



# Washington Update



## MSRB REQUESTS COMMENTS ON PROPOSALS TO IMPROVE DISCLOSURE OF DIRECT PURCHASES AND BANK LOANS

The Municipal Securities Rulemaking Board is seeking public comment on a potential approach to enhance investor and public access to information about the direct purchase and bank loan transactions of municipal securities issuers. The MSRB is considering whether to require municipal advisors to disclose information about the bank loans and direct purchases of their municipal entity clients to the MSRB's Electronic Municipal Market Access, or EMMA, website.

Direct purchases and bank loan agreements may contain key terms that impair the rights of existing bondholders. MSRB Executive Director Lynnette Kelly commented:

“The lack of transparency around the full picture of an issuer's indebtedness has long concerned

the MSRB. For a number of years, the MSRB has been encouraging state and local governments to voluntarily disclose bank loan financings and other similar obligations on EMMA, yet only a small number have done so. We are now considering whether rulemaking is necessary to ensure investors have the information they need with respect to these financings to make informed investment decisions.”

The MSRB's concept proposal is intended to gather input on ways to improve the availability and timeliness of information about direct purchases and bank loan financings for the benefit of investors and the public generally. Comments should be submitted no later than May 27, 2016. A press release, background sheet and comment link can be found at [www.msrb.org/~media/Files/Regulatory-Notices/RFCs/2016-11.ashx?la=en](http://www.msrb.org/~media/Files/Regulatory-Notices/RFCs/2016-11.ashx?la=en).

## NUNES REINTRODUces PEPTA

Rep. Devin Nunes (R-CA) has reintroduced a bill that would force state and local pension systems to report their pension liabilities with the Treasury Department and would prevent federal bailouts of insolvent pension plans. Pension information would be available to the public through a searchable website hosted by the Treasury Department. The Public Employee Pension Transparency Act (H.R. 4822), known as PEPTA, would also punish state and local governments that fail to disclose this requested information by having their federal tax-exempt bonding authority eliminated. In his statement announcing the bill, Rep. Nunes stated:

“Many state and local pension funds are hiding vast debts through accounting gimmicks. The taxpayers—who will be forced to pay off these enormous debts if pension systems go insolvent—have a right to know



the true condition of these pension plans, and the systems' participants need to know how secure their benefits are. The fact that public pension debt helped spur the Puerto Rican debt crisis should serve as a warning of the devastating effects that can result from underfunded pension systems."

The bill has been previously introduced in the 111th, 112th and 113th Congress. Bill language can be found at <https://www.govtrack.us/congress/bills/114/hr4822>.

## FEDERAL RESERVE TWEAKS MUNI BOND LIQUIDITY RULE

The Federal Reserve has released its final rule changes to treat more municipal securities as high-quality liquid assets under liquidity requirements for large financial institutions, but other banking regulators such as the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have refused to follow suit. The final rule changes treat municipal general obligation bonds (not revenue bonds) with the following characteristics as level 2B liquid assets:

- Those backed by the full faith and credit of a U.S. state or municipality.
- Those meeting similar criteria as corporate debt securities that are included as level 2B liquid assets.
- Those subject to limitations that are intended to address the structure of the U.S. municipal securities market.

The rule changes will take effect on July 1, 2016.

In response to the Federal Reserve announcement, Rep. Luke Messer (R-IN) stated, "Unfortunately, the rule changes will continue to discourage investment in our local communities. And, it will do little, if anything, to help cash-strapped school districts and municipalities finance critical infrastructure projects." Rep. Messer sponsored a bill that would treat all muni bonds that are investment grade and readily marketable as level 2A assets. Messer's bill, H.R. 2209, passed the House on February 1 and is now pending in the Senate.

The Federal Reserve's final rules can be found at [www.federalreserve.gov/newsevents/press/bcreg/bcreg20160401a1.pdf](http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20160401a1.pdf).

## SEC CONFIRMATION VOTE POSTPONED

The Senate Banking Committee held a hearing last Thursday to confirm the nominations of two new SEC commissioners, Hester Peirce and Lisa Fairfax. However, in a surprise twist, the confirmation hearing bogged down due to the nominees' views on corporate political spending. Four members of the committee, Charles Schumer (D-NY), Robert Menendez (D-NJ), Jeff Merkley (D-OR) and Elizabeth Warren (D-MA), effectively blocked the vote, forcing Banking Committee Chairman Richard Shelby to postpone the confirmation vote to a later date.

## THE WEEK AHEAD: PUERTO RICO'S RECOVERY AND THE FIXED-INCOME MARKET

### Wednesday

The House Committee on Natural Resources will hold a full committee legislative hearing on a discussion draft of the "Puerto Rico Oversight, Management, and Economic Stability Act."

<http://naturalresources.house.gov/calendar/eventsingle.aspx?EventID=400195>

### Thursday

The Senate Banking, Housing and Urban Affairs Subcommittee on Securities, Insurance and Investment and the Subcommittee on Economic Policy have scheduled a joint hearing, "Examining Current Trends and Changes in the Fixed-Income Markets." The witnesses will be Jerome Powell, governor of the Board of Governors of the Federal Reserve System and Antonio Weiss, counselor to the secretary in the Department of the Treasury.

<http://www.banking.senate.gov/public/index.cfm/hearings?ID=82821509-B74C-4ECA-83F8-1136FBDFD740>

### WASHINGTON STAFF

CORNELIA CHEBINOU  
*Washington Director*  
[cchebinou@nasact.org](mailto:cchebinou@nasact.org)

NEAL HUTCHKO  
*Policy Analyst*  
[nhutchko@nasact.org](mailto:nhutchko@nasact.org)

TANYA GRAYSON  
*Administrative Assistant*  
[tgrayson@nasact.org](mailto:tgrayson@nasact.org)

National Association of State  
Auditors, Comptrollers and Treasurers

### HEADQUARTERS OFFICE

449 Lewis Hargett Circle, Suite 290  
Lexington, KY 40503-3590  
P (859) 276-1147, F (859) 278-0507

### WASHINGTON OFFICE

444 N. Capitol Street, NW, Suite 234  
Washington, DC 20001  
P (202) 624-5451, F (202) 624-5473

[www.nasact.org](http://www.nasact.org)

For more information on this newsletter's content, contact Cornelia Chebinou at [cchebinou@nasact.org](mailto:cchebinou@nasact.org) or (202) 624-5451.

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