



## WEBINAR TRANSCRIPT

*Annual Municipal Disclosure Training*  
October 15, 2024 | 10:00 AM – 11:30 AM

Annual disclosure training is a best practice for agency officials that are directly involved in disclosure and any officials that may be in a position to “speak to the market.” This webinar, the first annual, will focus on the fundamental elements of strong disclosure practices at the enterprise level and discuss the risks to the public agency and its officials of disclosure failures. In addition to explaining the legal foundations, speakers will provide examples of how good disclosure practices are implemented across the organization. Speakers will also brief participants on the new and emerging disclosure topics that issuers should be monitoring during the year.

[Editor’s Note: This transcript has been prepared by the California Debt and Investment Advisory Commission (CDIAC) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of CDIAC and not the speakers.]

### Slide 1 – ANNUAL MUNICIPAL DISCLOSURE TRAINING

00:00

**ROBERT BERRY:** Good morning everyone and welcome to Annual Municipal Disclosure Training, a webinar produced by the California Debt Investment Advisory Commission. I'm Robert Berry, the Executive Director here at CDIAC. Strong disclosure policies set out the agency's disclosure responsibilities, including the type, form, and timing of information to be disclosed, the personnel involved, the procedures to vet and monitor information for disclosure, and the process to assure that timely, complete, and accurate information is available to the entire market. But really, the grease that keeps the gears of your disclosure process functioning effectively is periodic disclosure training that reminds everyone in the enterprise that may be part of the disclosure chain of the responsibilities, their significance, and the risk of disclosure failures. Similar to the effect of ethics training or defensive drivers training or other periodic trainings that your human resource office may require you to do. Disclosure training brings everyone up to a baseline of understanding of the disclosure risks and socializes the importance of good disclosure within your agency. So, if periodic disclosure training has been something you've been intending to schedule for your agency, but just haven't been able to get it on the calendar, you've come to the right place. Also, if you're a new or infrequent issuer that needs to put some of these best practices in place, this webinar is a great place to start. This webinar is the first of what we intend to be an annual program. We'll first focus on the legal foundations and the fundamental elements of good disclosure practices and policies across your enterprise. Our presenters will also explore how these policies are put into action in the case of one very frequent California issuer. Then lastly, our speakers will provide a briefing on some of the evolving disclosure topics that you should be mindful of and monitor during the year. Now, what this program will not do is be able to address specific circumstances that you are dealing with in your agency, specific risks, materiality, judgements, policies, and organizations. So, you may want to also discuss with your disclosure counselor or in-house counselor the need for periodic training that can account for these distinctions and be more customized, especially if you are a frequent issuer. Periodic disclosure training is more effective if those that are at the center of the disclosure process, the finance staff, are engaged in the training along with agency officials that are



contributors or perhaps tangential to the disclosure process and still others that may talk publicly about the agency's financial condition like communication staff or elected officials. It provides you the opportunity to have a third party convey objectively the importance of disclosure matters to some of the organization that may not always take disclosure seriously enough. So, I encourage you to take advantage of the webinar replay opportunity as a tool for you to bring along those in your agency that should have attended, but didn't attend for a variety of reasons. So, before I introduce our faculty team to get started, just allow me to quickly run down a few of our standard webinar housekeeping items.

### **Slide 3 – SPEAKER INTRODUCTIONS**

**4:19**

**ROBERT BERRY:** Now, I'd like to welcome and introduce our three distinguished presenters today. First, we have Kevin Civale, Shareholder at Stradling Yocca Carlson and Rauth. For more than 26 years, Kevin has represented a large number of municipalities and other public sector clients in a wide variety of financings and contract negotiations. He has particular expertise regarding disclosure and currently serves as disclosure counsel to several sizable California issuers. Kevin has been a member of CDIAC's disclosure faculty for many years. Joining Kevin is Dan Deaton, Partner with Nixon Peabody. Dan is in the public finance group of Nixon Peabody, where he represents governmental agencies, nonprofits, underwriters, and others as bond council, disclosure council and underwriters' council, and a wide variety of public finance transactions. Like Kevin, Dan has been a regular presenter in our disclosure programs and a contributor on numerous CDIAC projects. Then rounding out our panel this morning is Ha To, Chief of Debt Management for the City of Los Angeles. Ha has over 17 years of experience in public finance. In her role with the City of Los Angeles, Ha manages the city's \$7 billion debt portfolio, which includes general obligation, lease revenue, enterprise revenue, and Mello-Roos bonds, and trans and commercial paper. Ha will talk to us about how many of the disclosure practices that will be discussed this morning are actually implemented at the City of Los Angeles. But first, we'll begin with Kevin, with disclosure responsibilities.

### **Slide 4 – DISCLOSURE RESPONSIBILITIES OF MUNICIPAL ISSUERS UNDER THE FEDERAL SECURITIES LAWS**

**5:47**

**KEVIN CIVALE:** Thanks Robert. First, let me thank the CDIAC staff generally for organizing this. There are more municipal bonds issued in the state of California than any place else in the country. And by and large, it runs very smoothly and knock on wood issuers generally stay out of trouble. I think a big reason for that is because of the sort of relentless continuing efforts of CDIAC to provide high quality training. So, thank you. Why are we here? So, disclosure training, the SEC has said that they believe that it's negligent for issuers of municipal bonds to issue bonds without providing training to the folks involved. So, if, heaven forbid, the SEC shows up, you want to be able to say you've checked that box and you've done it. But I think the more important reason is, and I do a lot of this, and my belief is that providing training directly leads to higher quality disclosure because it provides the folks in your organizations that are actually putting the information together with the information and the context that they need. I think back about for decades, issuers did disclosure without any training, without being explained what



materiality is without being told some of the case studies. So, I think it's an excellent development. What I'm going to do here, and what Dan and I are going to do here is an abbreviated version about a half hour or so of what's typically at presentation that takes an hour or an hour and 10 minutes or so, we're going to hit the highlights. And finally, I'm going to be doing most of the slides, but Dan, who's a very knowledgeable fellow in these matters, is going to pitch in on a couple of the slides. First slide. Why is disclosure necessary?

## **Slide 5 – WHY IS DISCLOSURE NECESSARY?**

**7:34**

**KEVIN CIVALE:** Municipal issuers issue securities in the public markets. The investors have rights under the federal securities laws and the basic rule is that all material information has to be disclosed. Next page.

## **Slide 6 – THE FEDERAL SECURITIES ACTS**

**7:48**

**KEVIN CIVALE:** The basic statutory underpinning. First of all, we focus pretty much solely on the federal's securities laws. There are state securities laws, but for the most part, if you comply with the federal ones, you'll be compliant with the state as well. There are two basic rules passed after the Great Depression, and the stock market crash. The Securities Act of 1933, which requires registration for corporate securities, but not municipal securities. So, if you're a corporate issuer, you make an application to the SEC, you send them drafts of documents, they give your comments on documents, none of that is applicable in the municipal space. The second part, the Securities Exchange Act of 1934, that created ongoing disclosure requirements for public companies. 10-Ks, 10-Qs, 8-Ks, things like that. The biggest difference, or it's not a difference, as opposed to the 1933 Act, which require registration for corporate for not for municipal, the 1934 Act has anti-fraud provisions. They apply equally to both municipal and corporate issuers. Next slide. Now we're getting into the heart of it. This might be sort of the most important slide, this next one, Rule 10b5.

## **Slide 7 – RULE 10b5**

**9:07**

**KEVIN CIVALE:** When you do a transaction, someone, some issuer, some senior staff person or senior official, has to sign a 10B5 certificate at the end that parrots these words. As disclosure counsel, we'll give a letter that sort of parrots these words as well. Let's skip to two because this is really where the action is, so to speak. There are two parts of this. "It shall be unlawful for any person to make any untrue statement of a material fact". Full stop. So, if you put a chart, a table, a narrative description, description of your capital plan, your outstanding debt, any facts that are in there have to be correct. The second part, and sometimes we don't worry about that so much. I mean, everybody pays attention in the working group. Oftentimes these facts come from an act for or published document or something else that's vetted. The second part is something that takes a lot of work, which is "it shall be unlawful for any person to omit to state a material fact necessary in order to make the statements made in light of the



circumstances under which they were made, not misleading”. So, basically, you can't have a misstatement of a material fact, and you can't have a material omission.

**DANIEL DEATON:** I think that in looking at this, this rule in the anti-fraud laws, as a general rule, one of the things that people can mistake from them is that this is telling us not to lie, but the anti-fraud laws were designed to be much more expansive and capture a lot more activity than just simply lying. And two specific ways really illustrate this. First of all, there is no requirement that the SEC or anybody prove that somebody intended deceive anybody. In fact, a lot of the enforcement actions that we'll talk about later on today were brought merely on negligence, the SEC concluding that the issuer at hand did not act reasonably or acted in a sloppy way in which they put together the disclosure. So, sloppiness can be the basis of a violation of federal anti-fraud laws, which really is not the case with lying. The second point is the point that Kevin just raised, which is that lying to us is in essence saying something that's wrong, that's an inaccurate statement for the most part. And the anti-fraud laws really seek to step back and take a look at all of the various statements and look at the statements as a whole, and not just ask whether they're right or correct, but to say, wait, is there something missing here that somebody who looks at these total universe of statements needs to know in order to avoid being misled. So, this is a much broader net than just simply lying.

**KEVIN CIVALE:** Next slide.

## Slide 8 – THE “MATERIALITY” STANDARD

11:55

**KEVIN CIVALE:** So, as we saw on Rule 10b5, it introduces the concept of materiality. So, what is materiality? Whether or not there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest. Some issuers, in good faith, think that something's only material if it will result in them not paying debt service on time. And somebody could say that's reasonable. Say, well, if a bond buyer buys my bonds, at the end of the day, they just want to be paid on time. So, if there's other things going on that I know in my heart of hearts as finance director is not going to interfere with me paying debt service, I don't need to disclose it. Wrong answer. Investors care about a lot of things. Obviously, their primary consideration is getting paid. They care very much about the credit rating of the bonds because the credit rating will directly impact the value of the bonds in their portfolio. They care about the liquidity of their bonds. So, they want to know is there something going on that might cause headline risks, something bad that an issuer knew about when it issued bonds that ultimately makes its way into the newspapers that might make it more difficult for it to sell the bonds. They care about the status of your reserve fund. So, if in your mind, as an issuer, you have robust reserves and there's a piece of litigation that you might have to expend a portion on to pay off if you lost, the investor wants to know about that as well. One of the problems with materiality is it's determined in the context of all the facts and circumstances, but retroactively. So, three years later, you're being asked, why didn't you include something? And maybe you didn't think it was important, maybe you didn't know about it. But I think the takeaway from the retroactivity point is air on the side of caution. Sometimes I do a thing like a five-minute rule. If you're in a working group and you debate for more than five minutes whether you should disclose something, put something in. And finally, materiality. The SEC,



they communicate materiality through their enforcement actions, and there's court cases, but they won't tell you what's material or not. You can't send an email to the SEC and say, "Hey, we're debating whether or not something's material." They won't tell you that, you get it from court cases and SEC enforcement actions.

**DANIEL DEATON:** And materiality can be confusing at stages for some of the offerings for two different reasons. One reason is that the word material does not just show up in the securities laws. It's something that shows up in accounting principles, it shows up in contract law, it shows up in a number of different ways. And in those situations, it's defined differently. And so, it is a word that can be thrown a lot around in a lot of different contexts. And there's a very specific definition, which is on this slide of how we use materiality for our purposes. The second thing that can make this confusing is that there's a lot of competing financial stakeholders that can look at the same kind of finances and perceive them or value the financial information in very different ways. Unions, taxpayers, rate payers', suppliers', other governments, other kinds of parties that are at play. And so, materiality, what is meant by that is honing in on the very specific perspective of an investor and looking at what that investor cares about and oftentimes sometimes in contrast to what some of these other financial stakeholders would look at. That's what's meant by materiality.

**KEVIN CIVALE:** Next slide, please.

## Slide 9 – WHAT SHOULD BE DISCLOSED?

15:33

**KEVIN CIVALE:** So, what should be disclosed? Unlike corporate securities, there's no line item set of rules from municipal issuers. And the corporate world is very specific and very prescriptive about what has to be included, where in an offering documents. And because of that leaders in the muni market have developed guidelines for Official Statement content and developed groups of suggested disclosure for particular market segments. One thing that's been spectacularly successful is, and I think Dan was involved in the effort, is when, for a while you'll all recall, it wasn't all that long ago, there were tremendous concerns over pension disclosure, where I think for many years, it's fair to say, sort of municipalities going back a decade, 15, 20 years, were sort of not disclosing it correctly. And at that point, they had overfunded pension plans and things like that, but now developed a template that has basically been adopted by the municipal market. Certain tables that should be included, information be included. GFOA has information. The municipal analysts have information they like to see. So, one of the things that your advisors should be doing on your behalf, and you should do it yourselves as issuers, because I know you folks all go to conferences and hear what's talked about and hot topics and things like that. So, these outside issuers, outside entities, I should say, can provide some good guidance. A lot of what we do as disclosure councils is reactive. Something bad, you're doing a wastewater transaction and something bad happened in another wastewater transaction six months earlier, you know, we react to it. Before Orange County went bankrupt, there was very little disclosure about what municipalities did with their cash. Before San Diego had its problems, that was one of the things on the forefront that led to enhanced pension disclosure. So, a lot of it's reactive. And at the end of the day, the issuers have to use your good judgment. You know, you hire disclosure lawyers, you hire bond counsel, you engage municipal advisors and underwriters. But



at the end of the day, you know your operation, you know your enterprise, you know your government, you possess the information so it's really important and nobody treats it this way, at least the issuers we deal with, don't treat it this way. But it's not reactive. It's not your professionals telling you what you need to disclose. It's them giving you guidance on how to make the decision as to what you disclose. At the end of the day, it's your judgment that matters. Next slide.

## **Slide 10 – WHEN DO DISCLOSURE RULES APPLY?**

**18:02**

**KEVIN CIVALE:** When the disclosure rules apply. New offerings include, by the way, refunding's as well, your annual report under 15c2-12 and on that one quick note, you have to put your act for in. Usually, you have to put in certain tables that you identify in your continuing disclosure agreement. Before you push the send button on your annual report, think to yourself, did something big happen that's not in the act for and couldn't be gleaned from the tables? A good example is a big lawsuit that came in after the act for was finalized. Take a quick look and say to yourself, did something really big happen that we should be adding to this? Even though it's not a specific requirement of our continuing disclosure agreement, this is big enough that when we're putting this out in the marketplace, we should think about informing investors about this. Good example is COVID. Post-COVID most issuers on the first continuing disclosure report were not just sort of saying, here's our act for, here's the tables. They're usually adding some, many added some colloquy. Finally, the circumstances where an issuer is speaking to the market. This is particularly important. Well, let me stop with this. That can include your website, if you have a social media presence, that could include your social media presence, your tweets, and your Instagram's and all that sort of thing. Certainly, can be in the context of investor communications and speeches, particularly by senior officials. I think the biggest caution on this is if you're going to have an investor website, make sure it's maintained. Don't just set it up and forget about it and not update it regularly. And number two, be really careful, particularly when you're in the market. When you've posted a POS until you close the transaction, stay away from communicating. Whether it's speeches or website or other matters, financial information that's the subject of the offering document, have particular sensitivity during that period. Next slide, please.

## **Slide 11 – MUNICIPAL DISCLOSURE**

**20:12**

**KEVIN CIVALE:** Okay, so what do you disclose? The official statement, it's the offering document that you provide to investors. That's the equivalent to a corporate perspective. That's the document that contains all the material information for the bond sale. The takeaway from this slide is you own it. The issuers own it. If we're disclosure counsel, it's going to be on our word processing system. And if you have a negotiated deal, it's going to have the underwriter's name on the bottom, but at the end of the day, you own it. Underwriters, FA's, lawyers can help develop it, but you are ultimately responsible for content, which is the corollary to the earlier slide about you have to use your judgment. Next slide.

## **Slide 12 – DISCLOSURE PRINCIPLES**

**20:56**

**KEVIN CIVALE:** Disclosure principles. So, if you're doing a general fund deal, in particular, broad description





of the issuer's financial and economic condition. And by the way, don't just throw numbers at them. Don't just put a table out there and expect the investors to be able to sort of glean the sort of nuances of it. I'm a big fan, and I think most official statements, particularly if you are dealing with financial stress, say it upfront, say, we are for this reason or that reason, or another reason, the issuer is experiencing some significant financial stress. And you don't have to have it like skull and crossbones. You don't have to say it's awful, the world is ending. You can say however they've developed a plan to address it, notwithstanding the stress, they have sufficient reserves, whatever the story is, but be very upfront because if heaven forbid something goes wrong, you want to be able to point to a say, we told them on page two, we were having a bumpy ride. It's sort of gallows humor but I was working for the State quite a long time ago, 2008 or 2009 after the recession and the \$26 billion deficit at the time. The first line of their Appendix A, which is the State is facing its worst financial crisis since the Great Depression. And as I said, the gallows humor, we'd sort of laugh to each other. At least the investors can't say, why didn't you tell us? So, it's important to sort of set the table so when the investors read the rest of the document and they read the tables and the information, they have some context. Description of budget process. Is there a structural deficit? On the natural, do your revenue, do your expenditures exceed revenues and have you been solving with one shot? Make that clear if that's what you've been doing. And I think Dan has some comments on this one as well.

**DANIEL DEATON:** I think the most important principle really with our transactions one of my partners back east refers to this as follow the cash flow. And its whatever bonds are being issued, whatever fund it is that supports that, what are the revenues? What are the strengths and weaknesses and the characteristics of those revenues? What do we know about those? What are the trends? What are the expenses? And also, on this slide is talking about debt, which really is just a competing expense for other bonds and so on. What are the expenses? What competes in terms of that money that's coming out of the revenues? And what do we know about it? What are those trends? What are the reserves? What is the liquidity? What kind of margin for air does the fund have? Whether that's just cash on hand, or whether that's reserves, or whether that's actually a formal operating reserve or some sort of thing that is there to sort of absorb unexpected changes that are going on. And then what are your contingencies? Trying to take a fresh first principles look at the cash flow. Every time we do an offering is critical because as we're going to explain later on the facts change, reality changes, the finances become different one year to the next. And one of the biggest problems that people in the market have done is to continue to sort of replicate the same sets of information and data over and over and over again when the finances do experience some major change and some aspect becomes fairly significant in a way that it wasn't before, oftentimes that gets left out because people aren't thinking about let's construct top to bottom, what is the cashflow waterfall of this credit, and making sure we're telling the whole story.

**KEVIN CIVALE:** I'll start to flip the page.

### **Slide 13 – DISCLOSURE PRINCIPLES – REVENUE BONDS**

**24:39**

**KEVIN CIVALE:** But I'll pick up something off what Dan just said, that's in one of the later slides, but let me bring it up here is also projections. And that's one of the things in the cash flow so you have your snapshot



in time and if you have projections when we're talking about what should you include in your offering document, you have to determine if they're material or not. And if all the projections show is sort of CPI sort of increases in costs and CPI increases in revenues, and then there's really no story to it. They might not be material. But if you have projections picking up off of Dan's comment about cash flow that says, okay, the cash flow is okay this year, but we have this big thing coming next year that I know we have to pay for. And the year after that, or the year after that, you really not only need to look at your current cash flow, as Dan suggests and he also had this in mind as well, what's coming around the corner that you're aware of that you need to talk about as well to give the full picture to the investors. Revenue bonds. Purpose of this slide is basically the OS, and I think everybody knows this, the OS information will differ, vary on the credit. If you do an airport bond, you don't really need to talk about the issuers general fund and vice versa. So, revenue bonds, you describe the enterprise, CIP, things along these lines. The point is, it'll differ depending on what kind of deal you're doing. You can flip to the next slide.

#### **Slide 14 – DISCLOSURE PRINCIPLES, CONTINUED**

**26:06**

**KEVIN CIVALE:** This first bullet, provide the main points, but don't overwhelm the readers with the tail. That's what the point I made earlier about saying, set the table, let the investor know what you think about as the issuer. What are the highlight things in your mind? Do you think things are pretty good? Like, we're stable, things are great. Are you waking up in the morning worried about particular items? Let the investors know the things that you think are important. Maybe it's great, maybe the answer is like, reserves are robust, things are going great, we're humming along. Maybe not use those words, but it's fair to say that if you feel you're in a strong financial position, there's nothing wrong with that. Determine the appropriate level of importance for any particular item. Sometimes obviously things have different levels of importance. And again, we focus a lot on bad things and downsides because that's, at the end of the day, what people get in trouble within the SEC. So, if there's something bad going on, if there's a problem out there, if there's a big piece of litigation, if there's a new permit coming in that's going to increase your cost, whatever it is, you may need to say it a few times. You may need to really make sure the investor knows this thing is out there. And finally bringing all these factors together is an ongoing process of give and take. That word process is a really important word, we're going to talk about that a little more. Next one.

#### **Slide 15 – PROCESS**

**27:38**

**KEVIN CIVALE:** Input from all involved departments. Depending on the level of transaction you might need your HR person, if they deal with employees, to take a look at it. If you're a wastewater issuer, you need your operations person, you might need your permitting person. There's a whole host of folks that may need to get involved. There may be particular sections that they look out. Empower the staff at all levels. So, if you're sending them a table to update, tell them the reason you are sending them the table is they probably know the most about that, that's why you're asking them to update it. Ask them to look at the language before and ahead of the table. Ask them to make sure the table still makes sense. If you're an infrequent issuer, even if you're a frequent issuer, you may have a table in your OS that you created 15 years ago, that really kind of doesn't make much sense anymore to use in that format. Empower staff,





don't just have them sort of blindly sort of update numbers. Give them the freedom to sort of make more expansive comments without fear of being told they're outside. Municipal advisors are really important in this process and about providing guidance on materiality, sort of rolling their sleeves up in the context of the official statement, even though that isn't their particular responsibility, but they can help with that. But also, they can sort of herd the cats of the working group. Disclosure council helps you pull it all together. We talked about the materiality projections, working group drafts. You need to have calls. I would say meetings, but you need to have calls these days or zooms where you turn the pages on the document. You can't just exchange emails because it's the process. It's the process of discussing things that uncovers the rocks, the omissions that you need to disclose. Because there's been plenty of times where I'm involved in a working group, you start to talk about one topic, say "Hey, should we disclose this?". And you talk your way through it for five minutes and you conclude, "no, we don't really need to disclose that". But in the course of that conversation, the thing you really do need to disclose just comes up. So, you need to have back and forth when you see that working group T&R come out, make sure it includes time to discuss the documents. It's not a 10-minute call about the POS, you need to allow the time. It's a little bit painful. And I sort of joke sometimes if it's not a little bit painful, maybe you're not doing it right, the disclosure process, the vetting process that you need to go through. You do due diligence at the end, and then you monitor process through for material development.

**DANIEL DEATON:** I think that talking about intentionality of process, we can't understate the importance of the intentionality of process. And the reason is because about 15 years ago, the SEC really started to tear in on this question about how process was developed by state and local governments in connection with the issuance of their bonds. And the reason why is because there were several municipality states and municipalities that when they went to put together the disclosure for their offerings, they really just let their governmental intuition take over. And it's not that the governmental intuition is bad as such, but when it is applied to the offerings that were there, it created all sorts of problems that developed as a result of that. For example, because government is balkanized into silos, this silo effect, as they call it, started to develop with a lot of municipalities and the right hand didn't know what the left hand was saying is basically the disclosure came out just from one silo and other critical silos had not been involved. Also, just a natural sort of internal focus and not trying to think about it from an investor's perspective. And then finally, the political influences that sometimes are so subtle that they require just intentionality of focus is what is being done. And so, when we talk about intentionality process, what we're trying to discuss is the importance of not just letting a state or local government operate within its intuitive framework of how it's developing disclosure, but to step back and say, what's the right process for us to go so that we're confident that what we're producing is going to give investors the full story?

**KEVIN CIVALE:** Great. We can flip to the next one.

## Slide 16 – DISCLOSURE CONSIDERATIONS

32:01

**KEVIN CIVALE:** So, disclosure considerations. Tomorrow's hot topic may be different than today's. Disclosure has to evolve to reflect changing circumstances with frequent issuers out there. You have to read the disclosure with fresh eyes. And if you're frequent, and I represent, and as does Dan, a lot of frequent issuers, they're out several times a year in the market over a number of years. And I'm as guilty



of this as the next person. What happens with OS is you add something every OS and you rarely take out something. So, what happens over the course of time, two years, three years, all of a sudden you have all these facts that were important at the time. So, take a step back, read it with fresh eyes, make sure you're not sort of missing the forest for the trees. Do a scrub every couple of years. Think hard about it. Say, wait a second, why are we disclosing this? We have a billion-dollar budget. Why are we disclosing this three-million-dollar item? Go through exercises like that to make sure that you are not just there. When you're doing your third deal in the year, or your fourth deal in the year, or your 12th deal in two years, that your eyes aren't glazing over when you're going through the POS review. Next two slides are really important, and this is sort of a cultural thing. My experience is the issuers that are good at disclosure, at this point, it is baked into their DNA. The big shots in the organization, the most senior folks in the organization are with the program, they understand it's important. To the person that walks in the door, they realize after two weeks this issue is really serious about disclosure. And part of that is fostering a sort of spirit or an ethos where people can pipe up. If they're sitting in a document meeting, they're not scared to say, wait a second, this doesn't look right. Because I think we've all been in circumstances where there maybe 10 people sitting around a conference call looking at OS disclosure. And you might look at it and say, that doesn't quite look right, you might think to yourself. But then you realize nobody else is saying that it doesn't look right so you might be a little shy to say, well, I don't want to look stupid if I pipe up and say, wait a second, this paragraph doesn't make any sense. Whereas if you were to say it out loud, three other people would jump in and say, yeah, you're right. It doesn't make sense to me either. And the worst thing that happens, and particularly make sure your junior staff know this, the worst thing that happens is somebody says, I don't think this makes sense. And then after you talk about it, a few minutes, all of a sudden, they say, "Oh yeah, now I get it. Now I get it." I always, when I give these trainings, tell the younger folks and the junior folks, I guarantee to you, your boss will not be mad if you suggest that there's a problem with disclosure. Even if it turns out there isn't a problem, as sure as the sun rises, the person who is signing that 10B-5 at the end of the transaction is going to be glad for that kind of a comment to be made, because that means they know you're reading it, and they know you're paying attention. The final thing I want to say on this one, political sensitivity. It's not a Chamber of Commerce document. I don't see this anymore in my practice where people are trying to kind of spin the document to make things look better or they're trying to like, sort of make it a political document. I don't really see that much anymore. But it's not a political document, it's not a chamber of commerce, it's not a rah-rah document. If you have to ascribe a title to a call of an insurance policy, that's maybe the best way to look at your OS. Secondly, confidentiality considerations. There are issuers who in good faith might think that if there's a matter which is the subject of the attorney-client privilege, they need not disclose that in the official statement. Wrong answer. It's not an exception to disclosure, the attorney-client privilege. Ninety-nine times out of a hundred, if there's a litigation out there, if there's an employee issue, if there's something out there that you don't necessarily want to say everything about, usually you can work with your working group to come up with language that communicates to investors what they need to know. It's not an admission against interest, you don't have to give away your litigation strategy. But at the end of the day, if there's a matter that you simply cannot disclose because it's a pending settlement or it's an uncomfortable situation, or you just don't want to disclose it, the answer is you can't go to market. You just can't go to market. Maybe you think about doing a private placement or something like that, but you can't go to market. Second thing that also applies is matters that are subject, that can be discussed in closed session. Some issuers think in good faith, they're not trying to lie. They think, "Hey, it's closed session, therefore I



don't have to because I can talk about it in closed session, I don't need to disclose it." Wrong answer. There are literally zero exceptions to disclosure. There are no exceptions whatsoever. And the answer is you can't disclose it, then you can't go to the market. Next topic.

## Slide 17 – TOPICS OF SEC ENFORCEMENT ACTIONS

36:57

**KEVIN CIVALE:** SEC enforcement actions. Pensions were a big deal for a while. And let me say on not all of these. On many of these, most of these, most of the SEC enforcement actions debts a hundred percent of debt services paid in a timely manner. So, a lot of this is sort of not failures in paying, but in failures of the process and in failing to communicate to investors the things we talked about earlier, material things and I'll just point at one. Let me just point to one, I know Dan wants to talk on this. The one thing I want to talk about, failure to disclose risk, the story within the story of Port Authority. One of the reasons that they had the problems, and I know Dan was involved in this, if you have an aha moment. If you did a deal, you're about to do a deal, you did a deal six months ago and all of a sudden you have an aha moment, like, "oh my gosh, I think we should have disclosed that and we didn't" or whatever the problem is, is pick up the phone and call somebody, call the city attorney, call the county council, call the CFO, don't send an email. And the reason I bring it up in the context of the Port Authority, one of the things that occurred is that in the course of the investigation, there were emails that had to be disclosed that were between a lawyer and the client because they were other than the lawyer and the client were on the email communication. Attorney-Client privilege only withstands if the communication is solely the client and the attorney. If there's any third party involved, there is no attorney-client privilege. So, hopefully you'll never have to think about this, but if you do sense, this might be a significant problem. Pick up the phone, call the person you need to call, don't send an email.

**DANIEL DEATON:** And this is a good list of different things. They're good examples of how disclosure went awry in different situations. What's key to understand about the SEC is that the SEC does not see itself as the guardian of first principles. The SEC exists to solve problems. And about in 2006 and 2007, the SEC's Enforcement Division was pretty clear in outlining a series of concerns that they had within the municipal securities market. And enforcement actions are just one tool they have to try to solve those problems. And those problems have ranged a wide array. Most of the problems have been process based as what we've talked about before already, that the process of being one that's intentional and not allowing it to be the byproduct of intuitive results. They've been very concerned about the influence of political considerations on disclosure, they have been very concerned about what issuers are disclosing after bonds are issued, which is the topic we'll talk about later on. And so the SEC just sees the enforcement actions as nothing more than just a tool to try to correct what's going on in the marketplace. And the reason why that's critical is because in the end, it took people a while, it took about seven years for people, seven, eight years for people to wake up to it. But as important as it is to be able to think about the first principles down, the other thing that becomes just as important is don't be a problem that the SEC is trying to solve, because more likely than not, they're going to solve it. And you don't want them to solve it, sort of dealing with you. And I think that's why we keep our ear close to the ground and making sure that we understand what are the concerns the SEC is having, because the enforcement action is the primary way by which they try to bring correction within our marketplace.



**KEVIN CIVALE:** Next slide.

## **Slide 18 – CONSEQUENCES OF SEC ENFORCEMENT ACTIONS**

**41:20**

**KEVIN CIVALE:** We're wrapping up, a slide or two to go. Consequences of enforcement action. Something we need to talk about is one of the remedies that the SEC, I don't know, over the last five years, seven years, I don't know precisely has undertaken, is fines against issuers. That used to be a bright line on the theory of the SEC, I think was reluctant to find issuers on the theory that, well, that just means the taxpayers are paying, or the rate payers are paying. But perhaps more importantly for the folks on the phone, they've levied fines against individual officials for disclosure failures. And part of the deal on that is you can't recover it from your employer, you can't recover it from insurance. You need to keep this in mind, I think in my experience, 99.9 percent of municipal issuers that I come in contact want to do the right thing, they want to get this right. And it's not necessarily the fear of a fine getting it wrong, that's driving them to the correct result but it's important you keep that in mind. And it's a little sort of this is purely commentary. I think they haven't really, I think the last couple of last year or two, there really haven't been muni fines, I don't think off the top of my head, aren't real. But in my view, I think that it is undeniable that the SEC's enforcement activities of the last 10 or 15 years have resulted in better municipal disclosure that cannot be denied. They're enforcement actions. If you look at back at disclosure 20, 25 years ago, it is so much better now. So, kudos to them and they've done us all a favor in many ways with that. And I think also if somebody's a crook, if somebody lies, if somebody does a deal and they're poking money in their market on the side and their pocket on the side, lead them out in handcuffs. I don't think anybody on this call has any problem with that. But when there are circumstances where a municipal official has kind of done the right thing, investors haven't lost money the debt service has been paid, the ratings there, to take that next step to impose a personal fine, I think can be overreach. If there was no sort of guilty mind, if there was no intent to lie, if there was no intention, if it was just a mistake not to excuse it and not to suggest that the enforcement act shouldn't be brought. But the fine, it strikes me maybe a bit too much. Quickly, loss of market access. I know in San Diego many years ago was going through its trials. It was boxed out of the market for a couple of years, which creates significant issues, particularly for a large issuer. Significant legal and accounting costs. It costs a lot of money when you get involved in an enforcement action. And oftentimes at the end, most of the time at the end, they require remedial action. Final slide summary.

## **Slide 19 – SUMMARY**

**43:50**

**KEVIN CIVALE:** Full and transparent disclosure is essential. You have to give investors all the material information. Here's a point we haven't covered yet. The third bullet, you have to have the right people in the room. You have to make sure that senior folks, because there are times in my experience in governments, there's sort of the level of folks that sort of make everything run on time. And there's another, perhaps higher staff. They are in the communications with the governing officials, the elected about what the future looks like. You have to make sure that there is an information flow down from the people really in the know, the senior officials to the people with their sleeves rolled up that are actually



doing the offering document. And I think the best disclosure is when you have the general, you have the city manager, or you have the county exec, or you have the general manager of the utility in the room for at least part of it to communicate what the importance that they ascribed in the disclosure process. Be careful when making public statements and as we said, and earlier, when in doubt disclose, air on the side of caution. If you think something, you're not quite sure, 50/50 disclose.

## Slide 20 – THE ISSUER’S PERSPECTIVE

45:50

**HA TO:** Thanks, Kevin. Well, the City of LA, we issue several times a year. My team and I manage eight bond programs. Six of them are active with debt outstanding. They are general obligation bonds, lease revenue bonds, wastewater system revenue bonds, solid waste resources revenue bonds, land secured Mello-Roos special tax bonds, and tax and revenue anticipation notes. We also have three very active commercial paper program within our lease revenue bond program, as well as our wastewater system revenue bonds. We also have two other bond programs that currently do not have any debt outstanding, so they're not active. But from time to time, we do issue bonds on those programs, and they are the parking system, revenue bonds, and the judgment obligation bonds. The city is very large. My team and I don't issue all the debt for the city. There are four other departments that manage their own debt. They have their own team and those are the Department of Water and Power, the Los Angeles World Airports, the Port of Los Angeles, as well as our Housing Department. Our Housing Department manages the housing bonds for qualified developments located within the city.

**KEVIN CIVALE:** One of the reasons why the CDIAC folks were interested in having Ha because it's unusual. I mean, there's certainly folks on the phone, I'm guessing that might have not very many, I'm guessing that might have as many programs. And so that leads us the sort of, the fact that there are different programs, very different credits, sort of really leads us to the next program. How do you handle training? Do you do it large groups? Is it just do you just do training when the particular department's doing the deal? And then finally, on the training point, how about elected officials? How do you deal with that?

**HA TO:** So, depending on the roles and responsibility, training varies for city officials and our city staff. For my team and I, we take training with a high priority, so the debt staff, the day-to-day people attend training both in person and virtual multiple times a year. That includes disclosure, debt issuance, ongoing debt administration, post issuance, tax compliance. Our primary sources of training are CDIAC, GFOA, and DAC. For our non-debt staff, but those who participate in our disclosure, because we are an active issuer in connection with our annual trans financing. My office, we host our annual disclosure meeting where we gather subject matter experts from throughout the city. This includes people that deal with budget, with revenue risk management, investments, pension litigation employee relations and a whole host of other matters. And we go through the primary disclosure section by section. In addition to our subject matter experts, we invite staff from the mayor's office as well as council staff that are assigned to the budget and finance committee. In that meeting, we always spend the first 20 minutes at the beginning of the meeting where we ask disclosure council to provide training as similar to what Kevin just went through the last 40 minutes. When it comes to our revenue bond program, such as our solid waste and our wastewater, we don't issue every year, we issue every two to three years, so we don't have annual



disclosure meetings, but when we are gearing up for financing, we do ask our disclosure council to provide training to the department staff who are responsible for providing the information in the POS. And then between financings with our department staff, when there are training opportunities, we do notify them and encourage them to participate. And when it comes to elected officials, my office, we put together a binder for all new elected officials as part of their onboarding experience to brief them on all city finances and related matters. One of the binder sections is debt management, and we typically provide a description of the bond programs, the bond ratings, a copy of our primary disclosure. I will admit that disclosure training with elected officials is more challenging than with departments or the debt team. However, I'm so pleased that CDIAC, earlier this year released their elected curriculum series. I've been looking forward to this for several years now. It focuses on educating elected officials about public finance including disclosure through their on-demand training courses. I think this would be a tremendous resource for all issuers, big and small. This is something we do plan to put in our next round of binders to all the newly elected officials. But throughout the year, we do get contacted by staff from elected offices seeking our input and advice on debt financing. I make it a point in these meetings to really try to squeeze in when I can, opportunities for them to learn more about debt, and then we provide them with online resources.

**KEVIN CIVALE:** Having seen the cities and I'm not sort of shining Ha on there. LA's good at this, they've spent a lot of time and effort on it, they really focus on it heavily. And having seen it in action, this concept of the electeds, and particularly the council aids, I've seen it in real time where it turned into an early warning of something. Sometimes like a person in Ha's situation, debt management, there could be conversations going on a long time before somebody in her shoes hears about it. But because of these efforts, I've seen it in real life where there was an early warning, there was a new, maybe a month or two or three before they otherwise would've learned about sort of things on the horizon that turned out to be significant disclosure points.

**HA TO:** I will add to that, Kevin, in our annual disclosure meeting, and the first 20 minutes we give training, and every year we do it, and it's mostly the same players or subject matter experts. It's ranged from staff to executives that attend. And the repetition, having that training every year has been fruitful. We do get questions a lot at the executive level all the time asking, is this material I found out about this information? And then we go through a process of vetting that. So, it's been very helpful training.

**KEVIN CIVALE:** I think that comes back to the point sort of made in the intro, which is, it's not CDIAC, I'm not referring to CDIAC programs, but we've all been involved with programs where you're watching something online and your kind of eyes roll and say, "oh, my, what am I sitting here doing?" Like driver's ed training or something like that. But the point that Ha made is I've seen that time and time and time again with three months after a training, six months after training, you get a phone call that says exactly what Ha just said, is this material? Or we have new projections, do we need to do anything with them? So, okay. You started by telling us you have a lot of different credits, a lot of different programs: solid waste, wastewater, general fund – how do you deal with the different departments to sort of come up with the information they need and also meet the financing schedules?

**HA TO:** Process is everything. As you mentioned, Kevin earlier and Dan. As a frequent issuer, we regularly





update and review our general fund primary disclosure. So, our document is usually no more than six to nine months old. As mentioned earlier, we host a big annual disclosure meeting in connection with our trend when we gather all the experts. And this meeting usually exceeds 80 attendees. It's a lot of people to manage through. The timing of our meeting is very advantageous. It's held immediately following weeks of intense budget hearings on the proposed budget. So, for a lot of our subject matter experts and our executives who attend the city's finances, and its challenges are top of mind for many of them. So, it kind of sets a good stage and a good foundation to have this meeting. Engagement is a high priority for us, we want to make sure we get maximum participation from all our city officials and city staff, so we try very hard to make the process accessible and friendly. We understand that executives and staff are very busy and have different communication style. So, we always send out our primary disclosure document with advanced questions to kind of start prompting them to think about things. We welcome written response and feedback. These meetings are usually three to four hours long, so not everyone can commit for the entire time. So, we'll make timing accommodations to help people attend the meeting. People's communication styles are so different. Some people prefer to send in their comments in writing and then talk about it. There are others who like to talk about it first and then send in their comments. We welcome any way just to get it done. And during the meeting, we like it to have our disclosure council lead the meeting, and then with the debt staff to help support and guide the discussion and help interject when necessary. During the meeting, we encourage staff and officials to really think about if they have any concerns on what's not in the document. Last thing I want to do is omit anything, so we always encourage people to think about what's not in the document. And then engagement after the meeting. Sometimes we need to follow up with some information. So, we have a disclosure coordinator who will follow up with the subject matter experts form smaller groups to continue to flesh out the issue and then properly disclose it. And then when it comes to approvals for all our financing, we make it a really big point to make sure all the senior officials are informed. They review the disclosure, and we go through a process where we send them black lines, we seek their input, we get their sign off prior to certain key dates that are very disclosure focused, and those are when we release our staff report, when we have our due diligence call with underwriters and as well as posting the POS and the OS. And then that's for our general fund primary disclosure. But then when it comes to our revenue bonds, we don't issue every year. We issue every two to three years. So, the main subject matter experts usually are housed under one department and who are ultimately the ones who spend the bond proceeds. Because of this, our diligence meetings are very small at a much smaller scale, but our standards remain the same. We take the same approach, we connect with the department staff early to socialize the financing process to get buy-in on the financing schedule, and then to discuss any major issues or challenges. We also set up standing weekly meetings with department staff so we could communicate on a regular basis. We bring on our disclosure council earlier than other financing team members so we can start working on disclosure prior to the kickoff meeting. This is our way to kind of try to get the best head start with our department staff. I do want to really note that our disclosure team follow a simple rule we trust, but we need to verify. We trust that everyone in the process is working towards the same goal and outcomes, but honest mistakes or misunderstandings do happen from time to time. We do request as much as possible to get the source materials, we meet with the subject matter experts. Like Kevin said, we get on phone calls, we don't just do emails, we don't rush disclosure. People always tell you to always ask questions. To me, that's really good advice. But what I do want to emphasize is don't be afraid to say you don't understand and ask someone to explain it again in a different way so that it is your responsibility, you need to understand.



Create a process, follow it through, don't cut corners when it comes to disclosure. And then, Kevin, you asked me how do meet our financing schedule? Quite frankly, sometimes we don't for various reasons, and sometimes it is disclosure related. So, there have been a few times on deals that I've done that we've actually delayed the bond issuance. And one example is when we have timing of highly sensitive information, and a lot of times people say, well, it's confidential, we can't put it out there. But as you know, being confidential doesn't meet the securities laws. So good examples. Earlier this year, we wanted to do general obligation bonds in March. However, the city was actively engaged in some labor negotiations, and it was highly sensitive, the impact would've been material to our city finances. And the city made a hard decision to just hit pause on the bond deal until the negotiations played out, until had to prove the deal. And there were a lot of pressure on us to do the deal because the department needed the funding so that they can move forward with their projects. Delaying it for three months would have negatively impacted them. So, we took steps with that department to identify other sources of funds to cashflow their project until the bonds were received. We try to be problem solvers as well. Another, I think typical example would be the knowledge drain, the brain drains. In the height of the pandemic, we were trying to complete a revenue bond financing to refinance commercial paper and to refund outstanding bonds. At different points in the time of the financing, we experienced staff turnover, retirements from subject matter experts and other competing priority. So, as a result, we had to delay the deal for six months until we all felt we did the proper diligence on disclosure and that the necessary people who are signing the documents understood the disclosure and what was material.

**KEVIN CIVALE:** Great. That's really, really excellent and very informative. So, talking about deal team, how do you handle assembling the deal team? Any words of advice for other issuers who perhaps only have to do it every couple of years?

**HA TO:** Sure. Like most issuers, I think we go through a competitive process to select a municipal advisors or consultants on disclosure council and underwriters. My best advice to all issuers is to make it a point to pick up the phone and call the reference checks. I've noticed more and more issuers are only doing reference checks in writing only. And to be honest, I don't think those written versions provide them necessary color and detail that actually helps you determine if they are a good fit for your team and for your needs. You'll be very surprised what someone will tell you over the phone versus in writing. We also make it a big point when it comes to our RFQs and RFPs to invite other LA issuers to participate on our evaluation panel. We always find that we benefit from their perspectives and their insight.

**KEVIN CIVALE:** We got a question. How many people do you have on the deck team? What does it help oversee the amount of training, smaller group disclosures? What's the core debt team?

**HA TO:** My team and I are very lean for all that we do. We have a total of seven, including myself. And one of them is our disclosure coordinator, and our debt compliance officer. So, because we run so lean, we have a lot of assistance from other agents and consultants as well.

**KEVIN CIVALE:** Great, thank you. And final question in a minute or two how do you handle disclosure training? Excuse me, continuing disclosure, how do you handle continuing disclosure compliance?



**HA TO:** Sure. So, I think I first want to start with during your financing. I could see that continuing disclosure agreement can easily be overlooked. I really recommend issuers spend some time reading that over, sitting down with your disclosure counsel, making sure you understand what is required in your annual reporting and going through the process. Also determine if the information that you're being asked to report on should be the annual report. Personally, from my experience through this process, I've learned that forward-looking tables is not necessary in our continuing disclosure annual report. With our disclosure council, we took steps to remove that so that was something I learned having going through the process. As a frequent issuer, like I said, with the lean staff, we do hire outside consultants to help us. We have a dissemination agent DAC, who assists us in our continuing disclosure responsibilities, which has served us very well. One thing I really like about DAC is that they track your ratings, your rating changes and automatically files a notice for you. Usually when you have an event notice it's something negative that happened, but when you get a rating upgrade, that's still a rating change that you need to post, but it might skip your mind because something positive, but we don't have that problem with DAC, they just help us post that. I do want to reemphasize, especially with continuing disclosure, the "trust but verify" concept. We've experienced some trustees who have failed to post the fees and redemption notices for us. Now we have a rule in place that our debt compliance officer will check EMMA to verify our notices were in fact posted. It's a simple thing to do, but it goes a long way. When Rule 15 and 16 came out for those material events, it was a lot for us to wrap our hands around it because of the 10-day notice requirement. We've developed a way to get other departments to help report any material financial obligations. Every month, departments submit to our office their financial status report. So as part of that process, we also ask them to report to us if there's any changes in their financial obligations as well.

## Slide 21 – HOT TOPICS

1:07:58

**DANIEL DEATON:** Okay. Kevin, you want me to start out with the first one?

**KEVIN CIVALE:** Yes, please.

**DANIEL DEATON:** One thing that we've seen in our practice is that this is just kind of the timing of finances that are kind of developing in the post-COVID era. When COVID came in, there was a lot of money that flowed in, and reserves were able to sort of ramp in many places the highest that they had ever been in the history of their general funds. And as a result of that, there were a lot of decisions that were made whereby the governments decided to continue to keep levels of expenditures or continue to keep increases in levels of expenditures until it was decided exactly where revenues would sort out. As that picture is becoming increasingly clear, we're seeing there be sort of structural deficits that are starting to develop that over time we'll whittle away or whittling away at the sizes of those reserves and need to be dealt with. And one of the things we kind of continue to stress is the importance of disclosing financial trends. Maybe something that hasn't occurred yet, but we see it going in that direction and making sure investors know that direction that it's going to.

**KEVIN CIVALE:** Cybersecurity is another sort of hot topic. It always comes up, you pretty much always see a cybersecurity section in your official statement, and sometimes the issue not so much anymore, but originally when it sort of first became a topic, sometimes issuers were very reluctant to talk about the



fact, "Hey we lost \$200,000, or somehow we got hacked, or we lost information." As a general matter, you have to consider the materiality of it. And sometimes the materiality isn't necessarily the dollar value, but the fact that you suffered a financial loss. So, in my mind, there's sort of two levels. Financial loss, access to government funds really, in my view, generally requires you communicate it. Maybe not every detail, maybe not exactly how they got in, maybe not even exact dollar value, but I think you do need, as a general matter to communicate it. Lesser things, information loss, private information loss, that may be a little more room. I think as a general matter, particularly because it's so common, it's safer to communicate at some level of detail if you have had a cyber incident.

**DANIEL DEATON:** I think on cybersecurity, my personal experience is that the most important question is internal due diligence. This is the internal due diligence around what is happening with respect to cybersecurity, I think is the most important one. It is obviously an area that is rapidly changing. It seems as though week by week, even at stages, we're seeing such just incredible sort of things that are going on out there. I think the situation I get worried about is where somebody is actually states in their disclosure, somewhat generic disclosure about cybersecurity, only to find out that their operations department or some other element of it has an extensive report detailing out a major vulnerability in cybersecurity. So, checking internally, what do we know, what have we done, what process do we have and making sure from a due diligence perspective, that there isn't anything that is there, in my experience, is the most important element of it.

**KEVIN CIVALE:** Dan, why don't you keep going? Climate change, labeled bonds.

**DANIEL DEATON:** Climate change and labeled bonds is obviously a very significant issue, very hot topic. The SEC has finalized a rule for public companies in this area. It's becoming a lot of discussion point by the SEC generally. Climate change disclosure, it can be very confusing at stages because it can get conflated with the policy issues that are associated with it. Climate change disclosure as it relates to bond disclosure really comes down to disclosing the ways in which the physical impacts of climate change or transition risks of climate change can ultimately impact the credit quality of bonds. And obviously in California, we're seeing a lot of examples such as drought conditions and wildfires and other things where we're seeing direct physical risks to credits.

**DANIEL DEATON:** We're seeing also transition risks where requirements that are being imposed by the City of California or others that require people to disclose those. Labeled bonds where we put on an offering document and we call it a green bond or we call it a social bond and so on, is another significant point that is a related issue. And the SEC has actually promulgated or proposed a rule basically bond funds about what kind of funds they would put in. Now, they haven't finalized that rule, but it shows that the SEC's becoming increasingly concerned about how offerings are holding themselves out and making sure that that's being done on an objective basis and it's not misleading and what needs to be done. The whole area of sort of environmental green bond climate change discussion has become one of our more significant hot topics.

**KEVIN CIVALE:** And one thing on climate change for cities in particular, I don't know if it's counted as I should, but I don't. Climate action plans, I've worked with issuers that a lot of times you see very generic



climate change disclosure, it's there, it's bad. We don't know how bad, we don't know how quick it's going to get very bad, and we don't know how much it's going to cost us. A lot of times that's really all the issuer knows. But sometimes, like for instance, cities that have done more detailed climate action plans, they may have particularized knowledge about particular areas of the city that might be more subject to inundation in the event of sea level rise. A lot of them go into the impacts of increased heat and the burdens on the social services in the city. So, be careful about that. Sort of ask around if you're in the working group, is there an arm of the city? This goes to what Dan was talking about, siloing as well. Is there somebody working on this, do reports exist that don't just talk about climate change sort of worldwide, but are there that have particularized impacts? Next one is ESG. The way climate change and cyber, like five years ago you'd be doing a deal and somebody would say, "Hey, we should put in a cyber section," or, "Hey, we should put in a climate change section," maybe five or 10 years ago. I'm really, I'm involved in a lot of work groups now where somebody suggests, "Hey, we should put in an ESG section." And it can be a very good idea, and it's obviously something that investors and rating agencies want to know about but be careful that it's not just sort of something you throw in at the end before you post that, it's sort of a word salad of aspirational goals. I think that obviously there's different understandings of governance and ESG and what's important, I think the way I look at disclosure is I think investors and rating agencies want to make sure that the issuer has their eyes wide open with respect to the challenges that they face, both climate challenges and social challenges. Obviously homelessness, they want to know that those concerns are sort of baked into the decision-making process. And as part of the things that it's the city, not just trying to make its way through the next budget and get to the next year, they're looking out to the future. So, if you want to have an ESG disclosure, I think you lead with embedding it in your policies and decision making and processes and that sort of a thing. You don't sort don't lead with the disclosure and then sort of pay attention to it, put it in place, and then talk about what you're doing.

**DANIEL DEATON:** And you want me to go onto the FDTA?

**KEVIN CIVALE:** Yes, please.

**DANIEL DEATON:** And so, this is not a hot disclosure topic. In other words, this isn't related to something that you would disclose in your offering document today. It's actually a legislative and a regulatory development that is going on and has for the last couple years. At the end of 2022, Congress enacted this act, Federal Data Transparency Act, which is aimed at all sorts of data across a number of different regulatory agencies as to the kind of data that is produced by federal regulatory agencies. And the goal of it is to make that data more organized and easier for people to use and manage that data for their own purposes. One of the major areas of that is when it comes to the capital markets and public companies and with securities offerings and so on, where the SEC is required to develop what they refer to as data standards in order for that information, that data to be more usable by investors across the markets. When it comes to our market, the municipal securities market, one specific section of the FDTA deals with the municipal securities market and the information that's going to be posted on the MSRBs website. All issuers that issue public bonds are posting every year and even more often if they do listed events such as rating agency changes or incurrence of debt and those kinds of events that we have to post on a regular basis. Fortunately for the municipal securities market, we're sort of at the end of the process as to what it is that they're going to be requiring for us to do. And not only that, but there are very specific provisions



in that section requiring the SEC when it develops the rules for what we're going to put on the MSRB website to scale it to size, and to make sure that the benefits outweigh the risks and a series of other protections for our marketplace. But we are expecting in about, that right now, for example, the data standards are being worked out by the regulatory agencies, and we do expect that sometime over the next two years, we're going to receive some very specific requirements by the SEC about the kind of data that we're going to have to post on the MSRB in order for that data to be essentially more user friendly for their purposes.

**KEVIN CIVALE:** Hey, Dan. Who's on the lookout for the muni issuer interests on this point? What are the groups like? Because if they do it wrong, it could be burdensome, if they do it sort of in a thoughtful way. I hear people saying, yeah, we can live with it. What's going on in the back and forth?

**DANIEL DEATON:** The number one organization that's looking out for this GFOA. And the GFOA has been a very actively involved, both at the legislative level as well as involved with the SEC and the other constituents that are involved with the process. Is actively in the process of commenting on the current proposal for the data standards and will remain very active in advocating on part of the issuers. And I think GFOA's perspective of it is, is that whatever is done should not impose material burdens on issuers. What that then manifests in specific requirements remains to be seen. But obviously issuers are sort of have probably the most important seat at the table on this issue through GFOA.