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Muni Investors Need More Information on Issuers' Other Debts: Regulator.

Cities and states should promptly disclose any loans they have taken from banks, the Municipal Securities Rulemaking Board said Thursday in the latest regulatory effort to promote transparency for investors in the \$3.6 trillion market.

Such obligations "could impair the rights of the issuer's existing bondholders," the self-regulator said in a regulatory notice. Existing bondholders could find themselves pushed down in the order of creditors to be paid if a bondholder runs into financial problems, and the added debt could also "impact on the credit or liquidity profile of an issuer," the MSRB said.

While some cities and states have begun posting information about their loans on the MSRB's free Electronic Municipal Market Access website, known as Emma, many others have not.

Individuals own about three-quarters of the debt issued by cities, states and other municipalities, either directly or through mutual funds. Many buy the bonds for tax-free income as a way to fund their retirements.

Disclosure has long been an issue in the muni-bond market, which was described in a 2012 Securities and Exchange Commission report as "illiquid and opaque."

The MSRB has been encouraging state and local governments to disclose bank loans voluntarily since 2012. This month the board urged the SEC to review disclosure requirements, saying that changes in the market—including the increased use of direct loans—require a thorough look at the rules.

The SEC has recently targeted cities and states for improper disclosures, such as settling with Kansas, New Jersey and Illinois for failing to note the risks posed by underfunded pension obligations to bondholders. The agency also halted a bond sale by Harvey, Ill., saying officials had misused funds from previous sales and then misled investors in offering documents. In November, the SEC charged Allen Park, Mich., and two public officials with fraud, saying bond offering documents contained false statements about the viability of a movie-studio project and Allen Park's financial condition.

In its regulatory notice issued Thursday, the MSRB recommends that issuers develop voluntary disclosure policies, post loan information to Emma, determine where loans stand in the priority of repayment relative to existing bonds, and highlight any factors that could accelerate debt repayment or change the interest rate.

The MSRB's advisory comes as rating agencies have expressed concern about the growth of bank loans and other private debt placements by municipal entities. Moody's Investors Service in an October report that a review of 10,000 local-government issuers it rates found more than 100 bank loans large enough for the firm to consider them worth disclosing.

Standard & Poor's Ratings Services said in a report this week that it studied 404 loans with a par amount totaling \$15.8 billion last year and found they didn't impair the rights of existing bondholders. Disclosing those loans and their terms, however, is "critical to identifying those instances where the loans do compromise credit quality and existing bondholders' rights," the report said.

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