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## **SEC's Aguilar Calls for Bold Reforms to U.S. Municipals Market.**

Feb 13 (Reuters) – A top U.S. regulator called for a major overhaul of the rules governing the \$3.6 trillion municipal bond market on Friday, taking aim at a law many traders, issuers and underwriters have considered sacrosanct.

In a wide-ranging statement, Securities and Exchange Commission member Luis Aguilar called on Congress to repeal the so-called “Tower Amendment” which prevents the SEC from requiring bond issuers to file details of their offerings before selling them to investors.

“Unfortunately...the municipal securities market has been subjected to a far lesser degree of regulation and transparency than other segments of the U.S. capital markets,” said Aguilar, a Democrat, in his statement.

“Investors in municipal securities are afforded second-class treatment under current law in many ways,” he added.

For years, the municipal bond market considered the amendment, a part of securities law, a protection against heavy federal regulation.

But in recent years the SEC has taken a narrow interpretation of the amendment, saying it only bars the federal government from requiring pre-sale documents on debt and does not pre-empt regulation of other areas of disclosure and trading.

Using that interpretation, the SEC has been chipping away at the Tower Amendment through some precedent-setting enforcement cases.

Last year, the SEC took the unusual step of seeking an emergency restraining order to stop a planned bond sale by the Chicago suburb of Harvey.

Harvey ultimately settled, agreeing to hire an independent consultant, undergo an audit and face some restrictions on selling new debt.

Aguilar said Friday that Congress needs to go beyond just repealing the Tower Amendment, and should also repeal other exemptions that the municipal market receives from various federal securities laws that shield some players from registration and reporting rules.

“With the appropriate statutory authority, the commission could take a number of steps to enhance disclosure in the municipal securities markets,” he said.

In addition to calling on Congress to grant the SEC new powers, Aguilar laid out numerous other possible reforms.

One such step the SEC could take, he said, would be to revise SEC rules to improve municipal

issuers' disclosures.

This could pave the way for more information about terms of bond offerings and distribution plans, as well as ongoing reporting requirements concerning potential risks such as credit downgrades.

In addition, Aguilar said there needs to be pre-trade price transparency for investors – especially as the market braces for the impending rise of interest rates.

BY SARAH N. LYNCH

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(Reporting by Sarah N. Lynch; additional reporting by Lisa Lambert; editing by Andrew Hay)

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