The SEC Is AWOL on Puerto Rico.

The Commonwealth of Puerto Rico is a financial ticking time bomb that will explode no later than July 1st when a $1.9 billion bond payment is due, which will almost certainly not be paid. Put simply, Puerto Rico is effectively bankrupt.

However, while those financial issues dominate the headlines, they obscure a much larger crisis: a burgeoning human catastrophe as basic social services, including fighting the growing Zika epidemic, are being severely cut to pay interest on bonds, which now consume an astonishing 36% of Puerto Rico's current budget. This is a serious problem and not just for Puerto Rico. The fiscal crisis and deteriorating services, combined with a bad economy creating too few jobs and growth, have sparked a mass exodus from Puerto Rico to the U.S. Zika will not be far behind.

But because Puerto Rico is a Commonwealth rather than a state or municipality, it cannot simply file for bankruptcy and realign its revenues and debts in an orderly, fair and reasonable way. To enable this and prevent a social disaster, a paralyzed, hyper-partisan Congress must act quickly. While Speaker Ryan and the Obama Administration have announced a deal that will permit Puerto Rico to address several of its immediate problems, including authority to restructure its debt, the final passage is still uncertain.

But what can and should have already happened is a thorough investigation by the Securities and Exchange Commission (SEC) into this municipal debt debacle, including in particular into the creation, packaging, selling and trading of Puerto Rico's bonds. This would not be an unfounded fishing expedition. There have been numerous high-profile allegations of misconduct regarding the structuring, sales and trading of some of Puerto Rico's bonds. The SEC is supposed to be in the investor and issuer protection business. It's time for them to get to work.

There is ample precedent for this. For example, between September 2010 and July 2011, the SEC held three field hearings to examine whether investors and issuers of municipal bonds were sufficiently protected. At one of the hearings was held in Jefferson County, Alabama, which three years earlier had been a victim of JP Morgan's corrupt municipal bond underwriting and advisory practices. Then-SEC Commissioner Elise Walter said policymakers must be "informed by [the] experiences of those who live and work outside of Washington, D.C…" adding that it is "particularly true with respect to municipal securities, given their impact on local communities and retail investors."

From the 2010-2011 hearings, the SEC released a report on the state of municipal securities market, calling for many far-reaching reforms, some of which the SEC still has to act on. These proposed-reforms were in addition to what were then-still-new rules introduced by the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 975 of the Act required, for the first time, that municipal advisors — the professionals who sit by the issuers during their negotiations with underwriters and broker-dealers when issuing bonds and selling them to investors — be subject to competency and conflict of interest rules, and above all, become fiduciaries of issuers. The same law also explicitly mandated that the SEC protect municipal entities.

Armed with this mandate, the SEC should immediately announce a series of actions, including field hearings in Puerto Rico, roundtables, forums and fact-finding missions, to address regulatory shortcomings related to Puerto Rico and, more broadly, financially distressed municipalities. It must, at a minimum, answer the key questions: Did municipal advisors, underwriters, and broker-dealers act in the best interest of the Puerto Rican issuers? Did they package, sell and trade bonds consistent with the laws protecting investors?

The SEC should also promptly determine if it should revise its rules on municipal advisors, broker-dealer conduct and standards of care, underwriter conflicts of interest, or disclosure-related regulations for financially distressed municipalities. Everyone is entitled to know if current laws and rules are adequate to protect municipal entities and investors from being exploited.

Congress must act promptly so that Puerto Rico can restructure its debts, stabilize its finances and provide basic services to its people, while also increasing transparency, oversight and accountability. But, the SEC must also act immediately and thoroughly investigate the origins of this debt-fueled crisis, determine if laws were broken, prosecute illegal conduct, and strengthen the regulatory structure where necessary.

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Dennis M. Kelleher
President and CEO, Better Markets, Inc.

Co-authored by Lev Bagramian, Better Markets, Senior Securities Policy Advisor

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