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DEVELOPING A DISCLOSURE POLICY, PART 1: BUILDING AN EFFECTIVE FRAMEWORK

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THE PROCESS OF CREATING THE PROCESS: HOW TO DEVELOP YOUR DISCLOSURE POLICIES AND PROCEDURES

Two general principles

- ▣ Study your organization for the “problems”
 - To keep pace with what the SEC expects, the key is to see disclosure policies and procedures the way the SEC does:
 - A deliberate process of thinking through your process and identify potential pitfalls and use a formal procedure to proactively address those; and
 - Evaluate whether the problems the SEC has encountered may be present in your organization.
- ▣ Start from where you are
 - Imposing a new structure can be as bad as no policy at all; and
 - Working with what you do now and then moving out becomes key.

What are the problems?

▣ “Silo” Effect

- Issuers have been so segregated into silos that information has been stifled.
- Example...
- An issuer needs to work across “silo” walls when preparing disclosure.
- Disclosure Policies and Procedures can solve this problem by intentionally identifying the key places where information and perspective reside and create process that ensures that they are appropriately involved in the process.

What are the problems?

- ▣ “Inside the room” effect
 - Governments are naturally inclined to be sensitive to the perspectives and needs of people who are in the proverbial room.
 - Example...
 - An issuer needs to proactively consider the perspectives and needs of investors even though they may never hear from them or see them.
 - Disclosure Policies and Procedures can solve this problem because they can create intentional points in time when staff is trained and personnel involved in preparing disclosure stop to think and consider the investor’s perspective and needs.

What are the problems?

■ Political influence

- Governments are inundated with political considerations and they can override good disclosure in both intentional but also in very unintentional ways.
- Examples...
- An issuer needs to ensure that the disclosure tells the whole credit story without the kind of “spin” that can be found in political dialogue.
- Disclosure Policies and Procedures can solve this problem because they can create intentional points in time when personnel involved in preparing disclosure stop to think and consider the investor’s perspective and needs in a “no spin” zone.

What are the problems?

▣ Staff Turnover

- Many issuers have experienced significant staff turnover that introduce a host of new personnel into the disclosure process.
- Examples...
- An issuer needs to ensure that its disclosure practices are not so dependent on specific personalities that the practices stop when one or a few people leave.
- Disclosure Policies and Procedures can solve this problem because they can ensure the disclosure practices of the issuer are documented in writing.

Start from where you are

- ▣ It is important to start where you are
 - Often times issuers have a lot of good procedures that just need a few refinements and starting fresh may in fact lose more than it gains.
 - Good disclosure policies and procedures need to be organic and intuitive to an issuer so that they will actually follow them.
 - Following a form can just impose a new structure on top of your existing structure.

Start from where you are

- ▣ A simple approach
 - Write down what you do.
 - Ask yourself the following questions:
 - Are all the people who should be involved appropriately involved?
 - Do people talk with each other about the disclosure in the right contexts and the right times and about the right topics?
 - Do our people know what they are doing?
 - Do we document what we do?
 - Make appropriate enhancements and have the policy adopted.

Key elements of a disclosure policy

- ▣ Make sure it is clear who is responsible for what
 - Disclosure coordinator
 - Disclosure committee
- ▣ Horizontal and expert review
 - Are all the right people within the issuer involved with the disclosure process and reviewing what they should?
- ▣ Vertical review
 - Are people with the right positions of authority appropriately involved?
- ▣ Disclosure practices committee
 - Are the right people and departments within the issuer getting together to talk about disclosure in the right kinds of ways?
- ▣ Documentation

LAUSD Debt Program Overview

- \$20.6 billion in voter-approved GO bond authorization
- \$10.1 billion outstanding GO bonds as of July 1, 2016
 - Typical new money issue is amortized over 25 years
- \$266.1 million outstanding fixed-rate COPs

MCDC Aftermath

- Numerous governments made MCDC filings
- Some governments did not make filings, LAUSD did not
- Elevated the concerns regarding and the need for good disclosure
- Concerns about the program expressed by some issuers
- LAUSD experience

MCDC – LAUSD Experience

- Going through the MCDC review process was an opportunity to strengthen our existing policies and procedures
- Policies:
 - Debt management policy already in place, but not a separate continuing disclosure policy
 - Adopted a continuing disclosure policy (as an appendix to our debt management policy) in February 2015
- Procedures:
 - Had been maintaining a list of all disclosures required in our Continuing Disclosure Agreements (CDAs), but the list was not easy to use
 - Re-vamped the list to make it easier to determine what types of disclosures we had committed to, some from 1997!

LAUSD Changes in Practice

- Past Practices:
 - Compliance functions overseen by Treasury staff (multiple people)
 - Debt Management Policy in place, but no separate Disclosure Policy

LAUSD Changes in Practice

■ Present Practices:

- Compliance functions overseen by Director of Capital Fund Compliance
- Disclosure Policy in place
- Annual training of District staff on bond compliance topics
 - State law, tax law, and securities law
- Standard template used for Annual Report
 - Easier to read information for investor/public

Specific Provisions of Disclosure Policies

▣ Statement of Purpose

- Ensure compliance with Federal securities laws
- Promote best practices
- Provide internal processes & controls
- Failure to follow does not imply inadequate disclosure or impair authorization or validity of the bonds

Specific Provisions of Disclosure Policies

■ General Principles

- Anyone may raise potential disclosure issues at any time during process
- Process of preparing disclosure documents is not simply a mechanical process of updating numbers – review with critical eye for needed revisions
- Apply process to other disclosure documents that are not specifically listed
- Disclosure Policy is “work-in-progress” – make recommendations to improve
- Contact person with questions
- Reminder of Rule 10b5 disclosure standard

Specific Provisions of Disclosure Policies

- Composition & Function of Disclosure Working Group
 - To be discussed in Final Session
- Duties of Disclosure Coordinator
 - Who is the person mainly responsible for making sure the policy is followed?
 - Point person on disclosure / quarterback on disclosure document drafting
 - Coordinates compliance with Disclosure Policy
 - Maintains compliance file

Specific Provisions of Disclosure Policies

- ▣ What market disclosures should be covered by the Disclosure Policy?
 - Some are obvious
 - Preliminary Official Statements and Final Official Statements
 - Continuing disclosure filings
- ▣ Some need to be figured out
 - Audited Financial Statements
 - Investor Relations Website
- ▣ Some may be tough to figure out
 - Press releases

Specific Provisions of Disclosure Policies

- Preparation of Offering Documents (POS & OS)
 - Disclosure Coordinator manages process
 - Document sections reviewed by “Subject Matter Reviewers”
 - Disclosure Working Group & Subject Matter Reviewers review multiple drafts of the document & assigned sections
 - Draft reviewed by bond team
 - Final draft reviewed by executive management and possibly governing board
 - Offering Documents not posted until all sign-off

Specific Provisions of Disclosure Policies

- Continuing Disclosure Filings
(Annual Reports & Event Filings)
 - Need to have a process:
 - Who is responsible for making sure it gets done?
 - What is the process for getting reports correct?

LAUSD's Continuing Disclosure Policy

■ Intended to:

- Ensure that the District's Continuing Disclosure Documents are accurate and comply with all applicable federal and state securities laws
- Promote best practices regarding the preparation of the District's Continuing Disclosure Documents.

■ Document here:

- <http://achieve.lausd.net/cms/lib08/CA01000043/Centricity/Domain/372/Policies%20SEPs/DEBT%20MANAGEMENT%20POLICY%202016.pdf#page=36>
- Appendix B of District's Debt Management Policy

LAUSD's Continuing Disclosure Policy

■ Main Sections:

■ Key Participants

- Disclosure Working Group
- Chief Disclosure Officer (Deputy CFO)
- Disclosure Coordinator (Director Capital Fund Compliance)

■ Filings

- Annual Reports
- Event Filings
- Paying Agent, Bond Insurer, and Rating Agency Filings
- Voluntary Disclosures

LAUSD Continuing Disclosure Agreement (CDA)

▣ LAUSD's most recent CDA:

<http://emma.msrb.org/ES770787-ES605601-ES1001374.pdf#page=545>

▣ CDA defines:

- What needs to be disclosed in Annual Report
- Which “Listed Events” need to be disclosed

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Los Angeles Unified School District (the “District”) in connection with the issuance of its Refunding Bonds (defined herein), which are being issued pursuant to the laws of the State of California, the Refunding Resolution (defined herein). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Refunding Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2 12(b)(5).

LAUSD Debt/Disclosure Program

- Director of Capital Fund Compliance responsible for upload of financial reports to EMMA
 - Backup is Deputy Controller
- Working Group responsible for review of disclosures:
 - CFO
 - Deputy CFO
 - Director of Capital Fund Compliance
 - Deputy Controller
 - External Counsel
 - Municipal Advisor
 - Others as needed

LAUSD Debt/Disclosure Program

■ Websites:

- District Investor Site: <http://achieve.lausd.net/Page/2414>
- EMMA Issuer Homepage:
<http://emma.msrb.org/IssuerHomePage/Issuer?id=24FEF2D74A237E22E053151E820AEED4&type=M>



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DOCUMENT SUBMISSION

Municipal bond underwriters and issuers submitting official statements, advance refunding documents and continuing disclosures to EMMA may do so through the EMMA Dataport. Submitted documents are made available to the public.

- ➔ [Primary Market Submission](#)
- ➔ [Continuing Disclosure Submission](#)
- ➔ [529 College Savings Plan Submission](#)
- ➔ [Watch a Video About Continuing Disclosure Submission](#)

EMMA Issuer Homepage

■ LAUSD created an Issuer Homepage on EMMA

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LOS ANGELES UNIFIED SCHOOL DISTRICT (CA)
Customized

Click on a tab to access data and documents about this issuer's municipal securities.

Issuer's Contact Information

Contact	Address	City, State, Zip
Saman Bravo-Karimi	333 S. Beaudry Avenue	Los Angeles, CA 90017

Phone Number
(213) 241-1118

Email Address
saman.bravo-karimi@lausd.net

Issuer Website(s)
<http://achieve.lausd.net/hood>

Issues | Trade Activity | Pre-Sale Documents | Official Statements | Refunded Issues | Financial Disclosures | Event-Based Disclosures

Click on the issue description to view details about the issue.

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Issue Description	Dated Date
GENERAL OBLIGATION BONDS, ELECTION OF 2004, SERIES A (DEDICATED UNLIMITED AD VALOREM PROPERTY TAX BONDS)	04/05/2016
2016 GENERAL OBLIGATION REFUNDING BONDS, SERIES A (DEDICATED UNLIMITED AD VALOREM PROPERTY TAX BONDS)	04/05/2016
2015 GENERAL OBLIGATION REFUNDING BONDS, SERIES A	05/28/2015
GENERAL OBLIGATION BONDS, ELECTION OF 2004, SERIES J	08/19/2014
GENERAL OBLIGATION BONDS, ELECTION OF 2004, SERIES K	08/19/2014

■ MSRB ca

- Call 202-838-1330 to set up an appointment
- Or online resources can be found here:

<http://www.msrb.org/msrb1/EMMA/pdfs/EMMA-Issuer-Homepage-Fact-Sheet-for-Issuers.pdf>

Questions?

Conclusion