

Municipal Analysts

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BULLETIN



LETTER FROM THE CHAIR

I would like to congratulate everyone involved in the very successful Annual Conference in Seattle. Mark Stockwell, Lisa Washburn and the conference committee are to be commended for organizing a fine agenda. Mark and Lisa will be turning the conference planning duties over to Eric Friedland and Jennifer Johnston for next year's program. Our Advanced Seminar chair, Jeff Burger is already well into the process of organizing a timely fall seminar on municipal bankruptcies and workouts. Patrick Early has volunteered to co-chair the seminar with Jeff. We are fortunate that our educational programs remain in such good hands.

On June 4, 2009, NFMA issued a letter to Congressional leaders and the SEC regarding proposed regulatory changes affecting the municipal market, particularly related to municipal disclosure. The letter was a collaborative effort by the NFMA Board and other NFMA members, and was authored by Peter Bianchini and Natalie Cohen. I believe it is important for NFMA to be engaged in the current dialogue with legislative leaders and regulators on matters related to the scope and adequacy of municipal disclosure. Since our membership works with this information every day, we have a unique and valuable perspective to offer Congress and potential regulators. The letter is included in this newsletter and represents a continuation of a worthy advocacy effort by NFMA members.

Finally, I would like to personally thank Chuck Emrich for his dedicated and passionate service to NFMA over recent years. Chuck has been an invaluable contributor to NFMA in many areas, especially in his work with the disclosure and finance committees. Chuck is leaving the Board to fulfill other commitments, but he will be sorely missed. Mark Stockwell has been elected Vice Chairman by the Board to succeed Chuck, and Greg Aikman has been elected as the new Board Secretary. ***We wish Mark and Greg all the best in their new positions.***

Bill Hogan

MEMBERSHIP

Membership continues to hold at about 1000, despite the economic downturn. We do expect membership to drift below that level as layoffs continue at many shops.

As downsizing continues, please remember to support our members however you can. This is when the power of the NFMA can be used to do the most good. Remember to look at the NFMA website job bank. Enhancements to the job bank are being worked on as we speak.

Look at your organization and see if there are associates who should consider membership in the NFMA. I'm sure there are a few who have fallen through the cracks.

Please contact Lisa Good (lgood@nfma.org) to discuss your particular situation in confidence. The NFMA is more than willing to work with you to retain you as a member in good standing.

Susan Dushock

Julie Egan

Lisa Good

SMFS

Southern Municipal Finance Society

The NFMA held its Annual Conference in Seattle in May. Although I was unable to attend, many members of the SMFS have commented that it was both enjoyable and educational. Congratulations to the Annual Conference committee members for making it a success!

In May, the SMFS had a luncheon that enjoyed a tremendous turnout. We also had significant attendance by telephone.

The topic of the presentation was Build America Bonds. A banker's perspective was provided by Nabil Bennouna of MR Beal. Tom Doe, Founder and CEO of Municipal Market Advisers (MMA), provided lots of color about the recent trends in the municipal market, with specific insight into the current political and regulatory landscape. All who participated in the presentation benefited from the keen insights provided by both speakers. Please contact Barbara VanScoy if you are interested in receiving copies of their presentations. Thanks to Nabil and Tom for a great presentation and for all their efforts in making this lively and informative event.

The presentation at the luncheon was organized by the Educational Co-Chair for the SMFS Barbara VanScoy of Community Capital Management. Thanks and kudos to Barbara for putting together a great panel.

We are planning another educational luncheon in the fall 2009 in another Southern city. Your input and ideas for topics are encouraged. Please feel free to forward them to any board member.

Have a great summer.

Julie Egan

SPONSORSHIP 2009

It's been an eventful 2009 so far. The Dow has been at all-time lows and our friends and co-workers are finding it difficult to find work.

Despite all the negative news, we remain a strong organization with members ready to provide support however they can. We began our sponsorship drive for 2009 well before the end of last year. We are pleased to report that sponsorships total \$95,000 – that's about \$15,000 over the amount we budgeted for 2009. We are still working to obtain more support. As everyone knows, the number of firms we can approach continues to dwindle. As your firms prepare their budgets for 2010 or make revisions to this year's, please have them reserve a spot for the NFMA.

If you have any ideas or would like to help us secure the funds we need for successful, professional events, let us know. Thanks to Lisa Good and Julie Egan for their tireless efforts in this regard. A special thanks to the members who worked so hard to get their firms to participate in our events.

Thanks so much for your help and support into 2009.

Susan Dushock

Julie Egan

Lisa Good



MAGNY

Municipal Analysts Group of New York

Since the last newsletter, MAGNY has had a great deal of activity. One positive note is that analysts actually read the newsletter. My mention in the last issue produced numerous inquiries and expressions of interest in serving as the MAGNY Program Chair beginning in the Fall. We are glad to report that Eric Friedland will serve as Program Chair in the first half of the year and Debra Saunders will perform the duties in the second half of the year. Thanks to both of them for stepping forward and to the many others who have contacted us about the post.

The last three lunches of the year focused on sectors. We started with the Transportation Sector where we heard from three participants with vast experience who are: Michael McDermott of Fitch, Janet Lee of PRAG, and Bob Rich of PFM. We talked about many of the structures that are getting done in this market with emphasis on Garvees and the differences among the strengths of various security pledges. There was some discussion of P3, but the leadership held the opinion that it would be better to have a separate session on the topic in next year's program.

The healthcare session focused primarily on hospitals and the approach to distressed credits in the sector. Ed Merrigan of Ziegler, Dana Fusaris of Fundamental Advisors and Mike Quinn of Assured Guaranty took command of this session. Their commentary made it very clear that there are many risks to navigate in the healthcare sector, but that this status creates many opportunities for investors.

We held off all year on hosting a bond insurance session, but relented for the final session of the year. It turns out, our timing had been propitious. A recent round of additional downgrades and the pending Assured Guaranty's acquisition of FSA added to the anticipation in the room. It turned out that this was among the best attended sessions of the year. David Veno of S&P started for us, and he went about explaining the various rationales for the rating approach the firm has taken on a variety of topics with the most emphasis on the recent rating actions. Cathy Spain, a Director of the National League of Cities, outlined the organizations proposal to form a NLC sponsored Mutual Benefit Bond Insurer. The analysts in the room were given many insights into the steps required to attain the goal of launching an enterprise that will have many unique characteristics to the bond insurance industry. Bill Hogan of Assured Guaranty, and the NFMA Chairperson, was gracious enough to share his thoughts about the current landscape for bond insurance and what it may evolve into over time. In summary, this particular session was quite lively and provoked many questions and much commentary.

I just want to say that it was my pleasure serving as MAGNY Chairperson this year, and I also enjoyed the other MAGNY Board positions I held over the years. These activities put me in touch with many fine analysts and broadened my appreciation and understanding of many sectors. The organization will be well guided next year by Mary Francoeur of Assured Guaranty. If you have a moment, please let Mary know about how you may want to get involved the MAGNY activities. If you do choose to participate, you will be rewarded as I have been over time.

Have a great summer and we will see you at the first MAGNY meeting in September! One final note is that the status of the MAGNY treasury is strong due to the participations at the lunches this year. Keep attending!

John Hallacy, MAGNY Chairperson



Minnesota Society of Municipal Analysts

The 2009 MSMA board includes:

President:	<i>Johan Åkesson</i> , Thrivent Financial
Vice President:	<i>Andrew Clark</i> , FAF Advisors, Inc.
Secretary/Treasurer:	<i>Todd Emerson</i> , Sit Investment Associates
At Large:	<i>Judith Harvey</i> , George K. Baum
At Large:	<i>Allen Hoppe</i> , Metropolitan Council

MSMA had its first meeting of 2009 in April and Dr. Thomas Stinson, the Minnesota State Economist, talked about the State economy. We had over 30 people attending who learned about the current state of the Minnesota economy and where the State is heading in the future. Doug Kilcommons, from Fitch Research, visited us in mid May and gave a review of the Higher Education sector and the big challenges colleges and universities are currently facing. This was another well-attended meeting with about 25-30 attendees. The University of Minnesota will have a new football stadium for the '09 season, and the board is also working on a tour of this facility towards the end of the summer.

Johan Åkesson

Disclosure

Current activities of the Disclosure Committee include a project on GASB 14, which deals with blending of component units of general purpose governments (headed by Brian Tournier); a planned response to GASB re an "Invitation to Comment" on pension accounting; and revisions of Recommended Best Practices (RBP) papers for swaps (headed by Ruth Levine); healthcare (Steve Whalen); housing (Susan Dushock); and land-secured bonds (Ron Mintz).

Greg Clark and Greg Aikman, Co-Chairs



California Society of Municipal Analysts

The California Society of Municipal Analysts had a very successful spring luncheon on March 26th featuring speaker Mac Taylor, California's Legislative Analyst. Mr. Taylor spoke on the state of the State, particularly the budget challenges that continue to affect California and dominate the news.

We are looking forward to a number of interesting events during this tumultuous year and are in the process of planning a summer half-day conference, a fall luncheon, and several social gatherings. The next event coming up will be a social get together with fellow CSMA members to catch up with each other and relax after work; we are looking for a possible new venue for this event and expect it to occur in mid-June. Planning for our summer half-day conference is underway, with many interesting and timely topics affecting our industry. We're looking at the end of July or beginning of August for that event. If anyone has specific topics of interest for the conference or other thoughts/suggestions, please contact a board member (www.nfma.org/csma).

We will be in touch with our members in the near future with more details.

Regards,

Mary Ellen Wriedt



Chicago Municipal Analysts Society

The spring meetings of the Chicago Municipal Analysts Society have featured a number of timely topics and prominent speakers. In mid-April, board secretary Andrea McKeague and board member Derek Wolff hosted the first event in our Roundtable Series at the offices of Nuveen Investments. Representatives from three Chicago-area universities – Depaul, Northwestern and University of Chicago – addressed several of the current issues facing higher education, including capital needs and investment policies. (The Roundtable Series is a sequence of informal, lower-cost gatherings that serve as a complement to our more formal luncheon events.) In late May, board member Derek Bonifer hosted the second Roundtable event – entitled “Build America Bonds: Opportunities and Expectations” – at the offices of BMO Capital Markets. Here, Dr. Andrew Kalotay of Andrew Kalotay Associates and Justin Hoogendoorn of BMO provided expert analysis and led a robust discussion on the merits, features and future of taxable municipal bonds. Both roundtables were well-attended and informative.

Our luncheon events have also proven to be enlightening. In late April, membership convened at Maggiano’s for a presentation by James Spiotto, Partner of the law firm of Chapman and Cutler. As a leading expert in legal issues relating to troubled municipal debt financing, Jim generously provided his invaluable insight and vast knowledge on the topic of Chapter 9 municipal bankruptcy to a highly attentive CMAS audience. In early June, membership assembled at Sullivan’s Steak House to examine and discuss the fiscal and economic condition of the States, featuring expert presentations by William Testa of the Federal Reserve Bank of Chicago, Cadmus Hicks of Nuveen Investments and Chris Mier of Loop Capital. (Board members Rachel Cortez and Derek Bonifer planned and moderated the event.)

Future events include an examination of the fiscal and economic condition outlook of municipalities that have significant exposure to the auto industry. This will likely take place in late July.

Bill Trauner



EDUCATION COMMITTEE

Planning is well underway for this fall’s Advance Seminar on Bankruptcy and Distressed Securities. The seminar will be held October 15 and 16 at the Hotel Marlowe in Cambridge, Massachusetts. We have assembled an excellent planning committee with broad participation from the rating agencies, trustees, sell-side analysts, and investors. Our preliminary agenda includes sessions covering an overview of Chapter 9 bankruptcies and economic implications, sessions specific to the land secured and health care sectors, insurer insolvency and the knock-on effects of tax-exempt corporate obligor/counterparty insolvency, case studies, and the analyst role in discovering the intrinsic value of distressed securities.

We are also pleased to welcome back Judge Erik Kimball who will be serving as our lunch speaker. As many of you know, Judge Kimball was a long standing member of the NFMA and served on the Executive Committee. Judge Kimball was appointed by the Eleventh Circuit Court of Appeals as a bankruptcy judge in 2008. He brings the unique perspective of both serving as a municipal analyst/attorney and now as a federal judge.

Our next seminar will be held in winter 2010. As always, the Education Committee needs volunteers to serve during the planning stage of our seminars. Good ideas are always welcome and this is a great time to get involved. Please feel free to contact me directly at jeffrey.burger@columbiamanagement.com or through Lisa Good.

Jeffrey B. Burger



ANNUAL CONFERENCE

Despite the severe economic conditions affecting the municipal market, nearly 240 market professionals were in attendance at the NFMA's 26th Annual Conference in Seattle. The conference kicked off with a terrific keynote presentation by Chris Mier of Loop Capital Markets, LLC on the current economic conditions on municipal credit with case studies on the impact of mortgage foreclosures and deflation. The balance of the sessions explored timely issues such as how the evaporation of wealth has impacted state and local governments, a fresh look at municipal bankruptcy in the current environment, the value of credit enhancement, a post-Lehman look at swaps, the new landscape of the municipal financial services industry and much more!

The disclosure brown bag lunch was extraordinarily well-attended. The session was lively and involved a lot of audience participation. Issues were surfaced and discussed in a productive manner which resulted in a deeper understanding of the various views in the market on disclosure. And...based on articles published by the WSJ and Bond Buyer shortly following the conference, it looks like there is greater momentum than ever to achieve better disclosure in the municipal market.

The NFMA is looking for conference committee members for the 2010 event in New Mexico. If you are interested, please contact Lisa Good.

Special thanks are due to this year's committee, consisting of

- > **Dari Barzel, Moody's Investors Service**
- > **Beverly Denny**
- > **Remo DiRe, RBC**
- > **Mary Francoeur, Assured Guaranty**
- > **Judith Harvey, George K. Baum**
- > **Bill Hogan, Assured Guaranty**
- > **Howard Mischel, Standard and Poor's**
- > **Akiko Mitsui, Vanguard**
- > **Michele O'Brien, Fitch Ratings**
- > **Michi Rives, Fidelity Investments**
- > **Debra Saunders, Ambac**
- > **Ben Schuler, Fidelity Investments**
- > **Tom Weyl, Eaton Vance**

Lisa Washburn and Mark Stockwell

NFMA Annual Conference • Seattle, WA – May 2009

The NFMA presented its annual industry awards last month during its Annual Conference dinner in Seattle, Washington. The NFMA has presented awards annually since 1984. The Awards Committee Chairman, *Rob Yolland* of Franklin Funds presided over the ceremony. Other committee members included *David Belton* (BMAF), *Greg Clark* (MAGNY), *Julie Egan* (SMFS), *David Statham* (MSMA), *Mark Stockwell* (Affiliated Individual) and *Karen Szerszen* (CMAS). Receiving awards were **Robert Vincent** of CalMuni, Oakland, California, who received the **2009 Meritorious Service Award**. Rob Yolland noted: “**Bob has served as the NFMA webmaster since 1997. It has been through his efforts that the NFMA has had a presence on the internet, and his loyalty to the organization has facilitated the NFMA’s educational efforts to its members and the industry at large through this medium.**”



Rob Yolland, Awards Committee Chair and Robert Vincent, Meritorious Service Award recipient.

A second **Meritorious Service Award** went to **Tom Weyl**, Eaton Vance Management, in recognition of his outstanding service to the NFMA. The NFMA recognized Tom for his service as an effective proponent for NFMA concerns in the municipal market, as long-time chair of the Industry Practices and Procedures Committee, chair of subcommittees on hospital disclosure, Board member and NFMA Chairman. **The Awards Committee specified that it was through Tom’s leadership that the Supreme Court recognized the NFMA’s view in its Kentucky v. Davis ruling.**





J. Ben Watkins, III, Director, Florida Division of Bond Finance, received the **NFMA's 2009 Industry Contribution Award**. The NFMA recognized *Mr. Watkins'* support of better disclosure in the municipal market. On the plaque, the NFMA wrote: **"As a member of GFOA, Muni Council, and in his capacity as director of the State of Florida Division of Bond Finance, Ben's willingness to speak out for more open communication between issuers and investors has been appreciated by the municipal analyst community."**



A second **Industry Contribution Award** went to the firm of *Mintz, Levin, Cohn, Ferris, Glovsky, and Popeo, PC*, in recognition of their continued service to the NFMA and the municipal bond industry at-large. The NFMA recognized *Mintz Levin* for its work on major projects, including the NFMA's Hospital Term Sheet (2005), the NFMA's White Paper on Federal Securities Law Relating to Municipal Securities (2008), and most notably, the **NFMA Amicus Brief in the Kentucky v. Davis case (2007)**.



Ann-Ellen Hornidge



Dan Bleck



Len Weiser-Varon



Meghan Burke



Paul Ricotta



P. Miyoko Sato



Rich Moche



Bill Kannel

Finally, a **Career Achievement Award** was bestowed on *Sylvan Feldstein*, of Guardian Life. This award was presented to *Sylvan Feldstein, Ph.D.*, in recognition of his significant contributions to the field of municipal bond credit analysis throughout his career. In the inscription, the group noted:

"The community of municipal analysts is indebted to Sylvan for his contributions to its professional development and education, through books, articles and presentations. We applaud his efforts to provide educational resources for the analysts of today and the future."



NFMA Annual Conference • Seattle, WA – May 2009



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BMAF

Boston Municipal Analysts Forum

Attendance has been strong at BMAF's 2009 meetings, which have presented a good variety of speakers and topics. On April 8, BMAF hosted Congressman Barney Frank, Chairman of the House Financial Services Committee, who addressed a standing-room only BMAF meeting. Discussion was lively and BMAF members had the opportunity to gain insight into issues driving future national policy and legislative priorities. BMAF welcomed several NFMA officers and members from other chapters for this rare opportunity to meet with this influential Congressman in person.

Attorney Bill Kannel of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. provided a look ahead to the potential impact of insurer insolvency proceedings on April 24. At press time final arrangements were underway for a June 17 panel discussion of Build America Bonds, moderated by BMAF member Susan Dushock, including Edie Behr from Moody's Investors Service, Jeremy Bass from Public Financial Management, Bob Bengtson from Goldman Sachs and Ann-Ellen Hornidge from Mintz, Levin.

In response to popular demand to provide additional networking opportunities and also to provide some local economic stimulus, BMAF has reinstated informal social hours following our late afternoon meetings. The annual summer outing has been scheduled for Tuesday, August 11 at the Harpoon Brewery in Boston where a tour, samples and light dinner will be enjoyed by BMAF members. BMAF officers express gratitude to State Street, Bank of New York/Mellon, Putnam Investments and Mintz, Levin who have generously provided meeting space and refreshments for meetings.

Susan Kendall

Training Committee

The first session of our CCRC training is due for release in the immediate future - we will let you know as soon it is available for viewing. We would like to thank members of the CCRC Committee who worked on this initial session, especially our "on-camera" talent, Ed Merrigan and Mark Wuensch. Other members include Marie Pisecki, Stephen Infranco, Bruce Johns, Sara Kisner, Gary Lasman, Ron Mintz, Chuck Nellans, Kristin Stephens, and Robert Wetzler. Finally, we would like to thank the members of the Training Committee who helped get this project underway: Chuck Emrich, Doug Nelson, and Brian Tournier.

Greg Clark and Howard Mischel, Co-Chairs

NFMA CALENDAR

October 14 – NFMA Board of Governors Meeting, Hotel Marlowe, Cambridge, MA

October 15-16 – NFMA Advanced Seminar on Bankruptcy and Distressed Securities, Hotel Marlowe, Cambridge, MA

Fall – Introduction to Municipal Bond Credit Analysis, date and location TBD

January/February – NFMA Advanced Seminar, topic, date, and location TBD

May 4, 2010 - NFMA Board of Governors Meeting, Hyatt Regency Tamaya Resort Santa Ana Pueblo, NM

May 4-7, 2010 – NFMA 27th Annual Conference, Hyatt Regency Tamaya Resort Santa Ana Pueblo, NM

May 3, 2011 – NFMA Board of Governors Meeting, Charleston Place, Charleston, SC

May 3-6, 2011 – NFMA 28th Annual Conference, Charleston Place, Charleston, SC

April 17, 2012 – NFMA Board of Governors Meeting, Four Seasons, Las Vegas, NV

April 17-20, 2012 – NFMA 29th Annual Conference, Four Seasons, Las Vegas, NV

NFMA

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NFMA

June 4, 2009

The Honorable Barney Frank
Chairman
House Financial Services Committee
2252 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Spencer Bachus
Ranking Minority Member
House Financial Services Committee
2246 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

The Honorable Christopher Dodd
Chairman
Senate Banking, Housing,
and Urban Affairs Committee
448 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Richard C. Shelby
Ranking Minority Member
Senate Banking, Housing and Urban
Affairs Committee
304 Russell Senate Office Building
Washington, D.C. 20510

RE: NFMA Comments on Municipal Regulations

Dear Senators, Representatives, and Chairman Schapiro:

Given the unprecedented events taking place in securities markets, the National Federation of Municipal Analysts (NFMA) would like to give you our perspective regarding municipal bond market regulations and disclosure standards.

As Congress and federal regulatory agencies deliberate new oversight and regulatory change, NFMA is concerned that the depth and diversity of this market may not be fully considered when considering new legislation and/or regulation.

As an example, Congressional discussions are mostly focused on general governments and their general obligation, unlimited tax securities. However, governments and government authorities sell many other types of securities, including bonds payable from hospital revenues, student tuition and fees, toll road revenues, sales taxes, general appropriations, and residential mortgages.

In addition, the market's diversity is often a reflection of state law. Some states require competitive bidding in which financial advisors are the key contact for issuers and bidders. In other states, negotiated underwriting and broker/dealers dominate. However, individuals and institutional investors purchase and trade securities in all states without regard to the structure of the original underwriting.

These factors indicate that a "one size fits all" approach will not substantially achieve the goal of improved oversight. NFMA's sector-based approach, discussed in a subsequent section, may help to illustrate the wider variety of credit issues that confront our market.

The Current Status of Disclosure in the Municipal Bond Market

Due to existing federal law, the SEC has had to approach disclosure through the broker/dealer community and Rule 15c2-12. However, as a recent report from DPC Data indicates, compliance with this rule is inconsistent. Short of a fraud investigation, there is no enforcement mechanism available that is similar to remedies imposed for publicly traded corporate securities. With no one regulatory authority overseeing the municipal bond market, there are also no formal disclosure standards or definitions of material information to be provided, and disclosure quality varies significantly.

Viewed from the perspective of a corporate investor, it is unlikely that one would consider buying shares in a company whose filings are two years old, nor consider investing without complete and open disclosure of all material facts about a company. Yet this lack of disclosure has been tolerated and excused in the municipal market for a range of reasons. (“It is too much trouble/cost/burden for small, infrequent issuers”; “Municipalities have low default rates, so what difference does it make?” etc.)

NFMA views the launch of the Municipal Securities Rulemaking Board’s (MSRB) new Electronic Municipal Market Access (EMMA) disclosure system as a step in the right direction, and we look forward to continued development of this system. Although EMMA has improved the delivery of information, it does not improve the quality of that information for new issue offerings or for annual 15c2-12 reports. Complete and accurate disclosure for investors should focus not only on financial results but on all material information. Operating data, competitor information, projections, and the terms and counterparties of contingent activities such as swaps, other derivatives, guarantees, and liquidity agreements are often material. In many cases, these items are routinely missing from today’s disclosure. Especially with the scarcity of “AAA” credit enhancement and the absence of underlying credit ratings, analysts are working as quickly as possible to evaluate the securities in their portfolios. If detailed disclosure about the underlying credits were more robust and easily available, this process would be far more effective, allowing more efficient market decisions. Further, we might be able to avoid perpetuating some of our current problems as highlighted below.

Recent Issues – Auction Rate Securities and Swaps

The municipal market, along with the capital markets in general, has suffered significant dislocation since 2007. There are numerous examples of borrowers paying up to 20% interest on auction rate securities when that market became illiquid last year. While the market has corrected for many of these high profile issuers, some borrowers, particularly health care and smaller issuers, continue to pay elevated rates.

Since the summer of 2007, when the short term markets seized up, our members and other market participants have struggled to unravel the details of each transaction.

- For interest rate swaps and similar instruments, simply being able to track exposure to troubled counterparties is a time-consuming, frustrating, and often fruitless effort. The structure of a swap, the counterparties involved, and in particular a transaction’s terms and triggers are often not disclosed to investors. For example, it was not readily clear which borrowers had interest rate caps on auction rate bonds.
- Determining rating downgrade triggers for replacement of counterparties and consequences for non-compliance were not obvious.
- For borrowers who had purchased guaranteed investment contracts from failed institutions, the collateral triggers, replacement of counterparties, or cash funding requirements were not always known.
- For bank-supported variable rate obligations, bank letter of credit agreements and terms of reimbursement have typically not been disclosed.
- Similarly, how much money a municipality gets up front in a “swaption” is not typically revealed, nor is the size of the termination payment to unwind a swap.

Each of these events has material credit consequences for municipal borrowers and their investors. NFMA hopes these examples help market regulators to determine disclosure guidelines and improve transparency in the market.

The National Federation of Municipal Analysts

NFMA was chartered in 1983 as a not-for-profit association with the goals of promoting professionalism in municipal credit analysis and furthering the skill level of our members. We do this through educational programs and industry communication, providing an informed perspective on legal and regulatory matters relating to the municipal finance industry, and by facilitating the flow of information between investors and issuing entities.

NFMA membership includes approximately 1,000 members who evaluate credit and other risks of municipal securities. Members represent institutional investors, insurance companies, broker/dealers, bond insurers, and rating agencies. Credit analysts are present at all stages of the municipal securities market, from a transaction's inception to structuring, insuring, rating, sale of the securities, investing and trading in the secondary market. While each analyst's company may have a different role in the marketplace, understanding and communicating credit risk is the analyst's unifying link.

To this end, one of the major initiatives of NFMA has been to provide disclosure guidelines and best practices in the major sectors of the municipal securities market. Since inception, NFMA has published and disseminated "White Papers" and "Recommended Best Practices" on relevant topics such as GASB 45, securities law, project finance, hospital debt, water and sewer bonds and toll roads. "White Papers" serve to explain a topic and offer NFMA's views; "Recommended Best Practices" promote detailed disclosure guidelines for each particular sector. To produce these papers, NFMA forms a committee of experts from among our membership and other market participants. NFMA contributors will typically include representatives of buy-side, sell-side, credit enhancement, and rating agency firms. The papers are subject to extensive review and discussion by NFMA Board of Governors before publication, as well as a public comment period. These documents and others may be viewed on NFMA's web site, www.nfma.org.

In addition to these initiatives, NFMA works actively with regulatory bodies and trade associations to promote effective disclosure, best practices, and education in the municipal securities market. Throughout its history, NFMA has provided a clear and consistent message that improved disclosure is a key component to the smooth functioning of a market that promotes the goals of investor protection, market integrity and efficiency.

Recommendations

- First, NFMA believes that the result of any changes to regulation of the municipal market should move municipal disclosure closer to corporate disclosure standards with respect to timeliness, content and fairness. While much progress has been made, this standard has not yet been achieved. NFMA does not take a position as to which entity would be best suited to improve this process. We believe any regulator for the municipal market must be organized and governed so that it considers the needs of the public and all market participants. To the extent municipal markets remain under a self-regulated organization through the MSRB, all stakeholders, including NFMA, should have board level representation to promote market fairness. In this era of heightened credit risk, NFMA members provide a valuable cross section of perspectives on the market.
- Second, NFMA strongly advocates that any regulator have direct rulemaking authority over disclosure of key credit features of securities themselves, the borrowers, and ancillary deal participants such as swap counterparties, insurers, and other credit enhancers. NFMA supports removing barriers to change and would support legislation that would allow capital market regulators to work directly with all participants to implement and enforce robust and timely disclosure. This disclosure should be made available at no cost to all who seek it, in a timely and organized fashion as a condition for participation in publicly traded markets.
- Third, NFMA strongly recommends that any regulatory changes focus on improving the quality and depth of information that is provided. We submit that NFMA's well-vetted Recommended Best Practices papers or similar sector based guidelines are an excellent starting point for that discussion.

- Fourth, NFMA would like to see the establishment of a municipal market advisory panel created from among the major trade organizations in our market to help develop and maintain the quality of a regulator and regulatory scheme. To date, invitations to comment have been ad hoc, a practice which risks missing important developments as they arise as well as often excluding key parties. There are models for this type of advisory panel at the IRS, FASB and GASB, as well as the Muni Council. Muni Council was a 20-organization coalition formed earlier this decade that included the MSRB, SEC, NFMA and other industry groups. It worked successfully to improve the timeliness of municipal disclosure, setting guidelines for the resulting system - DisclosureUSA - and the MSRB's EMMA system. We also note that the SEC itself convened an "advisory committee on improvements to financial reporting" when developing its XBRL rules. We recommend that any such committee meet regularly to advise a federal regulator on developments and concerns in the market. This is because changes in state and local finance may be less familiar to those serving in federal government than to state and local market participants, and the panel would be available to brief and educate regulators and federal representatives. The organizations will no doubt disagree on many points and perspectives; however we believe this approach would serve as an early warning signal of emerging and urgent issues in state and local government finance.
- Finally, NFMA recommends that existing technology can be put to better use to improve transparency in the municipal market. The corporate securities markets will soon be making filings using XBRL technology, a global standard that will permit retrieval of information to be easy, uniform, and robust. There is little reason not to take the next step in streamlining electronic information in the municipal market as well. In fact, limiting the number of "touches" on a single document will save money, paper and time.

In closing, we believe in the strength and positive benefits of the municipal market, which has for decades offered affordable access to the capital markets for municipal issuers. We believe there are improvements to make and hope that NFMA's viewpoint can be considered.

We welcome the opportunity to meet with you to discuss these or other related points further.

Sincerely,

Lisa Good
Executive Director, NFMA

