

Bond Case Briefs

Municipal Finance Law Since 1971

Volcker Rule Delay Good for U.S. Municipal Bond Market - Moody's.

Jan 26 (Reuters) - The \$3.7 trillion U.S. municipal bond market will benefit from a recent delay in implementing part of the Dodd-Frank financial reform law known as the Volcker Rule, Moody's Investors Service said on Monday.

The rule requires banks to unwind the tender option bonds that they, along with closed-end funds, use to finance purchases of municipal bonds. Last month Congress passed legislation giving banks extra time to comply with the rule.

"This delay is credit positive for municipal closed-end funds and the municipal bond market at large," said the rating agency. "The extension will also help prevent a sharp price correction in muni bonds, since trusts can be unwound and underlying assets sold more gradually."

The implementation delay until July 2017 will "postpone the possible liquidation of approximately \$90 billion in municipal securities that collateralize roughly \$75 billion in existing" tender option bonds, according to the rating agency.

Nonetheless, the Volcker Rule does not allow new tender option bonds to be created and closed-end funds will soon need to find alternatives that comply with the rule's limits. Moody's said the delay will allow a more gradual development of the alternative structures.

(Reporting by Lisa Lambert; editing by Matthew Lewis)