

OPENING STATEMENT OF  
THE HONORABLE HARRISON A. WILLIAMS, JR.

BEFORE THE  
SUBCOMMITTEE ON SECURITIES

HEARINGS ON S. 2574 AND S. 2969

TUESDAY, FEBRUARY 24, 1976

ROOM 5302 DIRKSEN SENATE OFFICE BUILDING

This morning the Subcommittee begins three days of hearings on legislation to upgrade the quality and uniformity of financial and other information concerning state and local issuers of municipal securities -- S. 2574, introduced by Senator Eagleton, and S. 2969, introduced last week by Senator Tower and myself.

A year ago there was little reason to reexamine the status of issuers of municipal bonds under the federal securities laws or the application of its concepts to state and local borrowers.

The antifraud provisions alone seemed adequate to achieve the necessary disciplines in the offering of municipal securities.

The situation is far different today.

The past year has seen turmoil and uncertainty in our municipal securities market.

Mr. Lennox Moak, the Philadelphia Director of Finance, Vice President of the Municipal Finance Officers Association, and a respected authority on municipal finance, accurately described these conditions in testifying on the plight of New York City:

“Increasingly, it seems that the confidence in municipal bonds has disappeared.

“My analysis of this indicates that this is due to several factors.

“The first is there is no universal accepted accounting procedure for State and local governments so that one does not know when he reads an accounting statement precisely what it really means.

“Second, there are no broadly accepted set of opinions for disclosure of information concerning financial conditions, and in many cases, especially general obligations bond issues are sold with no disclosure whatever to potential purchasers.

“This is not true in the case of revenue bond issuers.

“Yet, even there, it depends on the combined interests of the parties concerned in the transaction.”

On the second point he elaborated by adding:

“There are no requirements for an effective flow of continuing information during the life of the bond issue.

“Nor is there any uniform system for its organization and circulation.

“Nor is there any central point from which existing information can be secured.”

I agree with this excellent analysis of the problem as well as the solutions proposed:

“the establishment of well-defined alternative systems of accounting which would be acceptable for application by state and local governments. . . and establishment of standards for disclosure incident to the creation and servicing of the debt of state and local governments.”

These recommendations are the very foundations of S. 2969.

A congressional reexamination of the longstanding exemption of municipal issuers from the Federal securities laws is necessary to facilitate informed investment decision, promote responsible municipal fiscal practices, and to maintain confidence in the efficiency and integrity of the marketplace.

The objectives of our review are threefold:

First, more information about issuers' financial condition and other essential information must be made available.

Also, it must be timely, accurate, and compiled on a uniform basis.

Unless this is done, there will be less investor participation, lower ratings, and underwriter antipathy -- meaning less total borrowing and at higher interest rates.

Second, the lack of uniform and nationwide municipal accounting standards and practices must be remedied and the current hodge-podge of current practices and customs must be replaced by more generally accepted procedures.

The benefits derived from such procedures currently exist in some states.

In these instances, credit ratings have improved and sound fiscal management and standardized municipal accounting and reporting have resulted in lower borrowing costs to the taxpayers.

Third, municipal issuers must compete for the savers' dollars more effectively to meet projected future capital needs.

To promote confidence and stimulate demand, individual investors will be called upon to participate to a greater extent in the primary market.

The protections and safeguards of the securities laws must be available to them.

This means that some of the disclosure standards investors are accustomed to in the corporate sector will have to be adapted to fit the unique nature of government borrowers.

There are several possible ways in which these goals can be achieved.

State government could impose such requirements.

This has been the pattern since municipalities were first exempt from the securities laws 43 years ago.

Unfortunately, this approach has not proved successful.

With few exceptions, progress towards improved disclosure and uniform accounting practices has been unsatisfactory, notwithstanding the efforts of the Municipal Finance Officers Association.

On the other hand, the investment banking community could impose these requirements as a condition for the purchase of municipal securities.

This has been happening in several instances during recent months but there are several drawbacks.

For one thing, financial information is usually not reviewed or verified by independent public or certified accountants.

Furthermore, the 1975 Securities Act Amendments expressly limits the authority of the SEC, the Municipal Securities Rulemaking Board and underwriters from requiring detailed disclosures from municipal issuers.

The Board, for example, can only require dealers to supply information to investors which is generally available from a source other than the issuer.

The final approach of empowering the Federal government to impose disclosure requirements is embodied in the bills now pending before our Subcommittee, although there are substantial differences between them.

Senator Eagleton's bill would subject municipal issuers to the full sweep of the registration provisions of the Securities Act of 1933.

In contrast, my bill would require the preparation of annual reports and distribution statements, specify their contents, and limit the SEC's responsibility and authority to administering the reporting requirements.

In this way bond-holders and prospective investors would be fully informed of the precise nature and terms of the bonds being offered, as well as various other relevant matters concerning the issuer.

But, the bill does not contemplate or permit direct regulation of municipal issuers through registration, waiting periods or through the filing of sale documents with the SEC.

In addition, only municipalities of significant size would have to comply with the annual report and distribution statement requirements of the bill.

At the reporting level, in the bill, it is estimated that only 6 percent of the approximately 78,000 municipal issuers would have to prepare annual reports.

It is more difficult to estimate the impact of the distribution statement requirements, especially since the bill expressly exempts offers or sales approved by an authorized state authority -- a pattern which the bill would encourage.

Local governments must be able to borrow at reasonable costs.

How best to achieve this result is the subject matter of our hearings and of the legislation before us today.



I am confident, however, that as a result of our deliberations, accounting and disclosure standards acceptable to investors and the various governmental, trade, and professional groups can and will be developed.

Thank you.