

Bond Case Briefs

Municipal Finance Law Since 1971

Reuters: Muni Board Watching General Obligation Debt in Detroit Case.

The municipal bond market's self-regulator on Friday said the Detroit emergency manager's proposed treatment of general obligation bonds in the city's bankruptcy case risks changing how investors view what has long been considered the safest class of municipal debt.

Kevyn Orr, Detroit's state-appointed manager, has said that general obligation bondholders will remain unsecured creditors in the \$18.5 billion bankruptcy filing.

"You have a long history of ... what everyone thought a GO bond was or what it meant to have a GO bond," said Jay Goldstone, chairman of the Municipal Securities Rulemaking Board. "That whole landscape could change."

The MSRB, which writes the rules for the market that the Securities and Exchange Commission enforces and operates a centralized system for posting bond information, said it discussed Detroit's filing for bankruptcy, including its public pension and debt, but decided not to take any action.

"At this point in time we are in an observation mode and as things evolve the board will revisit and decide what role - if any - there may be," said Jay Goldstone, chairman of the board, during a call with reporters on Friday, describing board members as "the industry experts."

Detroit has an estimated \$18.5 billion in debt and liabilities it is seeking to resolve under Chapter 9 bankruptcy protection. Last week, the city filed for the largest municipal bankruptcy in U.S. history.

Under the Dodd-Frank financial reform law, the MSRB became a much more powerful operation, with increased membership and a new mandate to protect public entities, including pension plans.

Still, it remains a "self-regulatory organization," led by representatives from financial firms, banks and municipalities instead of federal officials, and it is unclear if it could have much influence over the filing.

The board's most likely steps are releasing notices that explain how its rules apply to the situation, or working to draft new rules inspired by the outcomes of the case.

Goldstone said anyone could submit a "friend of the court" brief or letter in the Detroit bankruptcy proceedings, but the MSRB did not decide to do so at its meeting.

Asked if the MSRB had reached out to the Detroit pension plans in light of its mandate, he said "the board has not been in contact directly with anyone in Detroit."