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NFMA RELEASES RESULTS OF MEMBER SURVEY

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The National Federation of Municipal Analysts (the "NFMA") conducted a member survey recently. A total of 217 members, representing roughly 25% of the NFMA's members responded to the survey. Sixty percent of the responses came from buy-side analysts, 14% from sell side analysts, 9% from insurers, 6% from rating agency analysts and 11% from analysts at other types of firms.

HIGHLIGHTS OF THE SURVEY

Evaluation of NRMSIRs

The first group of questions centered on analyst usage of and satisfaction with NRMSIRs. Inspection of member responses yields mixed results. For retrieval of official statements, NRMSIRs are being accessed at least occasionally by 64% of respondents. With respect to secondary market disclosure reports, a nearly even split exists. Significantly, 48% of the analysts contend that they access NRMSIRs only seldom, if at all. The remainder indicates they use NRMSIRs either on a frequent or at least an occasional basis to obtain Rule 15c2-12 secondary market disclosure reports. Relative to other means of accessing information, NRMSIRs scored appreciably lower as an information source. The survey indicates that the rank order of preference for secondary market disclosure among municipal analysts is as follows: (i) web sites; (ii) telephone; (iii) mail; (iv) data compiled by broker/dealers; (v) NRMSIRs; and (vi) trustees.

There is a strong consensus favoring centralization of responsibility for managing information repositories: (a) 77% would like to explore the possibility of an MSRB-maintained centralized index of public disclosure documents; and (b) 87% would also like to see disclosure documents made accessible electronically through a centralized document delivery system. In evaluating the most desirable method of document retrieval, analysts ranked related criteria as follows: (1) ease of access; (2) price; (3) timeliness; and (4) the presence or absence of other alternatives.

New Issue and Secondary Market Disclosure Practices

A second group of questions focused on the impact of Rule 15c2-12 on the quality and sufficiency of disclosure. Sixty-two percent of respondents indicated that after enactment of Rule 15c2-12 the quality of new issue disclosure set forth in the primary offering statement was as good as, or better than, the level of disclosure that preceded enactment of Rule 15c2-12. Thirty-eight percent felt that the quality or sufficiency of new issue disclosure had declined. However, in evaluating the timeliness of the distribution and receipt of preliminary official statements, only 6% find that documents arrive on time.

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while 94% felt that tardiness in document delivery was a problem that occurred on a fairly regular basis.

Most analysts remain dissatisfied with the level and quality of secondary market disclosure. Sixty-three percent of the respondents feel that the quality of secondary market disclosure has either declined or is subject to significant shortcomings following enactment of Rule 15c2-12. Dissatisfaction with secondary market disclosure is amplified by other survey findings: (i) 57% of the respondents find that Rule 15c2-12 reports do not contain adequate operating data and utilization statistics; (ii) 25% find that annual disclosure reports arrive at least 180 days or more after the fiscal year end; (iii) 58% find that secondary market disclosure in the high yield market is at least sometimes inadequate; and (iv) 75% find that secondary market disclosure in the short-term market is either sometimes or frequently inadequate. These results clearly point out the importance of the NFMA's Recommended Best Practices in Disclosure. Since most analysts find the information supplied under the guidelines of 15c2-12 inadequate, voluntary disclosure initiatives must supplement the available information.

Industry Issues

Over 54% of analysts responding to the survey felt that all IRS audits, whether routine, targeted or based on external information, should be disclosed to the market. In total, over 96% of respondents indicated that at a minimum targeted and external audits should be disclosed to the market. Asked whether they had expertise in-house to evaluate the risk of taxability in the event that the National Association of Bond Lawyers (NABL) modifies its Model Bond Opinion to permit the use of qualified legal opinions, 69% of analysts indicated that they had limited or no expertise in-house. Asked if they expected their firms to invest in bonds with qualified legal opinions, 77% said they did not expect to do so, while 18% were unsure.

Analysts were also polled regarding the Municipal Securities Rulemaking Board's ("MSRB") proposed introduction of the concept of a Sophisticated Municipal Market Professional ("SMMP"). It bears noting that the survey was conducted prior to the release of the MSRB's July 6th Revision to its Interpretive Release. Notably, 69% of buy-side analysts place at least moderate reliance on broker/dealers to obtain secondary market information. The clear implication seems to be that, given the substantial degree of analyst reliance on broker/dealers even for secondary market information, it may be inappropriate for the MSRB to relax fair dealing provisions of Rule G-17.

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.