NASACT National Association of State Auditors, Comptrollers and Treasurers

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Washington Update

SEC ANNOUNCES MUNI OFFICE DIRECTOR

The U.S. Securities and Exchange Commission announced that Jessica Kane has been named the director of the agency's Office of Municipal Securities, having served as deputy director since April 2014. She played a leading role in the implementation and operation of the municipal advisor registration regime, including the issuance of staff interpretive guidance on certain aspects of the SEC's final rules for municipal advisor registration. Ms. Kane also led efforts in the oversight of Municipal Securities Rulemaking Board rulemaking, including the SEC's approval of the MSRB's best execution rule for the municipal securities market.

The Office of Municipal Securities advises the Commission and other SEC offices on policy matters, enforcement and other issues affecting the municipal securities market and oversees MSRB rulemaking and the SEC's municipal advisor registration program.

The full press release can be found at www.sec.gov/news/pressrelease/2015-96.html.

FEDERAL RESERVE PROPOSES ADDING MUNI BONDS TO BANK LIQUIDITY HOLDINGS

The Federal Reserve Board on Thursday proposed adding certain general obligation state and municipal bonds to the range of assets a banking organization may use to satisfy regulatory requirements designed to ensure that large banking organizations have the capacity to meet their liquidity needs during a period of financial stress. Under the liquidity coverage ratio (LCR) requirement adopted by the federal banking agencies last September, large banking organizations are required to hold high-quality liquid assets (HQLA) that can be easily and quickly converted into cash within 30 days during a period of financial stress. Subsequent study by the Federal Reserve suggests that certain general obligation U.S. state and municipal bonds should qualify under the LCR as HQLA because they have liquidity characteristics sufficiently similar to investment grade corporate bonds and other HQLA asset classes.

The proposed rule would allow investment grade, general obligation U.S. state and municipal bonds to be counted as HQLA up to certain levels if they meet the same liquidity criteria that currently apply to corporate debt securities. The limits on the amount of a state or municipality's bonds that could qualify are based on the specific liquidity characteristics of the bonds.

The full announcement can be found at www.federalreserve.gov/newsevents/press/bcreg/20150521a.htm.

SANDERS INTRODUCES BOND TRADING TAX BILL

Last Tuesday, Sen. Bernie Sanders (I-VT) introduced a proposal to pay for free college tuition at the nation's public universities by taxing stock, bond and derivative transactions. Under this new legislation, $70 billion per year in assistance–two-thirds from the federal government and one-third from states–would replace what public colleges and universities now charge in tuition and fees. The federal share of the cost would be offset by imposing a tax on Wall Street transactions by investment houses, hedge funds and other speculators. The legislation, called the College for All Act, would have the federal government cover 67 percent of the cost, while the states would be responsible for the remaining 33 percent.

To qualify for federal funding, states must meet a number of requirements designed to protect students, ensure quality and reduce ballooning costs. States would be able to use funding to increase academic opportunities for students, hire new faculty and provide professional development opportunities for professors. No funding under this program could be used to fund administrator salaries, merit-based financial aid or the construction of non-academic buildings like stadiums and student centers.

This legislation is offset by imposing a Wall Street speculation fee on investment houses, hedge funds and other speculators of 0.5 percent on stock trades (50 cents for every $100 worth of stock), a 0.1 percent fee on bonds, and a 0.005 percent fee on derivatives. Of note in the legislation is that state and local government bond trading will not be subject to these trade taxes.

Additional information of the proposal can be found at www.sanders.senate.gov/newsroom/press-releases/sanders-make-college-tuition-free.

GAO: STATES NEED TO PROVIDE BETTER PAYMENT INFORMATION TO CMS

The U.S. Government Accountability Office has released its latest report on three states' Medicaid payment processes: California, Illinois and New York. The report examined how state Medicaid payments to government hospitals compare to those made to private hospitals, and, for selected hospitals, to their Medicaid costs and total hospital operating costs. However, GAO's assessment of those payments in the three states was hampered by inaccurate and incomplete data on payments. GAO noted:

> "Oversight of Medicaid payments to individual hospitals and other institutional providers, which is the responsibility of the Department of Health and Human Services (HHS) Centers for Medicare & Medicaid Services (CMS), is limited in part by insufficient information on payments and also by the lack of a policy and process for assessing payments to individual providers. CMS does not collect provider-specific payment and ownership information. CMS also lacks a policy and standard process for determining whether Medicaid payments to individual providers are economical and efficient. Excessive state payments to individual providers may not be identified or examined by CMS. For example, CMS's oversight mechanisms did not identify large overpayments to two New York hospitals until they were identified by GAO."

GAO is recommending that CMS take steps to ensure that states report provider-specific payment data, establish criteria for assessing payments to individual providers, develop a process to identify and review payments to individual providers, and expedite its review of the appropriateness of New York's hospital payments.

The full GAO provider payments report can be found at www.gao.gov/products/GAO-15-322.

ISSA INTRODUCES NEW TRANSPARENCY ACT

Last Thursday, Rep. Darrel Issa (R-CA) and co-sponsor Rep. Randy Hultgren (R-IL) introduced another piece of legislation aimed at applying open data standards to financial reports. The bill, known as the Financial Transparency Act of 2015 (H.R. 2477), is based on the Making All Data Open for Financial Transparency (MADOFF) draft legislation that Rep. Issa's office had been previously working on earlier this month.

H.R. 2477 directs the Treasury Department to promulgate common identification codes and common formats for the information that financial regulatory agencies collect from their regulated entities. The bill also requires the Treasury Department to promulgate a common identifier for legal entities, codifying the existing effort to promote the universal use of the legal entity identifier (LEI). In addition, the bill would require the Municipal Securities Rulemaking Board to adopt data standards for the information it collects from municipal securities issuers and advisors, and have these data standards to be machine-readable, nonproprietary and consistent with applicable accounting and reporting principles.

The bill has 11 co-sponsors but does not have companion legislation in the Senate as of yet. Co-sponsor Rep. Randy Hultgren's announcement on H.R. 2477, with the draft language, can be found at http://hultgren.house.gov/newsroom/press-releases/hultgren-cosponsors-bill-to-improve-transparency-of-financial-regulators.

THE WEEK AHEAD: MEMORIAL DAY RECESS

Both chambers of Congress enter their Memorial Day recess this week. They are scheduled to return on June 1. The next Washington Update will appear on June 8.

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