



GOVERNMENT FINANCE OFFICERS ASSOCIATION OF TEXAS

May 10, 2017

VIA E-MAIL: rules-comments@sec.gov

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Release No. 34-80130; File No. S7-01-17

INTRODUCTION AND SUMMARY

The Financial Reporting and Regulatory Response Committee of the Government Finance Officers Association of Texas (“GFOAT”) would like to take this opportunity to respond to the SEC’s proposed amendments to the Municipal Securities Disclosure Rule (Rule 15c2-12) under the Securities and Exchange Act of 1934 that would amend the list of event notices that a municipal issuer would be obligated to make under its 15c2-12 continuing disclosure obligations.

As accounting and finance professionals who are charged by their governments with the responsibility for debt issuance and debt management, we take our responsibility for full disclosure very seriously and seek rules that are both unambiguous and cost beneficial. We do not believe that this proposal meets either one of these vital tests. We also believe that these two concerns can further lead to the unintended consequence of forcing market participants to wade through a flood of immaterial event disclosures as issuers seek a safe harbor by simply filing event disclosures on everything because they have no assurance as to what materiality level might be used by the Commission in an enforcement action. The best place to hide a book is in the library and individual issuer’s CUSIPs on EMMA could soon begin to resemble a library crowded with disclosures regarding every lease transaction, litigation settlement or other financial obligation that has occurred as of the last governing body meeting. When a truly material event does occur, will it be noticed or will it simply blend in with the numerous other event disclosures?

Specific concerns and related recommendations to address these concerns are included below.

AMBIGUITY OF THE PROPOSAL

The proposal defines financial obligation as “*an issuer’s or obligated person’s debt obligations, leases, guarantees, derivative instruments, and monetary obligations resulting from judicial, administrative, or arbitration proceedings*”. This definition is so broad that most municipal issuer will have to evaluate events at least as often as its governing body meets. It will also need to evaluate automatic renewal provisions of existing leases to determine if an automatic renewal triggers an event requiring notification. While it is true that the proposed wording includes a “if material” qualification, the rule does not define materiality and without a clear objective (i.e. calculable) definition in the rule or the rule allowing individual issuers to state a materiality threshold, risk averse governments will naturally use an extremely low or even zero dollar threshold for materiality. The issue of materiality is further confused by individual vs. aggregate considerations and the nature of derivative instruments. For example, a government might on average, enter into 25 leases per year, with each lease individually being immaterial but the 25 in the aggregate possibly being material. Should the government file an events notice for each lease as it occurs knowing that the aggregate could be material? Derivative instruments can also be problematic as the amount of financial obligation portion of the instrument can fluctuate daily with the markets. If a government enters into a derivative as a hedge, is it expected to continually monitor the liability portion of the instrument to determine if it has changed and could then be viewed as material?

COST BENEFIT CONSIDERATIONS

We were pleased to see acknowledgement by the Commission that the default rate on municipal debt is extremely low compared to other publically held securities. We believe that this low default rate is due to the fundamental nature of government, its taxing powers, its lack of a profit motive and the public service nature of its mission of protecting and improving the quality of life for all its citizens. We also believe that this low default rate should be a major consideration regarding the rules proposed. In their current form of applying to all municipal issuers and given the current broad definition of financial obligation we believe that the costs related to compliance will be substantial and far exceeding the benefits provided to market participants. Except for the largest of municipal issuers, few of the 44,000 municipal issuers have dedicated debt management or financial reporting staff. State and local governments also typically have balanced budget requirements that from a practical standpoint mean that they have finite resources in which to operate. Spending more on accountants, financial advisors and bond lawyers will invariably mean spending less on both capital and operating needs vital to their primary mission.

RECOMMENDED MODIFICATIONS

Based on the concerns discussed we would recommend that the first additional event notification be limited to debt obligations i.e. bank debt and private placements. If the commission insists on including other types of financial obligations for event notifications,

definitions should be tightened and clear unambiguous materiality definitions should be developed that will allow for a quick determination of required events and discourage over disclosure by issuers and financial advisors who fear being second guessed regarding their judgement on what is material.

Respectfully:

Robert Scott

Robert Scott
FRRR Committee Co-Chair
bob.scott@cityofcarrollton.com

Keith Dagen

Keith Dagen
FRRR Committee Co- Chair
keith.dagen@cor.gov