Interactive Brokers Municipal Securities Disclosure

Much of the information below is found on the Financial Industry Regulatory Authority ("FINRA") website under the Investor Alert, "Municipal Bonds - Important Considerations for Individual Investors." For more information, please refer to this alert.

Interactive Brokers LLC

Interactive Brokers LLC is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

Features of Muni Bonds

Municipal securities, or, "Muni bonds" are debt obligations of state or local governments. The funds may be used to support general governmental needs or special projects

Municipal bonds are considered riskier investments than Treasuries, but municipal bond interest is exempt from being taxed by the federal government. In addition, local governments often exempt their own citizens from taxes on its bonds. However, municipal bonds often have a lower coupon rate because of the tax break.

There are two common types of municipal bonds:

General Obligation ("GO") Bonds - GO bonds are issued by states, cities or counties. They are backed by the "full faith and credit" of the government entity issuing the bonds. The creditworthiness of GO bonds is based primarily on the economic strength of the issuer's tax base.

Revenue Bonds - Revenue bonds are backed solely by fees or other revenue generated or collected by a facility, such as tolls from a bridge or road, or leasing fees. Bonds that are backed by a specific tax or assessment of a government entity, such as a tourist tax or other special tax or assessment, also are often considered to be revenue bonds. Unlike GO bonds, revenue bonds are not backed by the full faith and credit of the government entity issuing the bonds. Instead, the creditworthiness of revenue bonds depends on the financial success of the specific project they are issued to fund, on the revenues of a specific operational component of the government entity, or on the amounts raised by a specific tax or special assessment.

Historically, very few muni bonds have gone into default. But defaults can occur. Defaults tend to be higher for revenue bonds than for GO bonds-especially those that back private-use projects such as nursing homes, hospitals or toll roads.

Risks Associated with Muni Bonds

Risk of Default

Evaluating Financial Condition

Defaults, while rare, do occur. One way to evaluate an issuer' s default risk is to evaluate its financial condition. When a muni bond issuer offers a new bond for sale, it usually discloses the details of the offering and information about its financial condition in the bond' s "official statement" (analogous to the prospectus used for corporate securities offerings). This information is typically updated each year-and also from time-to-time through "material events notices" concerning, for example, delinquency in principal and interest payments, other types of defaults, rating changes, events affecting the tax-exempt status of the bond, bond calls and other events. The Municipal Securities Rulemaking Board ("MSRB") currently makes official statements, other ongoing muni bond disclosures, real-time trade pricing and up-to-date interest rate information available to the public for free through its Electronic Municipal Market Access (EMMA) Web site. This information is also available from IB.

Credit Ratings

Credit ratings can also help you evaluate a bond' s default risk. However, it is important to realize that these ratings are estimates only and should be only one of many factors in evaluating a municipal bond investment. Credit ratings can change at any time. A high credit rating is not a seal of approval and neither reflects nor guarantees stability of market value or liquidity. Conversely, a low credit rating may very well be a sign of a bond' s increased risk of default or an indicator of greater liquidity risk and price level risk. As such, a low credit rating should not be taken lightly. So-called "high yield" munis often have low credit ratings-the higher return is meant to compensate investors for the higher level of risk they incur.

Not all bonds have credit ratings. While an absence of a credit rating is not, by itself, a determinant of low credit quality, investors in non-rated bonds should be prepared to make their own independent credit analysis of the bonds.

Bond Insurance

Some muni bond issuers include a repayment protection feature - most often bond insurance - to insure their bonds at the time they are issued. A bond with insurance generally is able to come to market with a higher credit rating, making the bond more attractive to buyers, and at the same time lowering the issuing cost to the municipality. The protection can shield an investor from default risk to the extent that the protection provider promises to buy the bonds back or to take over payments of interest and principal if the issuer defaults. However, any guarantees are only as sound as the protection agent/insurance company that makes them. For this reason, when considering an insured bond, be sure to take into account the credit rating and long-term viability of the bond insurer. Following recent economic turmoil, the credit ratings of most bond insurers have been downgraded-and, in many cases, the current credit profile of the municipal bond issuer itself may now be higher than the current credit rating of the bond insurer.

Interest Rate Risk

Muni bonds are subject to interest rate risk, which is the risk that an increase in interest rates may reduce the market value of a bond you hold. Interest rate risk, also referred to as market risk, increases the longer you hold a bond. This is especially true if you purchase a bond when interest rates are at or near historically low rates.