

Bond Case Briefs

Municipal Finance Law Since 1971

Another Abuse Of The EMMA Municipal Reporting System.

It has become a common practice of late to hold bondholder meetings online or by phone in order to update them on adverse events. We see this as an improvement over the untimely notices written in legalize which so often emanate from bank trust departments. I do, however, see distinct shortcomings in how this practice fails to meet the MSRB goal of trying to level the playing field through full disclosure not just for current bondholder, but also for buyers in due course and analysts or fund investors.

Online conference calls where borrower representatives provide updates and answer questions is not unlike the quarterly earnings calls by listed corporations. It allows bondholders to benefit, even from the answers to questions they themselves could not come up with. The shortcoming of this system is that access to such calls is usually subject to a 30 day replay time period after which the information is erased. Some trustees go a step further and require you to identify yourself before the call in order to get the call login information to make sure only bondholder are present.

This means a bondholder may decide to sell his bonds based on information he obtained from a call which is no longer available to the buyer of the bonds. In effect, after 30 days the “public information” definition of the call once again becomes “insider information.” This problem doesn’t exist with corporate stocks and bonds which trade daily because there are analysts who make a living on reporting out such information, the quicker the better.

With municipal bonds, when actionable information becomes available, we often see a clear pattern of selling even before the calls, especially by holders of large positions. We don’t consider this legal in the corporate market. Why shouldn’t it also be illegal in the municipal one?

My suggestion is that the MSRB should require that bondholder notices via telephone or internet calls must be made available to anyone using the EMMA information system for a minimum time period of, say, one year. While timely reporting of information through the EMMA system has many shortcomings, lets not have one of the improvements to the system come with new ways to abuse the market.

Forbes

by Richard Lehmann

Mar 10, 2021