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MSRB: Financial Disclosures Way Up, Bank Loans Not so Much.

FORT LAUDERDALE, FLA. – Municipal issuers' disclosures of financial and operating data have increased dramatically, while disclosures of bank loans have been disappointing, Municipal Securities Rulemaking Board executive director Lynnette Kelly said at a conference.

Speaking at the National Municipal Bond Summit on Monday night, Kelly said there was a 40% increase in the financial and operating documents issuers filed to EMMA between June 2013 and June 2014. That is much higher than the 7% increase the MSRB normally sees year over year, she said.

Some of this increase was probably due to the Securities and Exchange Commission's Municipalities Continuing Disclosure Cooperation initiative, Kelly said.

The MCDC, announced last March, allowed both issuers and underwriters to voluntarily report, for any bonds issued in the last five years, any time they misled investors about their compliance with their continuing disclosure obligations. Underwriters had to report by Sept. 10 and issuers by Dec. 1 last year.

SEC was particularly concerned about issuers who maintained in offering documents that they were fully in compliance with their self-imposed obligations to file annual financial and operating information by certain dates, when in actuality they had filed the documents late or not at all. SEC offered lenient settlement terms in exchange for the voluntary reporting under the MCDC program.

"Where we've not seen an increase in disclosures and would like to is … bank loans," Kelly said.

The MSRB began urging muni bond issuers to voluntarily post information about their bank loans on EMMA in 2012. Yet since then it has only received 88 such filings, Kelly said, adding, "That is far too low."

Issuers have increasingly turned to bank loans to meeting their financing needs, typically because of lower interest and transaction costs, a simpler execution process, the lack of need for a rating, greater structuring flexibility, or the desire to deal to interact with a bank rather than multiple bondholders. A bank loans is a term used broadly to mean a bank's direct loan to an issuer or the private placement of an issuer's bonds to a bank. But there are no requirements that these be disclosed.

The MSRB, rating agencies, and some market groups have all said it's important for issuers to disclose such loans, because they could affect an issuer's financial condition, its credit or liquidity profile, as well as its outstanding bonds and the holders of those bonds.

The National Federation of Municipal Analysts on Tuesday released a paper detailing what disclosure practices it thinks should be adopted for bank loans. In January, the MSRB's made its most recent call for disclosure of bank loans well as other alternative debt such as direct loans from hedge fund investors.

Kelly told those attending the conference that the MSRB has urged the SEC to revisit its Rule 15c2-12 on disclosure and that bank loan disclosure is one of the areas the MSRB wants the SEC to address during that effort.

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