
U.S. Muni Bond Issuers Should Break Out Bank Loans - Rulemaker.

NEW YORK, Aug 23 (Reuters) – Municipal bond issuers should have to report their direct bank loans separately from other kinds of debt on their financial statements, according to the head of the group that sets disclosure standards for U.S. state and local governments.

That requirement would help “separate those disclosures and give the reader a perspective,” David Vaudt, chairman of the Governmental Accounting Standards Board (GASB), told Reuters in an interview on Wednesday.

GASB in June proposed changes to the way states and cities report direct loans and private bond placements. By reporting such information separately in financial notes, readers can more easily identify and evaluate the controversial forms of borrowing that can pose risks to bondholders and credit ratings.

Investors in the $3.8 trillion municipal bond market have become increasingly concerned as the use of direct loans and private bond placements has grown in recent years.

Such direct debt is not always disclosed. When it is, the terms can be cumbersome for investors and taxpayers to discover.

Direct debt could also contain terms that potentially put a bank at the front of the line for repayment, ahead of bondholders.

Issuers use direct debt because the loans can be faster to accomplish than traditional public bond offerings, which usually require long, costly bond documents laden with financial disclosures. Sometimes, direct debt provides cheaper financing and fast liquidity.

But if a state or city violates the terms of a direct loan, it is easier for a single entity, like a bank, to call the loan or pursue some other remedy, Vaudt said.

“It’s much more difficult to go to all the bondholders and get some type of action taken,” he said.

The state of Arkansas disputed the idea that direct debt should be separated from public bond offerings on financial statements.

“Some may argue that direct placement bonds may have different terms but this could be true of any debt, regardless of the means by which the debt was incurred,” the state wrote in comments about the suggested rules. “The means of incurring debt does not alter the basic construction of the obligation.”

The deadline for comments is Sept. 15.

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