're now Salomon Smith Barney?

FC: In some ways, if you look at the history of the department I've been involved in, it's almost like a microcosm of Wall Street. I actually have lost track of how many firms I've been part of mergers with.

The fascinating thing about our department is I've been in the same department thirty-two years now. The same department has been together as a group for that period of time.

We have many people in our division from both the banking side and the capital markets side who have actually been with this organization for thirty years. I've been here thirty-two years. There are a couple of people who have been here before me. Many of my colleagues have been here twenty-five.

If you look at Wall Street, the group that we have here is probably unusual in terms of the longevity in one department that has survived so many different mergers. We were Salomon Smith Barney. Then we were acquired by Primerica, then Sandy Weill, then Travelers and Salomon Smith Barney. It's been on and on, and now we're Citi.

KD: How would you account for sticking together through all of that?

FC: I think we've always run a very well-integrated business. I think we've always, as a department, been considered one of the stronger departments on Wall Street. If you look at objective measures of league tables and the like, we've been one of the leading firms. I think we've been the top-ranked firm for fourteen consecutive years. We're recognized by both issuers as well as investors as being an active market leader, and like anything else, excellence is probably what saves you when there's a lot of turmoil. It's been a very solid business.

KD: What you're describing here is a period of consolidation.

FC: In the industry.

KD: Others are consolidating, too. So you're seeing some big competitors, UBS, Merrill?

FC: If you go back not that many years, there were ten or twelve major New York-based broker-dealer firms in municipals. Now, arguably, there are only about a half-a-dozen. I think you've seen huge consolidations in the broker-dealer industry over the last thirty-two years. What's going in the municipal industry is kind of weird. A lot of the firms that were very strong competitors when I started don't exist anymore or totally vacated the business, totally vacated the business, First Boston. Prudential is really not that active. Kidder is gone. Merrill Lynch and Bank of America merged. Wachovia and Wells has merged. Bear Stearns is no longer around. First Boston is really out of the municipal business. The list is amazingly long. Salomon Brothers is gone.

So a lot of the firms that were very active and very large participants in our market have since disappeared, but not because of the municipal business per se. It's more just a general consolidation on Wall Street.

KD: Now, your involvement in the industry, more generally, I assume would have broadened over time. Was the TBMA one of your first big involvements?

FC: I first got involved with TBMA years ago. I was asked to join it in the municipal group. I actually became head of the municipal division. I served a year there. I was active with that. That's primarily an industry group. It deals with industry issues. I got involved a lot more in dealing with the MSRB at the time and some of the regulatory things. It was a good experience.

KD: Had you been involved with the MSRB before that?

FC: Not really.

KD: There weren't instances in which you'd go down to Washington and talk to folks or something?

FC: Not that often. I kind of knew Kit Taylor, who was the executive director at the time. I knew many of the people at the MSRB. We interacted a bit but not on a regular basis.

KD: When would you interact?

FC: I think the MSRB always tried to understand what was going on in the industry, what people were up to, what was happening. I think given our firm's position and kind of what I was doing, every once in a while, I'd hear from some people kind of what's happening. It was more of an informational resource, if you will.

KD: One of the points at which you become visible with the TBMA is when you're starting to look at more transparency in the secondary market. My sense is that some of this was driven by an SEC review of the market. Is that correct?

FC: I think the municipal market has always been interesting in that, unlike the corporate sector which has EDGAR and SEC registration and the like, because of the Tower Amendment, the municipal market has kind of been its own little space. The fact that defaults are very rare and the amount of the investors that have actually been hurt in the industry is so limited, I think it's never gotten the same level of attention and scrutiny that other corporate models in other markets have gotten.

It just seemed, when I first started getting involved in this thing that the world was changing pretty dramatically. All markets were going to be under a lot closer scrutiny from a regulatory perspective. We, as broker-dealers, had to anticipate some of the changes and start moving toward trying to change the way things were being done; moving much more toward electronic, making information much more readily available. There was a whole slew of changing regimes.

Clearly, when I started in the industry there was still lots of paper, physical documentation. Electronic communication was really not a big factor. It's all dramatically changed. The Internet was coming into the space, which gave everybody a tool. We just had it bring our industry much more into the forefront to basically take advantage of the technology.

KD: Was this the late nineties, early two-thousands?

FC: I kind of view it as the mid-nineties that this trend started changing.

KD: And that really is the Internet's taking off at that point?

FC: Yes, for many years the problem was distributing information. Look, when I started, we were still hand delivering things and messenger services were running all over the place. Clearly, we went to the Internet, but I think we had to do that.

The other thing is you can tell that a lot of municipal issuers were also getting much more sophisticated. Everyone was trying to find their own way of getting communications out. There really wasn't a common platform. When I got involved with TBMA, we got involved in the Municipal Council which was actually of a combination of a number of people. MSRB helped to put together the first meeting. It was a combination of all major-market participants between issuers, investors, the broker-dealers through TBMA and the SEC. There were a lot of people involved in those early meetings.

KD: Who was bringing all of those groups together?

FC: I think the original meeting was called by the MSRB. They reached out to some people. They provided a forum for at least the original meeting. But it was interesting that, over time, I think the other parties became more involved. TBMA was one of the leaders of it, provided some financial assistance to host meetings and the like.

KD: Was this just a general call to get together and look at things, or was there one particular issue driving it?

FC: I think the original premise was that we should get all the people in the industry to sit down and see what's bothering people. I remember the first couple of meetings were just talking about different issues, what's out there, what should we focus on. I think it soon became very clear to people, as the SEC was saying, "We want better disclosure. We want a secondary market." They were pushing for more disclosure and the group collectively concluded that there was no commonality and no unified effort to try to be responsive to the SEC's request.

So where Muni Council took a very active role and a lot of leadership was trying to work through some of the issues relating to facilitating information and secondary-market disclosure. The MSRB was already working on its own to start collecting official statements and the like and collecting trading information, but it seemed to all of us that that wasn't dealing with the issues needed to be addressed.

KD: Why not?

FC: The MSRB really was focused on the broker-dealer side. Because of the Tower Amendment, they could only regulate broker-dealers. So the issuers also knew that they had to do more. Look, a lot of issues actually had a lot of information, but they were trying to figure out how to get it out to investors in a common way. It was too much everybody was doing their own thing, and you really needed to start unifying it on an industry-wide basis.

So what was interesting about the Muni Council is you've got issuers, you've got investors, you've got the broker-dealers all involved talking about some of the issues. The SEC had created the NRMSIRs, the filing systems. One of the early initiatives that we had was to try to figure out how those were working, if they were working at all. We actually had a bunch of NRMSIRs come in providing information about a specific issuer, just as a case point. It was fascinating to us when you sat in the room and all of these people sat listening to the presentations, it was very clear there was no standard. Everybody had their own system. If you were an investor, you had a terrible time figuring it out. The broker-dealer is really obligated to make sure, before they did any business; they had checked all those sites. It was a very unwieldy system.

KD: And they had to pay as well, right?

FC: Oh, yes, they were buying the services. I think the basic premise of having better information, more information was fine, but the delivery systems were never put in place. The SEC left it to the private sector to develop it, but without any standards, it was a classic case that everybody had a different idea, everybody had a different model. It's kind of like the old days with videotapes. You had Sony and the VHS. So it's that kind of thing. There were multiple technologies going on. It was clear from sitting through their process and everybody in the room saw it that this was not going to really be helpful to anyone.

So the Muni Council started an initiative, got Texas MAC involved. We started trying to create a system that ultimately became CUSIP-based to be able to track information and the like. That was done on a voluntary basis, and it needed to be rolled into a mandatory system. I think the work of the Muni Council and TBMA with Texas MAC and that group really provided the basis for what became the EMMA system, MSRB.

KD: This is your central post office?

FC: Yes, CPO.

KD: Something we didn't mention is where this peculiar system you talk about with the NRMSIRs and all that came from.

FC: It was the SEC.

KD: Okay. Was this out of the mid-nineties?

FC: As they started the regime about secondary-market information, disclosure and the like, they created the concept of it, but I think they were having difficulty. I don't think the SEC wanted to house it themselves. There was a sense, at least from the Commission's perspective, that the private sector could do better. They asked people to be designated as NRMSIRs and the like. I think there were four of them, and then there were also state repositories. It became a very unwieldy system.

The same thing, you could have one transaction that was really, if you will, booked five different ways. So if you were an investor trying to find information, you'd have to understand how each system had its own organizational structure to find data. It was very inefficient, and it was inconsistent, which was very clear.

KD: Now, wouldn't the big, professional investors have perhaps benefitted from a system like this because, with experience, you might know how to understand it a little better than the amateur, so to speak?

FC: I think the professional investors, for a period of time, actually were developing their own systems, internal back office, if you would, infrastructure to monitor different borrowers, municipal issuers, in part, because they had no options. I think even though there were NRMSIRs, the consistency with which everyone collecting information was all over. Filing was very inconsistent. It was just not a system anyone could easily figure out. There were a number of different people who had a different system. Certain people had better technology than others. But I think the common complaint of a lot of investors was it's not that easy to find. The issuers, I think, tried to make sure they filed all of them. We were required to tell them what happened to them.

This was also a period of time when people were delivering paper documents. So a lot of these NRMSIRs were spending an incredible amount of time just converting paper documents to electronic form. It was clearly the early part of the technology breakthrough in information technology and paper processing and all that. You had a lot of factors; a good intention of the SEC creating some of the rules, but the technology not in place to deliver it efficiently.

The CPO was kind of the first step to at least try to articulate in a single environment what kind of things you need to have to help that information flow. It was a good testbed because investors got to comment about how it worked or didn't work. Issuers got to comment. I think that provided a lot of core information and expertise and knowledge to just the workings of the municipal market.

Before then, CUSIPs were kind of there, but not a vehicle for filing things. One of the things the Muni Council did is get the CUSIP system to let us use CUSIPs as a vehicle to standard indexing bonds again.

KD: Did somebody own the CUSIP system?

FC: CUSIPs was owned by the American Banker Group, so that was an interesting conversation we had with them. A number of the issues got very involved with us, with TBMA and CUSIP. We'd kind of negotiate, and they came around to work with us.

KD: They developed the licensing system or something?

FC: Actually, CUSIPs are, if you will, license plates on bonds. There are several million CUSIPs out there. You actually have to go to the CUSIP bureau to buy a CUSIP number. There were patent issues. There were a whole slew of things that we worked our way through with them. Look, they were very cooperative. They worked with us. They knew that it was important for the industry overall.

If you go back to the NRMSIRs, a lot of the filings at NRMSIRs were done alphabetically. Some organize it by state issuer, some issuer name. So it was just all over. When you have a CUSIP, it cuts through all those various ways and gives you one way to tie bonds together.

KD: How long had that system been around?

FC: CUSIP had been around, actually, for as long as we can remember.

KD: But it sounds like the NRMSIRs weren't really using that.

FC: No, because at the time they were created, CUSIP numbers belonged to CUSIP. When we got Muni Council, we looked at all the different ways of doing it. The only thing that everyone knew, that no one would disagree with, everyone knew what a CUSIP number was. There was only one CUSIP number for a particular bond issue. It became clear that, if you were going to try to have a common base, CUSIPs were pretty good. It was the way to go.

Getting them to agree to it was important because issuers knew what their CUSIP number was; investors got told what their CUSIP number was. If you actually looked at a brokerage account, they'd tell you the CUSIP number. CUSIP numbers are now integrated into official statements. The whole system is really kind of clear. That's the best way to tie a myriad of information together. That was clearly one of the things the Muni Council helped establish. That was the best mechanism.

KD: This would seem like a pretty big project for a voluntary group like yours to put this CPO together.

FC: It was a lot of work.

KD: Tell me about the process and who you worked with.

FC: Well, TBMA was good because we actually provided some financial resources to help it out. We had issuers through GFOA that were actually very active. They were helping out working through these things.

KD: GFOA?

FC: Government Financial Officers Association. Different industry investor groups came in.

What's interesting about the group is, even though they had represented different parties for the thing, they all understood there were things that the municipal marketplace had to do to get it better, and to kind of start getting up to the level of sophistication it really deserved.

Everybody worked together, and it really was voluntary. People spent an incredible amount of time on it. I think they worked very hard. They were very dedicated to it. It speaks a lot of just the nature of the people in the industry. Even though, arguably, we're on different sides of the trade, I think people worked very hard together to keep in mind of make it successful.

KD: While people are working together they see a common problem. But there's going to be tension between the issuers and the underwriters and things like that. What were some of these natural tensions?

FC: If you look at the municipal industry itself, clearly, municipal issuers are not regulated. Municipal broker-dealers are regulated. Investors are subject to different rules because they have fiduciary obligations to their customers, being the investors. Because of the diverse nature of municipal issuers, it's always hard. I think we in the banking side always accepted the fact that there's no one-size-fits-all theory. The diversity of a number of municipal issues, type of issues, what they do, what they don't do, how frequently they respond is so broad given there are about 80,000 issuers in the U.S. that you had to be much more sensitive in not trying to create these one-size-fits-all solutions.

Things like content of disclosure; it seemed to us very difficult to create a standard content because each enterprise is different. What we were really focusing on from the broker-dealer side is create mechanisms to facilitate the transfer of information from the issuers who had it to the investors who wanted it to avoid dictating content. The investors themselves had kind of position papers of what they thought would be appropriate information. What we tried to do at least on the broker-dealer side is just say, look, we want to facilitate the communications.

You as an issuer have to decide what's relevant. You have an investor that has to decide what's relevant on your part. You guys work it out. But what we want to do as a broker-dealer is make sure that, to the extent an issuer decides to go through the effort of making information available and the investor needs it, that we find a common place where that interchange can occur. So we were really more working on the infrastructure and the pipeline, if you will, to connect the user, the end points.

KD: It seems like, inevitably, the question of wanting to control and keep it reasonable, and then the desire to want all the disclosure you can get would land in your lap at some point.

FC: Right. Well, we became the interface between the two parties. Because there are so many different types of enterprises, we'd be hard-pressed to say, “Well, there's one way to do this thing.” So our view was let's facilitate the communications. It's like pipeline companies. The pipeline connects one point to another point whether you're running gasoline through it or jet aviation fuel or oil. The pipelines are within levels totally indifferent of what you push through the system, but they are a facilitator of changes.

KD: As a Muni Council, you don't really have a regulatory role, so you don't have to weigh in on that?

FC: Right.

KD: Anything else we should touch on with the creation of the CPO?

FC: Texas MAC was very important. They have invested an incredible amount of time. I think it was a good testbed for it.

KD: Why did they take that project on?

FC: Texas MAC actually was a NRMSIR in Texas. They were a state repository. They actually had a system where they were providing information to investors and issuers in the state of Texas to a smaller scale of what we were trying to accomplish on a national scale. They had the expertise.

Texas MAC actually is an organization funded by broker-dealers in the state of Texas. So they were almost like TBMA, a mini version on a regional basis. They actually had the expertise. They were a broker-driven group also. It was actually easy for TBMA to work with Texas MAC because TBMA was a national organization, and Texas MAC is funded by Texas broker-dealers. I think the DNA, if you will, was very consistent and it was something that we had talked to the board at Texas MAC about getting involved in. Since they were all municipal bankers, they knew what was going on. They were very supportive of TBMA efforts. I think it was pretty straightforward.

KD: Apparently, they had the resources to tackle something like this?

FC: Well, they had financial resources. At the end of the day, the broker-dealers invested a fair amount of money and time in the whole process. TBMA got funding from the overall organization. Texas MAC committed some resources as well, funded by the broker-dealers. So the broker-deal community actually, through Texas MAC as well as TBMA, helped finance the Muni Council initiatives and got things started.

KD: So at that period, you're moving from the nineties into the two-thousands. I assume that you're seeing continued change in the municipal-bond market?

FC: Volume was growing dramatically. I think the number of issues kept growing. The type of transaction was getting larger and more sophisticated. I think there was clearly growing pressure on all regulatory bodies in all markets for better transparency, more information. I think total aggregate municipal bonds grew from substantially less than $2 trillion to well over $2 trillion in a relatively short period of time. So the whole world expanded very, very quickly.

KD: Are you seeing individuals get into municipal bonds?

FC: Municipal bonds, if you go back to the core which is tax-exemption, I think the only people who actually use tax exemption are individuals. So probably about a third of the bonds were held directly by individuals, another third are held by individuals through bond funds and conduits. They're like proxies.

The market is probably about two-thirds retail, give or take. Then you have property and casualty companies and banks and the like on the other part. Until the BABs were done, which dramatically broadened municipal bonds –

KD: BABs?

FC: Build America Bonds which are taxable bonds with a federal subsidy. Until that happened, people who bought municipal bonds needed the tax-exemption, which were retail. There was a period of time in the nineties, end of two-thousand when there were these things called tender-option bonds created. Certain entities were created to buy long-term municipal bonds financed at short-term and create an economic benefit through that process. They were dominant probably in the mid-two-thousands. Then they ceased to become active because of the changes in the market and the like. But you saw a dramatic explosion in volume activity, demand for more and more information.

KD: How about negotiated markets?

FC: The split between negotiated and competitive has, over a fairly long period of time, been relatively stable. You have some variations, but I think it's probably about two-thirds to three-quarters of the market is negotiated. The balance is competitive.

KD: Now, was that always the case, or did that change?

FC: Early, early on when you go back to the late seventies or early eighties, it was probably almost the other way around. When you went back to revenue bonds and user-fee-driven transactions, negotiated bonds for those became much more prevalent because there were stories, there was a lot more explaining to do, explaining the credit, creating the structures, getting to investors, telling them how it worked and all.

General obligation bonds, on some levels, are fairly straightforward. You just have to decide whether you believe the region or whatever you're looking at is viable and diversified. When you start getting revenue bonds, it does require a lot more detailed understanding. So those, predominantly, are done negotiated.

KD: So it sounds like moving into the two-thousands then, the big thing that's happening is just the growth, and the growth is putting more pressure on transparency.

FC: Well, there's that. As there are more buyers, people want more information. So the whole thing was growing at different levels. The same thing with the Build America Bond explosion, more and more new people coming to the market, and they're also looking for information. You have people who, historically, have brought taxable bonds which have a whole different disclosure regime because they're, by and large, corporate-related, going to municipal bonds where they didn't have that same kind of disclosure. So you have that going on. There are a lot more demands for information and ready access to information.

KD: And this is about the time you go onto the MSRB then?

FC: Yes.

KD: Tell me a little bit about the role of a board member because you were just a board member for a couple of years, right?

FC: I was on the board for three years. I was the chairman in my last year. You start with the MSRB itself. It's a rule-making body. It doesn't really enforce rules. FINRA does the enforcement. It works fairly closely with the SEC. It's the one we report back to. Because of the nature of the municipal industry is that you don’t regulate issuers; you regulate broker-dealers. It's an interesting position. It's trying to influence an entire market when it only has control over one piece of it, responsibility. It really didn't regulate investors either. It didn't regulate investors. It didn't regulate issues, but it did regulate the broker-dealers.

You have to have a good appreciation of what that really entails and what you can and cannot do. I think the MSRB is a fascinating organization. I think the board members, given the makeup at the time I was there; you had a lot of people who were new about the industry. The board was fifteen people at the time, five banks, five broker-dealers, five public members. The public members were constrained in terms of you had to have an issuer and the like.

It was a very interesting group of people, lots of diversity in terms of what they knew their understanding. Everyone brought their own kind of history and knowledge to the table. I think it tried to work in a way that was responsive to the changing industry given its limited powers.

KD: What was the focus at that point when you came in? What were the people on the MSRB talking about?

FC: Early on, I think there were a lot of things happening in terms of what the MSRB could do and what it couldn't do, like the whole question of powers. I think we were also making some decisions about the leadership of the organization at the time. Kit was the Executive Director, so that was happening.

KD: He had been the Executive Director for quite some time, right?

FC: Yes, a very long time. He actually was I think the second one. He started, probably, in the seventies. I think he had been there a very, very long time. The industry had changed. It had grown a lot, a lot more pressure on sophistication, on what it needed to do. It was moving, because of the requirement for secondary market trading information which it was collecting and collecting data, to be almost more than just a rule-making organization, to be much more an information facilitator and houser of things.

KD: There's fifteen people. You would think there would have been differences on what the proper role of the MSRB is. Was that one of the issues of contention?

FC: Within the four corners of what the MSRB was empowered to do, there was really no question about that. I think the challenge for the MSRB is what is your role vis-à-vis the industry? How much of it is just writing rules about products or activities you directly regulate, and how much do you try to influence activities around those on the margin? That was really the big debate in the board.

The good news is I think a lot of things were debated. I think nothing was really done during my tenure that people weren't on board on. The good news about the Board is everybody had a different opinion. Everybody had a different viewpoint and background, but people were more than willing and able to articulate their views. I think everything got a good hearing. I think there was a broad consensus arrived for the right approach for the Board.

KD: It sounds to me like it must have been a bit of a challenge to reorient a little bit to expand the Board's influence.

FC: Early on, it was primarily rule-writing. It became almost a technology platform. So that became a larger and larger part of what it did because I think the rule-making part, it's a very well-defined process. When you deal with data, especially things like trade data and the like, which are very real-time activities, the total service orientation is different. You actually have customers who are using your data. The whole premise of the organization changed pretty dramatically. One of the things that the board was challenged to do was figure out how do we want to organize the board going forward in the face of some of the demands on it?

Ultimately, Kit left the MSRB. We brought Lynnette on. I was there during the period of time when we were phasing out one Executive Director and starting a new one and taking on a bunch of new initiatives. There were some major changes in the MSRB, but I think they were necessary changes because the environment was changing. The expectation about the MSRB and its role was changing. In the past, I think it was a little more passive just as a rule-making body. Now, it became really an active part of the market because of the data it had. It became the crossroads for a lot more information.

That's why I think one of the big things we started was the EMMA system because it was very clear that the CPO, while it accomplished a lot, really needed a much broader financial base to help kind of continue its development. To the extent the SEC agreed that some of this stuff had to be done on a mandatory basis for broker-dealers versus just a volunteer basis, you really needed it to be housed in a more regulatory-type vehicle which is why the MSRB became the appropriate candidate.

KD: Before we jump into that and roll through that process, certainly during the first couple of years, were there rule-making issues? Were there initiatives that stand out at that point?

FC: Early on, before I got there, they had G-37 and G-38 things that started coming up about consultants. We continued to look at the G-23 finance advisers. There was an ongoing conversation. There were always clarifications of different things. There was always an ongoing activity on the rule-making side. Clearly, with the staff, that was clearly the DNA prior to that period of time and they were good at it.

KD: How did the process work? Was the SEC consulted?

FC: Historically, the board, through feedback from either broker-dealers or parties of the market, would become aware of an issue or because of the Board members themselves would raise issues that would be talked about, the staff would be very helpful in researching some of them from a legal perspective as well as market practice. By and large, there's a process of trying to identify a specific area. There's internal drafting of documents. There's briefings to the Board. If the staff and the Board agree what rules, if any, have to be written, the language of it, then they're put out for public comment and things like that and you go through that process. Then the SEC gets it, and they put it out for comment before formal adoption. So there's a process.

Some of those are just really redefining practices, providing the information about what the expectation of the rule-makers were as to how broker-dealers behaved and things like that. A lot of that was going on. The G-37, the G-38 was trying to eliminate the perception of untoward activity in the broker-dealer community as it relates to that market. Some things like that were done.

KD: We haven't talked about pay-to-play at all. From a public standpoint, that was the big story back then.

FC: That was done, I guess, in the early nineties. I think it was one of those things that the industry concluded, rightly so, that it was just noise around a business that was distracting people from the business itself, including that whole area, but it was really a positive for the broker-dealer business. It was one of those classic things. Was it illegal? Probably not. But it was clearly a perception issue, and I think the Board wanted the broker-dealers to be much more sensitive to their perception of their role in the market.

KD: Well, let's move into your chairmanship. You've talked a little bit about something of a reorientation of the outlook of the MSRB. Did you get interested in taking over the chairmanship? How did that go to you?

FC: It's kind of interesting. I think it's an honor to be on the MSRB itself. To be Chairman, I think, is even doubly so. It was something I was interested in. I talked to some of the Board members about my interest. They were very supportive. They thought it made sense. So I was fortunate to be selected as the Chairman.

Lynnette had come in. I had known her from my TBMA days. We had a partnership going back well before then. It was kind of interesting. Clearly, getting the opportunity with the new Executive Director was pretty fascinating. Given the fact that Lynnette and I had worked a lot on Muni Council to get this CPO thing, it just seemed pretty natural to put that high on the list of things the MSRB should engage in and push to implement.

The other thing we also spent a lot of time in the first year with Lynnette, because she was also the new Executive Director, was really establish with our market participants, whether they're investors, the issuers and the SEC and the like, a much more cordial and communicative-type relationship between the MSRB and them.

KD: How do you do that?

FC: We spent a lot of time meeting with people, doing a lot of outreach. We did community outreach visits with broker-dealers around the country. We sat down with the GFOA folks which we knew well from the Muni Council. We had a lot of meetings with the SEC folks. We met with the Chairman of the SEC and all just make sure they know who we were. At the end of the day, the MSRB wanted to be helpful to regulators because, clearly, that's who we worked for. The rule-making board, but also the market participants, were really trying to do things that were helpful to make the market more efficient and really continue the integrity of the market.

We didn't want the MSRB to be viewed as not working for their interests. You always run into a problem, the perceptions of rule-makers trying to basically be punitive with all the participants. That was really not the intention. The intention was the municipal market does some very good things. It's helpful to issuers. It's finances infrastructure. It's a good investment vehicle for investors. It has a lot of good benefits.

I think the job of the MSRB was really to make sure that it ran as well and efficiently as it could with a high level of integrity and focus on doing the right thing. I think it was important to have those outreaches. And because Kit had been the Executive Director for so long and Lynnette was new, it was important to get her in front of these people so they'd have a much better personal understanding of what the MSRB was.

KD: Now, when you went out and you talked to folks, did you talk about this idea of more transparency and how hoped to accomplish that?

FC: Well, each group had a little different interest, but I think the beauty of the EMMA system as it came to become was that it helped everyone. Because issuers, if you took the issuer, for example, they say, "Well, we work hard to get our disclosure available, we follow FASB rules." They work very hard to make information available. It seemed this gave them a way to say, “Look, this is a good vehicle to make sure that all the hard work you put into making disclosure available actually gets to the people you intend it to go.”

The investor side was almost similar. They had this huge need for information and, same thing, we were providing a free system from which they could access all the information they wanted. And we tried to clearly avoid with the investors or the issuers the point of content. I said, look, you guys have got to talk to your end users about what's the right information. Now we'll give you a vehicle that you, as an investor, can get into it for free, you as an issuer can get information out for free. It seemed to us a win-win. I think we clearly tried to address how the system would benefit their own particular needs, and they are a little different.

KD: You're calling this the Muni EDGAR, I think, in the early period.

FC: Right.

KD: At the same time, there's other things floating around. And I'd appreciate a little clarification on which came first and how they fit together. You had something called access equals delivery.

FC: If you go back years ago, official statements, which are the primary marking tool, had to be printed. You had books, and you had to deliver books to customers. You couldn't really execute a transaction without physically delivering books to customers. That became expensive for issuers because they had to print it. It became expensive for issuers because they had to deliver these books. So it was a fairly inefficient system.

What access equals delivery became was taking full advantage of the Internet and electronic communications—of electronic documents which basically said, "Look, if you are offering securities, as long as any investor has the ability to access that document in electronic form, you don't have to physically give them a book."

KD: So that covers the sale.

FC: Yes. It covers the offering period as well as the actual sale of securities. That was a full adoption of electronic documents versus physical documents.

KD: Now, did you have that set up before—

FC: What was interesting is, early on, a lot of the paper documents were scanned to create electronic documents. What that dramatically changed is that printers, in effect, printed very few books after a transaction and primarily created electronic media, so PDF files. As long as we had PDF files, you could offer securities. So it became hugely less expensive. So we could distribute a million documents to a million investors electronically versus physically having to give them a book. It was a huge cost saver.

KD: But this is something that you had been working on previous to—

FC: The corporate market already had it. So it seemed to us we should fully adopt it. The hardest thing, in truth, was working with issuers to figure out whether their documents were easily convertible to electronic form. If you look at an official statement, there's the core document piece which is created by the issuer. Then, there are other parts that come from accountants or other pieces. So when you're putting a book together, it was fairly straightforward. And you start putting electronics together, are they all in the same media and things like that? That took a little bit. But same thing, accounting statements were going electronic form anyway. I think we clearly took full advantage of the dramatic change in technology and word-processing capabilities and the like.

We were trying to move the industry from paper to electronic form. They're kind of like a central clearing house for documents.

KD: It sounds like that wasn't an MSRB thing.

FC: There was more a coordination thing, but that really was not a big driver.

KD: So many things are in the mix at this point.

FC: Well, it's like anything else. Every system is pretty complicated. There are a lot of pieces to it. You have to make sure the whole system works pretty seamlessly. You go from a document-paper physical delivery system to electronic. There are a lot of pieces you start finding out about. That's really one of the biggest changes.

We were definitely fortunate that the electronic era was moving very quickly at the same time we were trying to move. If we had tried this initiative a decade ago, it would have been impossible because the technology wasn't there. I think it was fully trying to take advantage of the benefits of modern technology.

KD: Let's go into a few of the challenges that you must have had setting up EMMA and getting this thing going. One of the big ones, my understanding is that, before this, disclosure is not necessarily mandatory in many respects. You can send things to the NRMSIRs and all that. And you're talking about moving in that direction. So you'd think the issuers would kick back a little bit on that.

FC: A couple of things. One is we had to get the SEC to agree that the MSRB should be the sole NRMSIR filing point. Historically, the SEC's view is we should have multiple filing points and let it be a private-sector initiative. It became clear, having gone back through it and watching what was actually happening that while that was a nice goal, if you didn't have some consistency in how you approached it, a lot of the benefits of facilitating disclosure would be lost by the complexity of everyone having their own system.

What we at the MSRB had to prove was that our technology worked and the benefits of consolidating all of the MSRB. So the SEC had to be comfortable that their requirements for disclosure were really met by having an effective regulatory body like the MSRB do it. So that was important.

The other thing, issuers were also—because of the Tower Amendment, because they are not regulated—concerned that the MSRB, which is a rule-making body, would somehow become de facto regulation. I think it was important for them to understand. That's why we clearly avoided content. We were not a content-driver; we're a facilitator of information flows. We clearly tried not to tell them we were going to basically regulate you on a back-door basis.

The broker-dealers were also concerned because, once we had all that trade information, were we being used as a vehicle to basically monitor their activity. So everybody had their own little skepticism about what the role was. But same thing, I think the argument for having the MSRB take over that role and the technology that we were bringing to the table was so compelling. It took a little time to explain it to them, but once they became aware of it, I think that a lot of those concerns were dispelled.

KD: How about the NRMSIRs? You were talking putting them out of business.

FC: Well, clearly, they were not happy about it. My sense is a lot of them viewed it as, the reason they got into that business was the fact that they thought they could repackage the data and sell it on a commercial basis.

One of the things EMMA did was it didn't really repackage the product. It just consolidated information so, actually, the NRMSIRs, through a feed, could take the same data we had, reorganize it and, instead of spending their time converting documents to electronic form, we argued with them that this would give them the ability to take a lot more data and really manage it and package it better for end users so that they could create true value-added by organizing the data rather than collecting it.

KD: Did it work out that way?

FC: Our sense is that some of them have actually done that. Others have just decided that they don't want to do it. So I think it's a little bit of everything. Like anything, the shift in the paradigm does create opportunities as well as eliminate other things. So I think it was a little bit of both.

What we argued with all of them, what we finally conceded is probably accurate; the value-added shouldn't be in collecting data. The value-added should be in repackaging, manipulating it and reorganizing it for users. And I think most of them kind of agreed at the end the day and saw that, but I think the trauma of what we were doing literally caused them a lot of concern for a while.

KD: And the central post office, the CPO, you're just looking at sort of supplanting that entirely I guess?

FC: Right, Texas MAC got out of it. There were very helpful to us. Whatever files they had, they transferred over to us. So they've gone back to the Texas MAC model. They do what they do in the state of Texas now because they have really gotten out of that whole process because when they were involved, it was voluntary. Now, it's mandatory and the MSRB has it. But they were very helpful.

KD: That would seem to be the sticking point, the now-it's-mandatory part. It took the SEC to do that?

FC: Yes, they had to do that from the broker-dealer side. We also had to make sure the investors and everybody else was on board. The secondary-market filing activity—they had to do that and the NRMSIR side took care of that. I think what we've done with EMMA is also make it much more useful for primary-market issuance as well and the trade data. It's really become a one-stop-stopping point portal for information about municipal bonds.

KD: MSRB had this written in the legislation, the '75 Acts Amendments. It seems like this could have been done with legislation. You could have changed the function of the MSRB that way. The other approach was for the SEC to do it with rules. Was there interest from legislators on this front?

FC: Since the SEC wrote the rule about secondary market and created NRMSIRs, it seemed to us it was easier to create one NRMSIR than go through the whole process because they already had everything in place. They had identified the need for a NRMSIR. They created a bunch. But there was nothing that said they have to have one or five. So I think it was much more the policy perspective of letting the private sector do it, but I think once they kind of were convinced, as we were, that having multiple NRMSIRs really didn't serve the best interests of what the whole intent of the secondary-market disclosure initiatives were, I think it was easier just to modify the SEC.

KD: So you're looking at the simplest solution makes the most sense.

FC: It was part of the simpler solution. From a congressional perspective, I think they were all for better disclosure, better transparency. We never really got any pushback from any on the Congress side. It was more trying to figure out what's the most effective way to implement.

KD: And this is all going on through 2008 or so, this is transpiring. I was intrigued, it seems as if Chairman Cox definitely makes some clear statements, but he takes a while to really jump on board and say, "We're going to change this rule so that you can do this." Is that really what was going on?

FC: I think we always had support but, also I think the SEC wanted to make sure that our technology was going to—what they wanted to do was avoid what happened to NRMSIR, which is they imposed the rule and the technology wasn't there. What they wanted to do is get some comfort that, when they decided to proceed, that it could be transparent. So there was a lot of testing done. We were basically rolling out a new product.

And the last thing you need in any rollout is to find out that, the day you open the building and turn the key on, it didn't work, right? So I think there was a lot of concern on their part, which is fair, to make sure that all of their expectations of what the system could do were met. There was a lot of time spent on the technology side of it.

KD: Who were you working with closely at the SEC?

FC: Martha Haines was in charge of that area. So we spent a lot of time with her. Everybody had the same interests but, also, no one wanted to have a system that didn't work. So I think everyone had to be comfortable that it, in fact, did work. Some of the delay was, in part, getting through that because with the whole technology, you want to make sure you solve all the little gremlins and test it. So there was a lot of testing and a lot of work done to make sure it worked seamlessly when it was turned on, which I think it did.

KD: That makes sense, and that explains the way things happened.

FC: There was never a fundamental disagreement with us and the SEC about what needed to be done. It was much more to make sure that when the implementation was done, it worked.

KD: The only other complication then is the financial crisis that comes in right about the time you're rolling this thing out.

FC: The good news is that, in some ways, the financial crisis heightened the need for information. The MSRB funding is volume-driven, so as long as there were any activities there, there were financial resources in the MSRB at the time. The good news is the staff was able to focus on it, and in some ways, the fact that it was coming at the time it did really did provide more information for people rather than less.

There was a lot more information on how the markets were behaving. I think it gave all the parties to the market a little better insight of how things were working or not working. I mean, the trade data was very helpful. It was interesting when it happened, but it really never slowed down because of it. I think, in some ways, it was actually viewed as being very helpful because of it.

KD: I would have thought that you'd have gotten sidetracked with what was happening in the volume market.

FC: No, it worked out okay because the staff that was committed to implement. That was their job. They were focused on getting that done. In some ways, the MSRB really had no control. People were following the rules. It was just that there were aberrational activities in the market that really is not what you do. I think we were just monitoring to make sure there weren't too many oddities happening. The focus on getting EMMA implemented was pretty clear, and the staffing was in place and the budgets and stuff.

KD: Was EMMA completely implemented when you left as chairman?

FC: It was very near the end.

KD: I wanted to talk a little bit about the financial crisis, and what happened to the auction-rate bonds. You explained that there's really not much that you can do. But on the other hand, you sort of set yourself up as this person who's working with the whole industry. So did you end up going out and doing fact-finding or consulting or anything like that?

FC: Where we got involved very actively is on the trade data. For a long time, the trade data only looked at long-term bonds. One of the things we started doing to trade data is really roll it into the short-term money markets to make sure there's a lot more reporting of activity and transparency in all sectors of the market. What we tried to do as the holder of data of trading activity was making sure that all sectors were covered. What we tried to do is broaden the availability of information by bringing more sectors into it on the theory that the original system was designed for long-term bonds because the assumption is money markets really were not that much going on.

And what the financial crisis showed is that it affected all markets and probably actually the short-term markets were more volatile than the long markets. One of the things we tried to do is broaden the database. In response to that, we dramatically increased the number of things in the reporting database. That did a little bit because money-market structures are trading differently, so there's a lot more to it. That took a while to get done.

KD: Now your term was expiring. It looked like you were going to stay on for another year at some point. Why was that? Was that unusual?

FC: What tells you a lot about what happens in the municipal industry is when you're on the MSRB, you have won a spot. So your spot might be a bank spot, a broker-dealer spot or whatever. I think what was going on is there were a number of firms, because of the financial crisis, that were leaving the industry. Some of the board members actually were no longer affiliated with the organizations they started when they were on the board. There were these partial terms being left over. The normal term is three years, and you're off the board. But because of that, there are these odd periods. Someone—I forgot who it was—was on for a three-year term, but because their firm changed and they left their firm, they could no longer serve their third year.

I was originally filling in the third year for somebody else who had left the board or was about to leave the board. But then what happened that summer, both Lehman Brothers went bankrupt, and Goldman Sachs became a bank. Two of our board members who were broker-dealer affiliated changed their roles. They both went to banks. So the two broker-dealer spots were now held by banks. Since you can only have five banks, so it got very—it shows you what was going on initially. The whole market was changing. Firms were changing. They were being reclassified from broker-dealers to banks. But because of the makeup of the organization, we wound up having too many banks on. So

I just came off because we had more banks than we needed.

KD: Interesting.

FC: It was just one of those things. It changed, obviously, with the new rules, but it was color-coded; five banks, five broker-dealers, five public. So when two of the broker-dealers became banks, we had five public, three broker-dealers and seven banks. That was no good.

KD: I hadn't thought of that.

FC: That's what drove that, and it all happened that summer.

KD: So you've got new rules then? MSRB has new rules?

FC: Under the Dodd-Frank rules, they've changed the whole regulatory regime. Now, it has to have a majority of public members. They've increased the board size but, in part, because of those terms. They're trying to have an orderly transition.

KD: The other thing is you could have been Chairman for another term. Is that correct?

FC: Possibly.

KD: Was that ever an option?

FC: I thought about it. I considered it. But also, at some point in your time, it's a lot of work. I will tell you it's a lot of work. It's a challenge to have your regular job plus doing that. It was very time-consuming. It was exhausting. In some ways, I'm glad I didn't stay on because you spend so much time doing it, then it's like you need to give a little of it away. It was somebody else's turn.

KD: And you probably verge on losing track of what's happening in this building, I suppose?

FC: Something like that. You do a couple of jobs. You've got another job you have to deal with, too. Because of what was going on in the market and everything, you were so focused on your own firm.

KD: Anything that we haven't discussed that we should touch on?

FC: If you go back, the municipal market, obviously, has been very important to government in terms of the amount of capital raised, what it does. The MSRB is trying to be much more active in preserving the integrity of that market. It's doing a good job. The challenge for it going forward is that the make-up is very different. I think just the whole internal governance thing is going to be challenging for them with the new Board. Finding a majority of members who have some understanding of the municipal market is going to be hard. It doesn't have the same notoriety or attention that the corporate model or equity markets have.

KD: The public members?

FC: Right, I think that's going to be a real challenge for them, but I think they're going to have to—and I think they're doing it now; investing a lot more time and effort identifying candidates. I think that's really going to be the challenge for them because, in the past, when you only have thirty of your members being public members, it's a lot easier. When you've got a majority, it clearly changes the whole process of finding members. But Lynette's done a fine job. I think the staff has done a fine job. Clearly, this year is a transition year with the first year when they go majority public. I think the history has shown that the MSRB has done a good job of adjusting to changing times.

KD: Certainly in the last few years.

FC: Yes, it has.

KD: All right. Thank you very much.

FC: Great. Thank you.

[End of Interview]