THE BOND BUYER

Issuers leading way to make disclosure better

By

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From reading recent news, an outsider could conclude that municipal disclosure is in disarray — late annual filings, lack of interim information, and an overall failure of issuers to recognize the needs of investors. The municipal market has been, and will continue to be, essential for all types and sizes of public debt needed for infrastructure improvements across our country. As issuers, we want to highlight the many strengths of municipal disclosure and how issuers lead the way to continuously make municipal disclosure better.

David Erdman, capital finance director, state of Wisconsin

Image

We all can agree that the state of municipal disclosure has improved over the past 20 years. Starting with SEC Rule 15c2-12, effective in 1995, amended in 2010 and 2019: In exchange for accessing the capital markets, municipal entities have agreed in continuing disclosure undertakings to provide certain operating and financial data on an annual basis. More importantly, in these same agreements, municipal issuers have agreed to provide within 10 days — not annually, not quarterly, but within a breakneck 10 days — notices of certain listed and material events, providing investors immediate notice of these events. Municipal issuers have further worked with the Municipal Securities Rulemaking Board since 2012 to improve the EMMA platform for those who submit information, which has turned into the one-stop source of information and filings for all municipal issuers.

While municipal issuers understand investors' need for timely and interim financial, we do face some competing challenges. As an issuer, we must comply with many standards from the Governmental Accounting Standards Board (for example, governments are required to show their financial statements in three different accounting formats) that place time pressure on completing annual financial information. In addition, we need to be cognizant of federal securities rules related to disclosure.

In other words, information prepared for an elected official and information reasonably expected to reach investors or the securities markets may have different levels of review and diligence.

There is a very wide range of municipal issuers and municipal credits. A single regulatory mandate does not fairly address everyone and every credit. Recently a Sub-Committee of FIMSAC released their recommendations related to transparency in the municipal securities markets. One recommendation recognized that one size doesn't fit all, and that any substantial changes to municipal disclosure requirements could lead to a significant market disruption. And unfortunately market disruption is costly to everyone including, but not limited to, taxpayer and rate payers who end up paying more for necessary infrastructure projects.

Municipal disclosure is not broken. It has a good structure; it just needs some polishing. GFOA is leading a disclosure industry work group that consists of nearly a dozen market participants. The goal of this industry workgroup is to provide a market solution to current comments on municipal disclosure. Yes, interim financial information is a good best practice especially for certain municipal credits; both GFOA and the National Federation of Municipal Analysts acknowledge this throughout their suites of best practices. There are different types of disclosures for different credits. The first step for this market solution is identifying what “information” is needed by investors for various credits.

In short, ideal interim information for State of Wisconsin General Obligation Bonds is extremely different than ideal interim information for a village tax increment revenue bond issue. With continued feedback and assistance from all market participants, as an industry, we are committed to achieving our mutual goals of quality, timely, and meaningful disclosure.

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