

# Comment on Notice 2014-14

from Richrd Lehmann, Income Securities Advisor Inc

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Comment:

My company has tracked municipal bond defaults since 1983, maintains a database on over 3800 defaults since then and publishes a monthly newsletter titled "The Distressed Municipal Debt Newsletter. Over this period of time we have learned a number of abuses which I believe this new regulation may help disclose.

1. The secondary municipal market as it pertains to issues under \$100 million is very much a market of adverse selection. Much of what is offered there represent bonds which are in trouble in that they are making their debt payments out of reserve funds because current payments are not being made. A broker wishing to protect his good clients will sell these issues for that client. This broker may have been the original underwriter of the issue and bought it for this client. He will buy it at a favorable price since the client has been advised of the trouble ahead and is glad to get out at par or near par. The dealer on the other hand, sells the bond based on its yield to an unsuspecting individual who does not know the problem he is buying. The price difference here can be huge so the dealer will generally put himself in the middle of the transaction.

2. The bank trustee often will not advise bondholders that the current payments are not being made unless they call him. They will not talk at all to non-bondholders. These trustees will often wait until the debt reserve has been depleted and the next interest payment will be missed before making their first disclosure. When it was pointed out to a trustee that they are creating insider information they will only share with a bondholder seller, their response has been that it is the responsibility of the selling bondholder to advise the buyer of any adverse situation!

While the proposed rule will not cure the above abuse, it can at least leave a trail which regulators and buyers can follow.