



Highlights of [GAO-12-698](#), a report to congressional committees

## Why GAO Did This Study

Municipal securities are debt instruments that state and local governments issue to finance diverse public projects. As of March 31, 2012, individual investors held up to 75 percent of the total value of municipal securities outstanding. These securities are exempt from certain federal disclosure requirements applicable to other securities sold publicly. Disclosure provided in the primary market, where these securities are issued, generally consists of official statements. Continuing disclosure is information provided in the secondary market, where these securities are bought and sold after issuance. The Dodd-Frank Wall Street Reform and Consumer Protection Act required GAO to review the information issuers of municipal securities must disclose for the benefit of investors.

This report 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 SEC and the International Organization of Securities Commissions, surveyed selected experts and market participants, and interviewed issuers.

GAO provided a draft of this report to SEC, MSRB, and the Financial Industry Regulatory Authority (FINRA). SEC and MSRB provided technical comments, which GAO incorporated, as appropriate. FINRA did not provide comments.

View [GAO-12-698](#). For more information, contact A. Nicole Clowers at (202) 512-8678 or [clowersa@gao.gov](mailto:clowersa@gao.gov).

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## MUNICIPAL SECURITIES

### Options for Improving Continuing Disclosure

## What GAO Found

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. While GAO's analysis of current regulatory requirements for municipal securities disclosure found that they largely reflected the seven principles of effective disclosure, regulators and market participants said that there are some limitations on the enforceability and efficiency of the regulations. However, the effect of these limitations on individual investors largely is unknown because limited information exists about the extent to which individual investors use disclosures to make investment decisions. Nevertheless, regulators remain concerned about this market, in part due to its size and the participation of individual investors. As discussed below, the Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB) have been taking or plan to take actions to improve disclosure.

Experts and market participant groups GAO surveyed 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 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 requiring issuers of municipal securities to file certain materials with them. 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 and requiring the submission of financial information at intervals more frequent than annually. Experts and market participant groups suggested other options to improve disclosure that could be achieved within the existing regulatory framework, including further improving and promoting MSRB's Electronic Municipal Market Access (EMMA) system, which since July 2009 has served as the official central repository for disclosures about municipal securities. While experts and market participants said that EMMA had greatly improved their access to information on municipal securities, many suggested that further enhancements to EMMA would increase the usefulness of the system to investors and issuers. MSRB issued a plan in January 2012 to improve EMMA and recently has taken steps to enhance EMMA's functionality. Further, SEC staff 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.