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SEC Takes First Step on Disclosure of Bank Loans to States, Localities.

States and municipalities looking to fund projects have been turning to loans from banks for cheaper finance in recent years

WASHINGTON—The Securities and Exchange Commission took a first step toward shedding light on loans from banks to states and localities that are increasingly being used to finance infrastructure projects, rather than issuing debt in public markets.

The SEC on Wednesday unanimously voted to propose new requirements that state and local governments disclose the details of the bank loans, helping to illuminate a corner of the nearly $4 trillion municipal-bond market where there is currently no consistent reporting.

States and localities looking to fund projects such as roads, schools and bridges are turning to bank loans for cheaper financing in recent years. Such loans total roughly $40 billion to $50 billion in annual issuance, according to consulting firm Municipal Market Analytics. Bank loans are cheaper than issuing debt in the public markets in part because they don't require a rating, which can cost a municipality tens of thousands of dollars, and typically don't carry the same disclosure requirements.

Investors currently "may have limited access, or substantially delayed access, to information about these nonpublic financings," SEC commissioner Kara Stein, a Democrat, said ahead of the vote.

Wednesday's uncontroversial proposal is among a handful of measures the SEC is able to advance despite its depleted ranks. The agency is operating with two commissioners, three fewer than its full complement, in the early days of the Trump administration.

Jay Clayton, President Donald Trump's pick to head the agency on a full-time basis, is awaiting Senate confirmation. The SEC's acting chief is Republican Commissioner Michael Piwowar. The other current commissioner is Ms. Stein.

Unlike publicly traded corporations, borrowers in the municipal-bond market are exempt from requirements to file documents with the SEC before they sell bonds and file updates on a regular basis. As a result, the SEC regulates municipal-debt disclosures only indirectly through banks, prohibiting them from underwriting the bonds unless the issuer enters into private disclosure agreements with investors.

Wednesday's move expands an existing list of "material events" that municipal borrowers agree to disclose on a continuing basis after the issuance of their debt.

Under the proposal, the list would expand to include a requirement to disclose the terms of any bank loans or other financial obligations borrowers may have entered into with a bank outside the public markets. In addition to bank loans, the requirement would also encompass the details of any swaps contracts municipalities enter into to, for instance, hedge against interest-rate changes.

States and localities would also have to disclose if they default, terminate or accelerate the payment of these financial obligations.

Currently, the list encompasses more than a dozen events ranging from payment delinquencies to ratings changes.

The SEC will seek public comment on Wednesday's proposal for 60 days. After the comment period, the agency would have to vote on the measure before it could go into effect.

In addition to the bank-loan proposal, the SEC separately voted to collect public feedback on whether to update its disclosure requirements for bank holding companies for the first time in more than 30 years, though the agency stopped short of proposing specific changes.

The SEC also voted on a third proposal aimed at requiring the use of the so-called inline XBRL format for corporate financial data and certain mutual fund information.

Yet another measure the SEC finalized is aimed at making it easier for investors to find access exhibits to corporate filings, requiring companies to include a hyperlink to each exhibit in the filing's exhibit index.

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By ANDREW ACKERMAN

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Write to Andrew Ackerman at andrew.ackerman@wsj.com