



October 21, 2024

Dave A. Sanchez
Director, Office of Municipal Securities
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Submitted electronically

RE: Proposed Rule: Financial Data Transparency Act Joint Data Standards, S7-2024-05

Dear Mr. Sanchez:

The National Federation of Municipal Analysts (NFMA) is a not-for-profit association with approximately 1,200 members in the United States, comprising a broad range of municipal bond analysts from the buy-side, sell-side, rating agencies, bond insurers, bond counsel, financial advisors, and financial data providers. The membership of the NFMA represents a material portion of the firms owning the municipal debt outstanding and, therefore, NFMA members should be key participants in the process of creating and implementing the financial reporting taxonomy required by the Financial Data Transparency Act (FDTA). It is the goal of the NFMA to provide its members with an influential voice regarding important regulatory initiatives affecting the municipal capital markets.

A. Introduction and Reaffirmation of NFMA's Original Position

The NFMA acknowledges the progress reflected in the recent [joint proposed ruling](#) on the FDFTA from the SEC and other agencies. We commend the efforts to establish data standards that promote transparency, interoperability, and efficiency in financial reporting.

In line with our [October 2023 position statement](#), we reaffirm our belief that the FDFTA provides value when it focuses on capturing key methodologies and frameworks, especially regarding:

- 1) Identification of obligors and entities: Accurate identification is critical for the municipal market given the diversity and complexity of municipal issuers and obligated persons.



- 2) Comprehensive taxonomies: It is essential that the taxonomy fully captures the financial health and credit risk of municipal obligors by integrating both GAAP and non-GAAP financial reporting frameworks.

B. Alignment with the NFMA's Original Statement in the Proposed Ruling

Upon reviewing the joint proposed ruling on the FDTA, we note several key areas of alignment with our original position statement:

- 1) Common Identifiers: The proposed use of Legal Entity Identifiers (LEIs) for obligors aligns with our call for unique identifiers that can accommodate the diverse structures of municipal entities. The proposal to use open-license, non-proprietary LEIs addresses the need for a common system as long as it can accurately track parent-child relationships across entities, including conduit issuers, government entities, and various enterprise funds/component units
- 2) Machine-Readable Formats and Taxonomies: The proposal recognizes the importance of machine-readable data formats (e.g., XBRL, XML, CSV, JSON), consistent with the NFMA's call for comprehensive, structured data standards. The proposed rulings emphasis on ensuring that financial data is accessible, searchable, and standardized is in line with our push for taxonomies that reflect both GAAP and non-GAAP frameworks, particularly for municipal financial statements. We would like to emphasize that machine readable information should not be any less than what is currently disclosed in pdf format.

C. Gaps in the Proposed Ruling Based on the NFMA's Original Position

While the proposed ruling reflects meaningful progress, certain critical aspects outlined in our October 2023 statement remain unaddressed which could potentially lead to market disruptions. This stage of rulemaking should not forgo or restrict these issues from being addressed.

- 1) Securities Identifier Change: In response to the proposed shift from CUSIP to FIGI as the securities identifier, the NFMA acknowledges the intent to move toward an open-source identifier like FIGI to reduce licensing costs. However, it is important to note that this change may introduce significant switching costs for institutional investors, market makers, data providers, and platforms like EMMA/MSRB, whose systems are deeply integrated with CUSIP. While the NFMA does not take a position on this transition, we urge regulators to carefully consider the potential market-wide costs and operational challenges associated with this shift.



- 2) Standardized Taxonomies Financial Disclosures: The joint proposed ruling does not adequately address the need for data standards for various types of municipal issuers including sector-specific nuances (e.g., toll roads, airports, healthcare). We stressed the importance of ensuring the taxonomy reflects the unique financial characteristics of each sector, which is crucial for accurate credit analysis and decision-making.
- 3) Inclusion of Non-GAAP Information: Although the proposed ruling emphasizes machine-readable formats, it falls short in specifying how non-GAAP financial information will be integrated alongside GAAP. The NFMA previously recommended the integration of non-GAAP frameworks that are unique to the municipal market financial disclosures, especially cash-basis and regulatory accounting methods, to provide a full picture of municipal obligor financials. This gap must be addressed to avoid incomplete financial disclosures.
- 4) Timeliness and Burden on Smaller Issuers: Our initial recommendation emphasized the need for tailored reporting requirements that minimize delays in disclosure and address the unique capacities of smaller issuers.
- 5) Beta Testing for Taxonomy Development: In our original statement, we suggested that any new taxonomy undergo a period of beta testing involving key municipal market participants, including NFMA members, before implementation. This important step seems to be absent from the proposed rule.

D. Conclusion

We appreciate the efforts made by the SEC and other regulatory agencies to enhance financial data transparency under the FDTA. However, for the FDTA to fulfill its intended role in the municipal market, it must incorporate the concerns raised by the NFMA and ensure that its data standards are truly reflective of the diverse and complex financial reporting needs in our sector. We look forward to engaging further in this process and providing any additional feedback necessary to refine the final rule.

Sincerely,

/s/

John P. Ceffalio
2024 NFMA Chair

