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## **NFMA RELEASES RESULTS OF DISCLOSURE SURVEY**

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The National Federation of Municipal Analysts (“NFMA”) today released the results of an informal survey conducted by its Disclosure Committee of approximately 100 obligors subject to the municipal reporting requirements under SEC Rule 15c2-12 (the “Rule”). The survey was undertaken by the NFMA to evaluate disclosure practices in the secondary market. The purpose of the NFMA study was not to examine the breadth of reporting compliance, but rather to consider the quality and completeness of information being provided, particularly with respect to the inclusion of operating data mandated by the Rule. Operating data is indispensable to rigorous credit surveillance and analysis – regardless of which credit sector is considered - because it enables analysts to evaluate and compare operating efficiency and performance, assess management skill and develop an informed opinion on credit quality.

In surveying secondary market disclosure reports filed by a random sample of obligors, the survey was designed to evaluate two practices integral to the filing and reporting process prescribed by Rule 15c2-12: (a) whether the written undertaking provided by obligors at the time of issuance was complete; and (b) whether actual information subsequently provided fulfilled the terms of the undertaking.

### **Methodology**

The survey design called for evaluating annual financial information filed by a broad sample of municipal obligors, which numbered slightly in excess of 100. To maintain objectivity and promote accuracy, certain conventions were observed: (a) the sample was structured to include a diverse mix of credit sectors; (b) using a special search function provided by Bloomberg, CUSIP numbers were randomly selected within specific credit sectors to insulate the results from potential bias; and (c) the number of obligors included within credit sectors were weighted to approximate market volume levels within each credit sector; and (d) the Disclosure Committee carefully examined and compared written undertakings set forth in Official Statements with subsequent annual financial information filings. To simplify data retrieval and review, only one NRMSIR was used as a database and no attempt was made to determine if reports filed with Bloomberg were cross-filed and consistent with reports filed with other NRMSIRs. The NFMA believes that this simplification in no way detracts from the validity and usefulness of the results for the following reasons: (i) under Rule 15c2-12, obligors are obligated to file annual information reports with all NRMSIRs; (ii) the exclusive purpose of the survey was to examine the quality of disclosure content, not the breadth of reporting compliance; and

(iii) as a general rule, obligors were not included in the survey sample unless at least some information was on file.

### Findings

A summary of the findings from the Survey and Evaluation of SEC Rule 15c2-12 Reporting Practices is presented in the table below. The results point to two general conclusions:

- Annual financial information filed by 59.1% of obligors within the sample were found to contain information deemed to be either complete or near complete.
- Despite some favorable findings, annual financial information filed by 40.9% of the sample were found to be either somewhat inadequate or substantially inadequate.

	A	B	C	D	Total
Total	34	28	27	16	105
Percent (%)	32.4%	26.7%	25.7%	15.2%	100.0%

Key	
<b>A</b>	Annual financial information and operating data is complete.
<b>B</b>	Annual financial information and operating data is near complete.
<b>C</b>	Annual financial information and operating data is somewhat inadequate.
<b>D</b>	Annual financial information and operating data is substantially inadequate.

The practical significance of the findings is that obligors who file under the Rule are generally adhering to mandated information reporting requirements. A substantial portion of obligors are filing annual audits as well as some form of operating data as required by the Rule, although there is a wide range of information being provided. At one level, there seems to be a diligent effort being made by many obligors to provide meaningful operating data pertaining to performance. For obligors found to be providing complete or near complete Rule 15c2-12 filings, there also tends to be a great deal of commonality regarding the specific elements of operating data incorporated into reports. While there is room for improvement even here, it is clear that many obligors are striving to live up to both the letter and spirit of the law.

However, at the same time, an unacceptably high percent of obligors failed to provide sufficient information. In examining the 40.9% of entities found to provide less than

adequate information (Categories C and D), it was determined that 58.1% failed to deliver all information contained in their undertaking, 27.9% did file reports, but had inadequate undertakings, while 14.0% were found to be deficient both in terms of the undertaking itself and in subsequently delivering all information promised in the undertaking. Moreover, for obligors in Categories C and D, there was considerable variation found in the types of operating data included in reports.

It is clear that many obligors are making a good faith effort to comply with the mandate of the Rule. Although dissemination under the current system has some shortcomings, if current disclosure information can be disseminated more effectively, it will provide significant analytical value. Facilitating provision of better operating data is the next logical step to improving disclosure. To that end, the NFMA has been developing sector-specific Recommended Best Practices in Disclosure and believes increased use of these papers by obligors in preparing their annual financial information filings would be a great step forward. Seven Best Practices papers have been released in final form and an additional paper is available in draft form. To view these papers, visit [www.nfma.org](http://www.nfma.org).

The NFMA is also committed to continue working with the municipal bond industry to further improve dissemination of disclosure in a cost effective, timely and efficient manner. As a supplement to its Recommended Best Practices papers, the NFMA Disclosure Committee intends to work with industry representatives, including issuers and obligors, to develop sector-specific lists of key operating data to improve the content of annual financial information filings.

The survey was conducted by an eight member subcommittee of the NFMA Board consisting of Gerry Lian, Vice President/Senior Analyst, Morgan Stanley Investment Advisors, Inc. and Chuck Emrich, Manager, Municipal Credit Research and Strategies, Legg Mason, serving as Co-Chairmen of the NFMA Disclosure Committee, Judi Harvey, Vice President/Senior Analyst, American Express Financial Corp., who serves as Secondary Market Disclosure Coordinator, Anne G. Ross, Senior Vice President, Roosevelt & Cross Inc., Chuck Grob, Vice President, AIM Capital Management, Inc., Howard Mischel, Director, Standard & Poor's Corp. and Bill Hogan, Director, Public Finance, CDC IXIS Financial Guaranty.

Established in 1983, the NFMA is an organization of nearly 1,000 members, primarily research analysts, who evaluate credit and other associated risks in the municipal market. These individuals represent, among others, mutual funds, insurance companies, broker/dealers, bond insurers, rating agencies, and financial advisory firms.