



**WRITTEN TESTIMONY OF MARY COLBY  
INDUSTRY PRACTICES CHAIRPERSON  
NATIONAL FEDERATION OF MUNICIPAL ANALYSTS**

**SEC FIELD HEARING  
“THE STATE OF THE MUNICIPAL SECURITIES MARKET”  
SAN FRANCISCO, CALIFORNIA  
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Good morning.

Commissioner Walter and Commission staff, thank you very much for providing the National Federation of Municipal Analysts with the opportunity to participate in this hearing on “The State of the Municipal Securities Market.” The NFMA was established in 1983 with the goals of providing an informed perspective in the formulation of legal and regulatory matters relating to the municipal finance industry, improving primary and secondary disclosure in the municipal market, and promoting professionalism in municipal credit analysis. The organization has been recognized for its work in these areas by other industry associations, including the GFOA and GASB, and by various regulatory bodies, including the SEC and the MSRB.

NFMA membership includes approximately 1,000 members, most of whom evaluate credit and other risks of municipal securities. These individuals represent many of the participants in the municipal market, including mutual funds, insurance companies, broker/dealers, bond insurers, and rating agencies.

I am a member of the executive committee of the NFMA’s Board of Governors and the Chair of the Industry Practices committee. My involvement with the NFMA stems from my role representing an institutional investor, Charles Schwab Investment Management, which is the advisor to the Schwab Municipal Money Market and Bond Funds.

The NFMA appreciates the opportunity to offer our comments on “Transparency in Disclosure” to the Commission in this forum. As we have previously commented both publicly and privately to Commissioners and staff members, the NFMA believes that disclosure in the municipal market has made great strides in the last sixteen years since the adoption of the 1994 Amendments to Rule 15c2-12, and in the last six years since the establishment of the Central Post Office. We would also like to applaud the MSRB on its prodigious efforts to launch EMMA, which provides both issuers and investors with the single location each side has been seeking to deliver and retrieve disclosure documents.

I will divide my comments into two broad areas: primary-market and secondary-market disclosure.

In general, the NFMA believes that primary-market disclosure has improved a great deal over the last 20 years, with some sectors of the market having made greater strides than others. We began making recommendations on disclosure in 1990 with the publication of the *NFMA Disclosure Handbook*, and have continued with almost annual publications or comments on the issues, including sixteen *Recommended Best Practices in Disclosure* or White Papers on various sectors in the market. Issuers in many sectors have responded to our suggestions with improved information in official statements. However, there continues to be a misperception among many in the obligor community that they must limit their financial disclosure to audited information. Given that most issuers only undergo audits annually with a substantial lag after the end of the fiscal year, this often results in fairly stale financial information being included in offering documents. While this situation has improved in the last few years, perhaps in response to the financial crisis, it is still fairly common to see an official statement that only includes audited financial information that is six to nine months old. The NFMA continues to recommend that, in addition to the most recent audited financial statements and annual operating information, an official statement should also include more timely unaudited quarterly or semi-annual financial and operating information, as well as up-to-date collections information for the revenues which are securing the bonds in question. I will return to the topic of timely financial information in my comments on secondary market disclosure.

With regard to secondary market disclosure, our comments are far less glowing. Secondary market disclosure continues to be spotty, particularly among infrequent issuers and those who have historically issued only with primary market bond insurance. These are typically smaller, less sophisticated issuers, but there are many of them, so these situations arise frequently.

The major challenge in secondary market disclosure continues to be the timeliness and completeness of filings. While most issuers meet their promised deadlines for filing financial updates, the deadlines are typically 270 days after the end of the issuer's fiscal year, at which time the information is significantly out-of-date. These deadlines compare very poorly to those which corporate issuers must meet, and are further exacerbated by issuers who do not meet their deadlines and may extend their filings to a year or more. This behavior is not limited to small issuers.

We are also aware that recommendations have been made to reduce the deadline for filing financial statements to 150 days from the current 270 days. We are certainly in support of the shorter time frame but, as the recommendations are for voluntary adoption by issuers, we are concerned that adoption will be limited to those issuers who already file within a shorter time frame and not by the greater municipal market.

In addition to more timely annual disclosure, for several years the NFMA has also been calling for interim financial disclosure from all issuers. Currently more frequent disclosure is generally limited to the healthcare sector.

During the current recession, many state and local governments have experienced double-digit declines in revenues, including sales taxes, personal income taxes, property taxes and mortgage recording taxes, among others, all of which separately or jointly secure tax-exempt debt. Investors during the period were often left relying on financial information gleaned from newspaper articles because secondary market disclosure lagged so substantially and was so infrequent. The municipal market contrasts very poorly with the corporate sector where quarterly disclosure is the norm.

The NFMA will continue to include recommendations for interim disclosure in its Recommended Best Practices papers but it has also begun working with the GFOA to develop guidelines for the issuance of more frequent, unaudited financial information by governmental issuers. The guidelines have not yet been completed, but we hope to arrive at agreement with the GFOA to recommend disclosure of unaudited quarterly financial information, likely limited to the balance sheet and income statement, with some minimal notes. As issuers already prepare interim statements for internal use, we do not anticipate that the additional step of filing a limited financial update for the market will present an undue burden, particularly given the user-friendly format provided by the EMMA system. We are pleased about the GFOA's interest in working on this issue with us, and hope that issuers will rapidly adopt the recommendations once they are released. However, these will be guidelines only and, unless an issuer incorporates the more frequent releases in their continuing disclosure agreements, they will be entirely voluntary.

Another area of concern is an increase in incomplete filings. Most issuers include in their continuing disclosure agreements a list of items of information which were included in the official statement and which they promise to include in secondary disclosure filings. And many meet those promises for some period of time, but after a few years the filings may shrink to only the audited financial statements and the additional items of information disappear. These items may range from annual updates for assessed valuation, property tax delinquencies and tax appeals, all of which are critical for assessing a general obligation bond, to operating information for a water and sewer system, or patient data for a hospital, which are also vital to a thorough analysis of the associated bonds.

We do not want to suggest that this is a problem with all issuers; there are certainly particular sectors of the municipal market that do provide more frequent financial information, as well as many large and frequent issuers who are attuned to the needs of investors. Many large issuers are in the primary market multiple times during the year and so are required to provide more up-to-date information. Most, although not all, of the problem lies in the medium and small issuer portion of the market which has the largest number of constituents, given that the municipal market has over 50,000 issuing entities. While some might argue that the filings are an unnecessary burden, given the low rate of default among municipal general government issuers, we feel strongly that the issuers have availed themselves of the benefits provided by issuing debt in the public market and must be prepared to follow through with the promises they have made to investors to provide complete and timely information. Further, the ease of filing through the EMMA system greatly reduces the historic argument against more frequent financial disclosure.

We would also like to express concerns regarding the poor quality of material event filings. Our concerns relate to the timing and the completeness of filings, specifically that many notices are filed weeks or months after the event, or they are not filed at all. Most recently we have learned of issuers failing to report unscheduled draws on debt service reserve funds or credit enhancement policies, and the failure to file adverse tax opinions has been a perennial problem. There are numerous issuers currently under financial stress about whom newspaper articles frequently appear who have not released any updated information through EMMA. In many instances, issuers have cited the materiality standard in Rule 15c2-12, but one could argue that materiality is in the eye of the beholder and should not be left up to the determination of an interested party.

Finally, we support the Commission's recent amendments to the Rule but are concerned that the amendments will only slowly and incompletely be applicable to the \$2.9 trillion in outstanding municipal market debt. Some portion of the municipal debt currently outstanding will never be subject to the amendments, leaving those investors at a disadvantage in making decisions as to the disposition of their investments. We feel strongly that the Commission should take the steps necessary to provide investors in all outstanding municipal debt the comfort of knowing that after they have purchased a municipal bond that they will have access to timely and complete information with which to make on-going decisions regarding those investments.

Thank you very much for this opportunity, I look forward to answering any questions you may have.

