

October 27, 2023

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

Via Electronic Mail

RE: NFMA FDTA Initial Recommendations

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. The following consensus-driven recommendations are the work product of the NFMA FDTA Working Group. These recommendations were vetted with the NFMA Executive Committee and its full Board of Governors. Accordingly, the NFMA is providing these initial recommendations regarding the upcoming decisions involving the implementation of the FDTA relative to the municipal sector in the coming years, including:

- Development of the appropriate structured data presentation standards
- Appropriate data presentation format (e.g., XBRL, XML, CSV, or JSON) needed to support the wide variety of municipal credit/financial data
- Appropriate municipal issuer/entity identifiers
- Appropriate taxonomy

The FDTA expressly seeks the voluntary, cooperative development of the data standards from the relevant market participants. Consequently, the NFMA has prepared the following initial recommendations.



INITIAL RECOMMENDATIONS & COMMENTS

A. Municipal Structured Data Standards – Financial Statements:

- 1) The NFMA seeks to help develop a comprehensive state and local government financial reporting taxonomy to aid in the complex credit analysis of municipal issuers/Obligated Persons (as defined by SEC Rule 15c2-12) by municipal market participants, including municipal analysts and institutional and retail investors. The taxonomy should encompass all financial statement line items for analyzing a municipal issuer/Obligated Person using generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) supplemented as necessary to encompass cash-basis, regulatory, and other non-GAAP frameworks. The taxonomy should fully incorporate management’s discussion and analysis, basic financial statements, and notes, required supplementary information, and supplementary information. No less than what is currently provided as PDF documents should be provided in machine readable format.
- 2) The NFMA believes the data standards should reflect the unique issuer entities in the municipal market, such as issuers of general obligation debt (full faith and credit backed by the issuer’s ability to levy taxes, or GO debt), conduit issuers and structured finance issuers. Data standards should also reflect the unique financial and credit aspects of the various municipal sectors (e.g., toll roads, airports, student housing). The NFMA notes these are all areas of importance in the creation and implementation of successful data standards.
- 3) To ensure accurate integration of the GASB’s standard-setting, codification, and related processes, the NFMA believes that the GASB should be responsible for developing and maintaining the taxonomy. The GASB should additionally be responsible for updating the taxonomy for changes in GAAP, identifying reporting practices in filer taxonomy extensions, and other technical enhancements similar to the Financial Accounting Standard Board’s responsibilities for corporate filings.
- 4) Development of the taxonomy should begin with GAAP reporting, plus additional non-GAAP information, while accommodating the ability for states to add non-GAAP items as they may require. To ensure accuracy, the GASB should be charged with aligning non-GAAP items within a GAAP framework for municipal issuer/Obligated Person’s financials, thereby normalizing data between GAAP and non-GAAP municipal issuer/Obligated Person financials.
- 5) Once developed, the taxonomies should be beta tested prior to their release. Such testing should include a variety of end users such as the NFMA FDTA Working Group and others.



B. MSRB/EMMA Continuing Disclosure Filings:

The NFMA believes that the data standards need to address the credit and financial information required to be filed with Municipal Securities Rulemaking Board (MSRB) under Securities and Exchange Commission Rule 15c2-12 (Material Events), required to be filed by continuing disclosure agreements, and voluntarily filed with the MSRB by municipal issuers.

C. Municipal Obligor Identifier:

- 1) The NFMA believes the development of legal entity identifiers (LEIs) for municipal issuers/Obligated Persons needs to recognize the diversity and complexity of both municipal issuers and Obligated Persons for debt sponsored by municipal issuers.
- 2) LEIs need to recognize that municipal issuers may issue debt that is not purely GO debt and that is issued for Obligated Persons including other governments, 501(c)3 organizations, companies, and certain funds/indentures of the municipal issuer
- 3) LEIs must reflect the nature of the legal debt repayment obligation of the municipal issuer. Some municipal issuers have a “moral obligation” to pay the debt issued, some provide only debt service reserve fund replenishment funding, some provide “full faith and credit” funding (i.e., unrestricted government funds support), some pledge only certain revenues/funds/assets to repay the issued debt, and others only act as a conduit or other obligated entities and have no legal responsibility to pay the issue.
- 4) The NFMA recommends that the LEI methodology be able to identify and maintain relationships between various obligors, including (a) when a municipal issuer is a component unit of a primary government or a primary government itself, (b) when the municipal issuer is created by a primary government or a component unit, and (c) when the municipal issuer is an enterprise fund of the municipal issuer. In addition, some municipal issuers issue municipal debt on behalf of out-of-state entities, which creates a unique relationship that needs to be reflected in the LEI methodology.
- 5) Once developed, LEIs should be beta tested prior to their release. Such testing should include a variety of end users such as the NFMA FDTA Working Group and others.

D. Municipal Metadata Support Costs & Technology Burden:

- 1) The NFMA recommends that the data standards should be accessible/useable at a scale and in a file format (including XBRL, XML, CSV, or JSON) that can best support its unique aspects. The NFMA believes the standards should be usable by any platform and not limited to one.



- 2) The NFMA believes, regardless of issuer size or frequency of issuance, data standards should be equally and simultaneously applied to all issuers with outstanding debt in the municipal market.

E. Key Concerns in Creating & Implementing Municipal Structured Data Standards:

- 1) What controls will be created to maintain the integrity of the structured data standards? Is there sufficient funding to maintain quality data linked to the structured data standards?
- 2) Will there be timeliness of disclosure of the structured data standards? It is important that the required disclosures do not create longer delays in the posting of credit and financial information than the current municipal disclosure cycle, at a minimum.
- 3) Will the taxonomy be watered down to create a universal FDTA platform which does not include enough vital credit/financial information for municipal market participants to use in their credit/financial analyses? If so, it will nullify the intent of the FDTA.

F. Creation of a Standing FDTA Working Group:

The NFMA believes it is important to create a standing group made up of key participants in the municipal marketplace to advise and monitor the implementation of and improve the use of the data standards under the FDTA, including fostering continual feedback and improvement upon the data standards in a timely manner with input from the analyst community. Key market participants would include the NFMA, the GASB, the Investment Company Institute, National Association of Bond Lawyers, the Securities Industry and Financial Markets Association, the Government Finance Officers Association, the National Association of State Treasurers, the National Association of State Auditors, Comptrollers, and Treasurers, and the U.S. Census Bureau.

We look forward to our conversations with you regarding the FDTA and are happy to respond to any questions you may have about our recommendations.

Sincerely,

/s/

Mark Capell
NFMA Chair

