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The Case for Modernizing Municipal Bond Disclosure Transparency.

In this second installment of a two-part series, David Dubrow and Kent Hiteshew propose reforms to improve disclosure standards in the municipal bond market, exploring both legislative and regulatory approaches. They outline eight key guidelines for enhancing transparency and consistency in municipal offering statements, aiming to bring these disclosures into the modern era and better protect investors.

Part one recounted the history of how the municipal bond market was exempted from regulation under the Securities Acts adopted in the 1930s and how the SEC, beginning in the 1970s, used its anti-fraud powers over broker-dealers to partially overcome the statutory exemption. Notwithstanding these efforts, municipal bond disclosure remains ungoverned by uniform disclosure standards.

As noted in Part one, the only two major municipal regulation efforts followed significant market failures: the 1975 Amendments and creation of the MSRB following New York City's financial crisis; and, Rule 15c2-12 following the WPPSS default in the 1980s. So, it is particularly noteworthy that there has been virtually no relevant federal legislation enacted or SEC regulations issued in the wake of the far larger investor losses experienced by municipal investors after the historic Detroit and Puerto Rico bankruptcies of the last decade. In fact, with the exception of a single broker-dealer affiliate's closed-end bond funds, there have been virtually no SEC enforcement actions brought against any of the Detroit or Puerto Rico parties. Accordingly, it may be an appropriate time to revisit the unique exemption from uniform disclosure standards of the Securities Acts that continues to plague the municipal bond market.

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