SEC: Investors Need Timely Information on Muni Bond Issues.

Disclosure is needed because of the financial and economic impacts of the COVID-19 pandemic.

The Securities and Exchange Commission is advising municipal bond issuers to disclose "as much information about their current financial and operating condition as is reasonably practicable" because of the economic and financial impact of the COVID-19 pandemic.

The SEC is also encouraging issuers to provide investors with information about the potential future impact of the pandemic on their financial and operating conditions, and it's encouraging financial advisors to discuss the importance of those disclosures with their clients when providing recommendations and investment advice.
"The fluid and unpredictable nature of the public health crisis and its financial and economic impacts on municipal issuers has placed investor need for timely financial information into stark relief," according to a statement from SEC Chairman Jay Clayton and Rebecca Olsen, the director of the agency's Office of Municipal Securities.

The statement notes that disclosures from muni bond issuers should reflect:

- Issuers' assessments of their current operational and financial status, including decreases in revenues and delays in revenue collections
- How responses to the pandemic have impacted their operational and financial conditions, including unbudgeted costs
- How operational and financial conditions may change as their efforts to fight the pandemic evolve

The SEC would also like muni issuers to include in their disclosures their access to cash and reserves and liquidity facilities, including those they have used and may use in the future; the availability of federal, state and local aid they have sought or plan to seek, including the timing of such aid; and any reports issuers have prepared that may be "significant sources of current information."

Such disclosures would be "voluntary, unaudited and non-routine" and "may be challenging … under the current circumstances," according to the SEC.

The Economic and Fiscal Challenges of Muni Issuers

The agency's request comes at a time when many states, counties, cities and towns have been hit with a big drop in revenues while also experiencing an increased demand for spending and services due to the COVID-19 pandemic.

They're collecting fewer revenues from sales and other taxes while shelling out more funds to pay for unemployment — roughly 30 million people have lost jobs in the past six weeks — and emergency health care, for example.

On top of that, states must balance their budgets annually, forcing many to cut programs at a time when they're needed most.

The Coronavirus Aid, Relief and Economic Security (CARES) Act provided about $150 billion in direct federal aid to states and cities, but $500 billion more is needed, according to the National Governors Association.

Federal aid has focused on coronavirus-related expenses rather than future revenue replacement, leading states "to balance their fiscal 2021 budgets on the back of local governments by reducing transfers," according to a report from Moody's Investors Service.

Congressional Democrats have been pushing for a fourth federal aid package that would include more funds for states and cities, but Republicans, led by Senate Majority Leader Mitch McConnell, R-Ky., and President Donald Trump, have opposed more funds for states and cities. McConnell even suggested that states file for bankruptcy if they can't balance their budgets, which is not legal.

On Sunday, Trump's chief economic advisor, Larry Kudlow, said the White House would like to pause before a fourth coronavirus aid program is developed, although he doesn't rule it out.

On Tuesday, Moody's downgraded its outlook for local government debt issuers from stable to negative, just three days after it did the same for state issuers — both because of the economic impact of the COVID-19 pandemic on issuers.

Matt Fabian, a partner at Municipal Market Analytics (MMA), welcomed the SEC's push for more disclosure among muni issuers.

"Investors are rewarding issuers providing transparency, even if the news is bad," he said. They are "more likely to shy away from or sell exposures about which they can't get any fresh information."

In the absence of "actual financial information, investors are forced to rely on the casual statements and social media posts made by government officials, which are subject to the same anti-fraud requirements of any other informational release," added Fabian. "Governments do themselves a favor by putting real data into investors hands."

Chris Brigati, head of municipal trading at Advisors Asset Management, said the SEC's push for more disclosure will be a challenge for many muni issuers to satisfy. "Most issuers are not great at disclosure to begin with and now you're asking them for something they have not historically done and to do forecasting on top of that. It's a nice idea but it's going to be hard to execute."

But it's understandable why the SEC would want investors to have the information. Retail investors dominate the muni bond market, owning about 72% of the bonds either directly or indirectly, or approximately $3 trillion of outstanding issues, according to the SEC.

Given that the muni market is complex and diverse — it includes 50,000 issuers and approximately 1 million securities, according to the SEC, and multiple types of bond structures — the SEC says both "issuer-specific and security-specific disclosures are material."

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