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Wall Street Lobbyist Wants Advisers to Vet Bond Disclosures.

Municipal advisers hired by states and local governments to prepare offering statements for competitively-bid bond issues should be required to ensure their accuracy, not the underwriters who later resell the debt to investors, the security industry's lobbying group said.

The recommendation by the Securities Industry and Financial Markets Association was included among proposals for improving disclosure in the $3.7 trillion municipal-bond market. The U.S. Securities and Exchange Commission is considering updating the disclosure rules, which are imposed largely through its power over banks that underwrite debt offerings.

In a competitive offering, banks bid to underwrite a municipality's bonds and they aren't involved in preparing the documents provided to prospective buyers. That work is often done by financial advisers. That differs from negotiated sales, in which banks are hired in advance and assist local officials in compiling the offering statement.

"Underwriters's due diligence responsibilities on competitive transactions are reduced, since underwriters are not involved in producing official statements and generally have less time to perform due diligence," Sifma said in a statement Tuesday. "In order to ensure official statements are accurate and investors are appropriately protected, a MA should have primary responsibility."

Sifma's recommendation comes after bond dealers paid $18 million in fines to settle SEC allegations that they issued bonds for municipalities that inaccurately assured investors that they were providing timely updates on their finances. Securities dealers who voluntarily reported the violations to the SEC were offered leniency under an initiative known as MCDC.

SIFMA members said that "a disproportionate number" of potential violations they reported to the SEC involved competitive deals, said Michael Decker, Sifma's managing director and co-head of municipal securities.

"We think there would have been fewer of these kinds of MCDC-type violations on competitive transactions if during the period the MCDC covers, municipal advisers would have had this kind of due diligence responsibility at the time," Decker said in an interview.

Since the enactment of the Dodd-Frank law, financial advisers to municipalities have been subject to regulation by the SEC and Municipal Securities Rulemaking Board.

"If the SEC or the MSRB impose this kind of requirement on municipal advisers it would help ensure that OSs are more accurate and therefore provide a greater degree of investor protection for buyers of the bonds," Decker said.

Susan Gaffney, executive director of the National Association of Municipal Advisors, said the group opposed attempts by securities dealers to shift their duties to investors to advisers.

“They are to provide information to the investor,” she said. “It’s an investor document.”

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by Martin Z Braun

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