Putting EMMA® to Work for You

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Presentation Outline

• Overview of the MSRB

• Recent Regulatory Initiatives

• EMMA® for Issuers

• Understanding and Complying with Financial Disclosure Obligations

• Getting Started
Overview of the MSRB
Municipal Market and the MSRB

Watch the video that tells our story.
Recent Regulatory Initiatives
Recent Regulatory Initiatives

- Primary Offering Practices – Retail Order Periods
- Disclosure of Bond Ballot Campaign Contributions
- Municipal Advisor Regulatory Framework
  - Duties of Non-Solicitor Municipal Advisors
    (Draft MSRB Rule G-42)
  - Supervisory and Compliance Obligations
    (Draft MSRB Rule G-44)
  - Professional Qualification Requirements
    (Draft Amendments to MSRB Rule G-3)
Primary Offering Practices – Retail Order Periods

• Effective March 31, 2014

• Key underwriter or dealer obligations under amended MSRB Rule G-11:
  
  – Communicating in writing to syndicate and selling group members regarding issuer’s terms and conditions, retail order period requirements, priority provisions and pricing information

  – Identifying information about an order to help ascertain whether it constitutes a valid “retail” order

  – Reporting to EMMA whether a primary offering included a retail order period and applicable dates and times
Retail Order Period Defined

- Amended Rule G-11 also provides definition of “retail order period” that clarifies that issuers define the eligibility criteria for orders during this period

“An order period during which orders that meet the issuer’s designated eligibility criteria for retail orders and for which the customer is already conditionally committed will be either (i) the only orders solicited or (ii) given priority over other orders”
Retail Order Period Defined (continued)

- The issuer ultimately defines the eligibility criteria for orders that may be submitted during a retail order period

- A retail order period may either be:
  - A separate order period during which only orders that meet the issuer’s criteria are solicited
  - OR
  - A single order period during which all orders are submitted but priority is given to those orders that meet the issuer’s criteria for retail orders
Amended Rule G-11(k): Representations Disclosures

- Dealers submitting an order during a retail order period must submit, in writing, to the senior manager (or sole underwriter) no later than the Time of Formal Award:
  - Whether the order is from a customer that meets the issuer’s eligibility criteria for participation in the retail order period
  - Whether the order is one for which a customer is already conditionally committed
  - Whether the dealer has received more than one order from the customer for the same security
  - Any identifying information required by the issuer
  - The par amount of the order
Disclosure of Bond Ballot Contributions

• Goal of expanded disclosure requirements:
  – Address real or perceived link between dealer contributions to bond ballot campaigns and the award of bond business
  – Protect the integrity of the municipal market

• Municipal securities dealers must publicly disclose:
  – Additional information about contributions to bond ballot campaigns
  – Any related municipal securities business

• Effective for quarterly reporting period that began July 1, 2013
Political contribution disclosures are made available to the public on the MSRB’s EMMA® website.
Advancing Municipal Advisor Regulation

- Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 charged MSRB with developing regulatory framework for municipal advisors to:
  - Protect state and local governments and other municipal entities that engage the services of a municipal advisor
  - Promote a fair and efficient market
  - Preserve municipal market integrity
Defining Municipal Advisor

- In September 2013, the SEC promulgated a final registration rule (SEC Final Rule) which among other things:
  - Defined the categories of persons deemed municipal advisors
  - Established a permanent registration regime
  - Established broad recordkeeping requirements for municipal advisors
  - Provided that the examination of municipal advisory firms would be conducted by SEC and FINRA

- Effective on July 1, 2014
Municipal Advisory Activities

- Municipal advisory activities are described in Section 15B(e)(4)(A)(i) and (ii) of the Securities and Exchange Act of 1934

- Those activities include advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to:
  - Structure
  - Timing
  - Terms
  - Other similar matters concerning such financial products or issues
Dealing Fairly

- MSRB Rule G-17 currently applies to municipal advisors as well as municipal securities dealers

- Must deal fairly with all persons

- Must not engage in any deceptive, dishonest or unfair practice
Municipal Advisor Registration

• Issuers can verify a municipal advisor’s registration on the MSRB’s website at

msrb.org/msrb1/pqweb/MARRegistrants.asp

• Unregistered municipal advisors are in violation of federal law
Regulatory Framework

- MSRB is developing a comprehensive regulatory framework that includes:
  - Development of rules governing the professional conduct of municipal advisors
  - Establishment of a professional qualifications program that ensures municipal advisors are qualified in their duties
  - Extensive education and outreach to municipal advisors on duties and obligations
Future Municipal Advisor Rulemaking

• Board set pace, timing and priority of municipal advisor rulemaking

  – Standards of Conduct (January 2014)
  – Supervisory and Compliance Obligations (February 2014)
  – Professional Qualification Requirements (March 2014)
  – Gifts and Gratuities
  – Political Contributions
  – Duties of Municipal Advisors Acting as Solicitors
Core Standards of Conduct Rule

- First MSRB proposed rule for municipal advisors since adoptions of the final SEC definition focuses on core standards of conduct for municipal advisors

- Extended 60-day comment period ended March 10, 2014
Scope of Draft Rule G-42: Duties of Non-Solicitor Municipal Advisors

- Duties and responsibilities of a municipal advisor engaging in municipal advisory activities
  - Standards of conduct
  - Disclosure of conflicts of interest
  - Documentation of the relationship
  - Recommendations
  - Principal transactions
  - Prohibitions related to compensation, fees and the retention of business

- Duties created by the draft rule are in addition to fiduciary duties under state or other laws

- Duties of solicitors will be addressed in a separate rule
Draft Rule G-42: Duty of Care and Duty of Loyalty

- Duty of care applies to all clients
  - Requires, among other things:
    - Due care
    - Knowledge and expertise
    - Inquiry and investigation
    - Suitable recommendations
    - Review of official statement if within the scope of engagement

- Duty of loyalty applies to municipal entity clients
  - Requires municipal advisor to act with utmost good faith and in the best interests of the client
• Disclosures of Conflicts of Interest and Other Information
  - At or prior to the inception of a municipal advisory relationship, the municipal advisor must provide the client with written disclosure of all material conflicts of interest

• Documentation of the Relationship
  - The municipal advisor must evidence each municipal advisory relationship in writing prior to, upon or promptly after the inception of the relationship
Supervisory and Compliance Obligations of Municipal Advisors

- MSRB Draft Rule G-44 published for public comment in February 2014
  - Sets forth supervisory and compliance obligations of municipal advisors when engaging in municipal advisory activities
  - Takes a primarily principles-based approach to accommodate the diversity of the municipal advisory population
Scope of Draft Rule G-44: Supervision

• Reasonably designed supervisory system
  – Written supervisory procedures
  – Designation of one or more municipal advisor principals responsible for supervision

• Compliance processes
  – Reviews of compliance policies and supervisory procedures

• Designation of a chief compliance officer
Professional Qualifications

- MSRB developing a professional qualification test for all municipal advisor professionals

- Requested comment on proposal to amend MSRB Rule G-3 to establish professional qualifications regime for municipal advisors

- Next steps:
  - Survey of municipal advisors on their core activities to inform the MSRB on the areas to be tested
  - Implementing a pilot exam 2015
**Identify an Issue**
- Monitor market
- Engage with market stakeholders
- Does this issue warrant rulemaking?
- Economic analysis
- Reasonable alternatives

**Draft Rule and/or Amendments Are Published for Comment**
- Rule for stakeholders to evaluate
- Incorporates preliminary economic analysis
- May be preceded by concept proposal
- Comment letters published on MSRB’s website

**Review of Comments**
- All comment letters considered
- Draft may be amended in response to comments

**Draft Rule Filed with SEC for Approval**
- All significant issues raised by commenters addressed in filing

**SEC Publishes Proposed Rule in Federal Register for Comment**
- Additional comment period
- MSRB responds to comments received

**SEC Approval Order**
- If approved, rule has the force and effect of federal law
- Goes into effect on specific date
Resources for Municipal Advisors

- Educational resources on MSRB website at msrb.org
  - Preparing for Regulation
  - Participating in the Rulemaking Process
  - Quarterly Newsletter
- Sign up for email updates at msrb.org
- Webinars about proposed rules and other outreach events
  - msrb.org/Home/News-and-Events/Upcoming-Events.aspx
EMMA® for Issuers
The EMMA® Website

- The MSRB’s Electronic Municipal Market Access (EMMA®) website
  - Launched in 2008
  - Serves as official, free and public source of trade data and disclosure information on virtually all municipal securities
  - Provides a platform for issuers to communicate with investors

emma.msrb.org
Information Available on EMMA

- Official Statements
- Trade Prices and Yields
- Ongoing Financial Disclosures
- Event Notices
- Advance Refunding Documents
- Credit Ratings
- Variable Rate Securities Information
  - Interest rate resets
  - Credit enhancement documents
- Market Statistics
- 529 Plan Disclosure Documents
How Issuers Can Use EMMA

- Comply with Financial Disclosure Obligations
- Provide Information to Investors
- Monitor Outstanding Issues
- Research Municipal Market Activity
Issuer Homepages

- **Pilot! EMMA®** Issuer Homepages display issuer information in a single location
  - Geographic search
  - More intuitive access to information on issuers for EMMA® users
  - [emma.msrb.org/IssuerHomePage](http://emma.msrb.org/IssuerHomePage)
Issuer Homepage Features

- Listing of bond issues
- Trade activity
- Pre-sale documents
- Official statements
- Financial and event disclosures
- Refunding escrows
Manage Issuer Homepages

- Customize and consolidate issuer information in a single location on EMMA®
  - Customize plain-English name of issuer and bond issues
  - Edit issue list, contact information and website links
  - Minimal annual maintenance needed – receive email alert when new issue is added to an issuer homepage
Sign Up for Email Reminders

- Issuers can schedule automated emails from EMMA® to be reminded of approaching annual or quarterly financial disclosure filing deadlines.

- Include additional contacts to ensure all those responsible for disclosures are alerted.
Export Trade Data

• Use EMMA Trade Monitor to export trade data from **EMMA®** to a desktop application

  – Analyze the prices, yield and amount of secondary market trade activity of municipal bonds

  – Support evaluation of pricing for new issues

  – Access with an organization account
Set Up an Organization Account

- **Organization Account**
  - Creates single continuing disclosure submission account for all staff of an issuer
  - Allows master account administrator to securely and independently manage staff access
  - Required to customize Issuer Homepage
  - Required to export data with Trade Monitor

[dataport.emma.msrb.org/AboutDataport.aspx](dataport.emma.msrb.org/AboutDataport.aspx)
MSRB Support

- MSRB provides personal phone appointments and webinars to assist with:
  - Setting up an organization account
  - Signing up for email reminders
  - Customizing your issuer homepage

- Fill out the detachable contact card to request an appointment with MSRB Support
Understanding and Complying with Financial Disclosure Obligations
The Disclosure Framework

- **Securities Exchange Act of 1934**
  - Prohibits fraudulent, inaccurate or misleading information in disclosures to investors
  - Material information may not be omitted

- **SEC Rule 15c2-12**
  - Financial and Operational Information
  - Event Notices

- **Continuing Disclosure Agreements**
  - When, how and for which parties disclosures are to be provided
Improving Municipal Financial Disclosure

- SEC’s July 2012 report on the municipal securities market highlighted issue of inadequate disclosure

- Municipalities Continuing Disclosure Cooperation (MCDC) Initiative
  - Voluntary SEC program March 2014
  - Encourage issuers and underwriters to self-report disclosure violations
  - Reduced sanctions if violations reported before enforcement investigation uncovers them
Improving Municipal Financial Disclosure (continued)

- Recent SEC securities fraud charges
  - **State of Illinois**: Inadequate pension disclosures
  - **Harrisburg, PA**: Misleading statements made outside of its securities disclosure documents
  - **Victorville, CA**: Inflated property valuations of security for bonds
  - **South Miami**: Failure to disclose threats to tax-exempt eligibility
  - **City of Miami**: False and misleading statements
  - **West Clark Community Schools, IN**: False statements and noncompliance with continuing disclosure obligations
  - **Wenatchee, WA**: Inaccuracies in the primary disclosure document resulting in $20,000 fine; first time SEC assessed financial penalties against an issuer
Types of information issuers must publicly disclose under SEC Rule 15c2-12 for various types of offerings

How to use EMMA® to make these disclosures

Benefits of timely and complete disclosures for issuers and investors alike

Educational Resources on Financial Disclosures

- “Preparing to Submit” checklist
- Guide to setting up financial disclosure email reminders
- “Protecting Market Access for Issuers”
State and Local Government Toolkit

• Free resource designed for small to mid-sized issuers

• Videos, fact sheets and guides about
  – Process of issuing municipal bonds
  – Using the EMMA® website
  – Financial disclosure obligations

• msrb.org
Getting Started
Getting Started

1. Set up an organization account
   - Streamline disclosure submission process
   - Customize Issuer Homepage
   - Access EMMA Trade Monitor

2. Sign up for financial disclosure email reminders
   - Ensure anyone responsible for timely filing receives an automated reminder
   - Keep track of filing deadlines

dataport.emma.msrb.org/AboutDataport.aspx
Contact the MSRB

MSRB Online
msrb.org
emma.msrb.org

MSRB Support
703-797-6668
Hours of Operation:
7:30 a.m. - 6:30 p.m. ET
MSRBsupport@msrb.org

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