

# **Bond Case Briefs**

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## **SEC Charges Kansas for Understating Municipal Bond Exposure to Unfunded Pension Liability.**

The Securities and Exchange Commission today announced securities fraud charges against the state of Kansas stemming from a nationwide review of bond offering documents to determine whether municipalities were properly disclosing material pension liabilities and other risks to investors. According to the SEC's cease-and-desist order instituted against Kansas, the state's offering documents failed to disclose that the state's pension system was significantly underfunded, and the unfunded pension liability created a repayment risk for investors in those bonds.

According to the SEC's order against Kansas, the series of bond offerings were issued through the Kansas Development Finance Authority (KDFA) on behalf of the state and its agencies. According to one study at the time, the Kansas Public Employees Retirement System (KPERs) was the second-most underfunded statewide public pension system in the nation. In the offering documents for the bonds, however, Kansas did not disclose the existence of the significant unfunded liability in KPERs. Nor did the documents describe the effect of such an unfunded liability on the risk of non-appropriation of debt service payments by the Kansas state legislature. The SEC's investigation found that the failure to disclose this material information resulted from insufficient procedures and poor communications between the KDFA and the Kansas Department of Administration, which provided the KDFA with the information to include in the offering materials.

According to the SEC's order, Kansas has since adopted new policies and procedures to help ensure that appropriate disclosures about pension liabilities are being made in its offering documents. Kansas designated responsible parties in state agencies critical to the disclosure process, mandated closer communication and cooperation among those agencies, established a disclosure committee, and now requires annual training of key personnel.

The SEC press release with a link to the order can be seen [here](#).