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## **Volcker, Ravitch Want More Regulation of U.S. Muni Bond Market.**

Jan 14 (Reuters) – Two U.S. economic and policy heavyweights – former Federal Reserve Chairman Paul Volcker and former New York Lieutenant Governor Richard Ravitch – on Tuesday called for more stringent federal oversight of state and local borrowing in the municipal bond market.

Issuers in the century-old municipal market have long guarded their ability to issue bonds against federal intervention using the Tower Amendment, a part of securities law that bans the Securities and Exchange Commission from requiring them to file bond documents ahead of sales.

In a report on state budgets, Volcker and Ravitch said the amendment should be “revisited so the SEC can require issuers to comply with sensible disclosure requirements as well as with robust accounting standards.”

Currently, the amendment limits the SEC’s jurisdiction to fraud “and no other body has the affirmative obligation or authority to require full transparency and disclosure of risk,” the pair wrote in a statement introducing the final report of the State Budget Crisis Task Force that they chaired.

Ravitch did not say how the amendment should be revised or if it should be eliminated.

“I don’t think the SEC is God’s answer to every problem, but I think the more disclosure the more the public is protected,” he told reporters.

In July 2012, the task force released its first report on the budget and economic problems that forced states into fiscal tailspins during and after the 2007-09 recession.

The final report on Tuesday touched on many of the same themes – the need for long-range budgeting; the importance of strong federal relations; problems with low reserves and underfunded pension systems; and stressed healthcare funding. But it went beyond to look at finance, debt and reporting.

The task force recommended giving states strong oversight of local governments in advance of financial emergencies, and it called for helping states “develop rules for the creation of concise, timely and readable financial reports.”

Municipal bond disclosures, including annual financial statements, are frequently filed late and the SEC noted in an exhaustive 2012 report on the market that the information is often stale. In recent cases, the commission has charged that issuers lied about or omitted important financial details.

“The convoluted, sprawling nature of state financial statements make them of limited use for all but individuals with extensive training,” the report said. “Both budgetary and asset-based financial reporting should be easily accessible.”

Because the task force is loaded with financial experts including former Federal Reserve Vice

Chairwoman Alice Rivlin and former Treasury Secretary George Schultz, it could help boost skepticism about the Tower Amendment. But it is not the first to tilt a spear at the provision.

More than five years ago, the SEC decided to take a narrower definition of the amendment and warned issuers they could not hide behind it completely. Then, in 2012, the SEC suggested Congress give it additional powers that would “meaningfully enhance disclosure practices by municipal issuers.”

Last year, the commission toughened municipal enforcement by increasing the number of cases brought against municipalities and setting new, strict precedents for prosecuting issuers and broker-dealers. The most notable case was against Harrisburg, Pennsylvania, over lack of disclosure and false public statements.

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