

MEMO# 26328

July 23, 2012

GAO Issues Report on Options for Improving Municipal Securities Disclosure

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TO: MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 31-12 RE: GAO ISSUES REPORT ON OPTIONS FOR IMPROVING MUNICIPAL SECURITIES DISCLOSURE

The Government Accountability Office has issued a report entitled, “Municipal Securities: Options for Improving Continuing Disclosure.” * The report, which is required under the Dodd-Frank Wall Street Reform and Consumer Protection Act, addresses (1) the extent to which information currently provided on municipal securities is useful for investors and the extent to which existing regulations reflect principles for effective disclosure, and (2) options for improving the information issuers disclose to investors of municipal securities. To conduct this work, GAO reviewed disclosure rules and compared them with principles for effective disclosure cited by the SEC and the International Organization of Securities Commissions, surveyed selected experts and market participants, and interviewed issuers.

The report notes that market participants indicated that primary market disclosure for municipal securities—official statements—generally provides useful information, but investors and market participants cited a number of limitations to continuing disclosures. The most frequently cited limitations were timeliness, frequency, and completeness. For example, investors and other market participants said that issuers do not always provide all the financial information, event notices, or other information they pledged to provide for the lifetime of a security.

Based on responses from experts and market participant groups GAO surveyed, the report also suggested options for improving disclosure, some of which would require statutory changes while others could be achieved within the existing regulatory framework. One suggested statutory change was the repeal of the Tower Amendment, which the report indicates that some experts believed would allow federal regulators to directly require issuers to make disclosures, but SEC and MSRB staff did not agree. The Tower Amendment prohibits SEC and MSRB from directly requiring issuers of municipal securities to submit information to them prior to sale. While MSRB and SEC staff said that repealing the Tower Amendment would remove the prohibitions on requiring issuers to file certain materials

with them, they noted that it would have no real effect on what they can require issuers to disclose because municipal issuers are exempt from SEC registration and MSRB does not otherwise have affirmative authority to regulate municipal issuers. Other suggestions from experts and market participant groups requiring statutory changes included mandating accounting standards, or requiring certain conduit borrowers to comply with corporate disclosure provisions.

Experts and market participant groups suggested other options to improve disclosure that could be achieved within the existing regulatory framework. These included further enhancements to MSRB's Electronic Municipal Market Access (EMMA) system that would increase the usefulness of the system to investors and issuers.

The report also notes that SEC staff have indicated their plan to release a staff report in 2012 to include recommendations on measures to improve primary and secondary market disclosure practices, market practices, and associated regulation.

Jane G. Heinrichs
Senior Associate Counsel

endnotes

* United States Government Accountability Office, Report to Congressional Committees, Municipal Securities: Options for Improving Continuing Disclosure (July 2012), available at <http://www.gao.gov/products/GAO-12-698?source=ra>.

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