



**Government Finance Officers Association**  
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Washington, D.C. 20001  
[REDACTED] fax: [REDACTED]

Mr. Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

**RE: SR-MSRB-2017-06**

Dear Mr. Fields,

The Government Finance Officers Association (GFOA) appreciates the opportunity to provide comments to the SEC regarding Proposed MSRB Rule G-34 on assigning CUSIPs to private placements. The GFOA is the professional association of state, provincial and local finance officers in the United States. The GFOA has served the public finance profession since 1906 and continues to provide leadership to government finance professionals through research, education and the development of best practices. Our more than 19,000 members are dedicated to the sound management of government financial resources.

Governments rely on the ability to engage in direct purchases for a variety of reasons, including better terms and lower borrowing costs than would occur when issuing bonds in the open market. This is especially true for smaller governments. GFOA opposes any regulatory action that would dissuade banks and investors from being interested in and making these direct placement purchases; we appreciate the opportunity to comment.

If the intent of the rule is to increase transparency of private placements to the investor, we would ask the SEC to focus efforts on improving investor access to bank loans through improvements to EMMA and promoting existing resources on state and local governments' publicly available web sites. Our comments are specifically and directly related to the intent of the rule and its application to transactions public issuers currently use.

#### **Exception for Securities Held to Maturity**

The proposal contains language that is vague regarding an exception for obtaining CUSIPs when certain conditions are met. Without clear language on how an exception for bank loans can be easily met, the proposed amendment will dampen demand for bank loan and direct purchase financings entered into by state and local governments and authorities and therefore raise borrowing costs. Although the MSRB suggested an exception -- "the underwriter or municipal advisor reasonably believes (e.g., by obtaining a written representation) that the present intent of the purchasing entity or entities is to hold the municipal securities to maturity" -- it may not be adequate to satisfy direct purchase investors.

We are concerned that the investor will not express present intent to hold the securities “until maturity” as required by the proposal, and therefore will be deterred from purchasing the security. We suggest that the SEC carefully review the ABA’s comment letter, as they represent these types of purchasers and can best speak to current market practices that need to be addressed in the rulemaking. Further, the way in which the underwriter or municipal advisor would be able to ascertain the intent of the investor needs to be enhanced. The MSRB’s proposed parenthetical may not be sufficient and should be part of the rule itself rather than cited as an example of how to meet the requirement.

### **MSRB Comments on Transactions Between Governments**

In its filing with the SEC, the MSRB referred to a comment by the GFOA and others:

“In particular, four commenters suggested that in addition to banks, as defined in the Second RFC, the MSRB should expand the exception also to apply to local governments privately purchasing municipal securities.”

The MSRB responded to that comment, as follows:

“With respect to expanding the exception to include local governments purchasing municipal securities, the MSRB understands that in these scenarios the transactions are negotiated directly between the two parties, without the involvement of an underwriter. As a result, the CUSIP number requirements of Rule G-34(a)(i) would not apply and the need to expand the exception to include these scenarios is unnecessary.”

We would respond to the MSRB’s response that issuers presently engaging in private placements with other government entities do, in fact, involve placement agents. In Arizona, for example, *placement agents* are specifically engaged in these transactions. Therefore, we would again respectfully request an exemption to include local governments purchasing municipal securities in order to accommodate transactions that do involve placement agents.

In addition, The MSRB did not reference the entire comment from GFOA:

“A second fundamental concern is that the exception does not include situations where local governments privately purchase government-issued notes. Also state revolving fund issuers make loans to local governments, which in turn issue bonds to evidence that debt. Governments should not be required to obtain CUSIP numbers for these types of investments which never enter the secondary market. Therefore, the exception should also include state and local government bonds purchased by other state and local governments with no intention to resell.”

The MSRB’s response fails to address an activity that’s permitted by their own rules. MSRB Rule G-23(d)(ii), creates an exemption from the role-switching prohibition of Rule G-23 for the following placement agent activity:

“(ii) Notwithstanding subsection (d)(i), a broker, dealer, or municipal securities dealer that has a financial advisory relationship with respect to the issuance of municipal securities shall not be prohibited from acting as agent for the issuer in arranging the placement of the entire issue with any state, local or federal governmental entity as part of a plan of financing by such entity for or on behalf of the issuer, but only if

such broker, dealer or municipal securities dealer does not receive compensation from any person other than with respect to financial advisory services related to such placement and does not receive compensation from any person for underwriting any contemporaneous financing transaction directly or indirectly related to such issue undertaken by the state, local, or federal governmental entity with which such issue was placed.”

GFOA reiterates its comment about the need for an exemption from G-34’s CUSIP requirement when a dealer municipal advisor places the security of a local government with a state issuer, as permitted by Rule G-23(d)(ii). A common example of this structure is state clean water and drinking water state revolving fund issuances, which are secured by local government “bonds.” There is no need for the dealer municipal advisor to obtain a CUSIP number for the local government security in this instance. The local government security will be held by the state issuer and not traded in the secondary market.

Finally, the proposal is not clear on the matter of municipal advisors obtaining CUSIPs in all competitive sales. If the SEC approves this section of the proposal, clarification is needed to state which party is responsible for obtaining CUSIPs in a competitive sale when an issuer chooses to not use a municipal advisor. We would advise against placing that responsibility on the issuer.

To reiterate, we appreciate the intent of the proposed rule, which we believe is to increase transparency of private placements to the investing public. Given that, we would ask the SEC to focus efforts on improving investor access to bank loans through improvements to EMMA and promoting existing resources on state and local governments’ publicly available web sites.

Thank you again for the opportunity to comment. Please feel free to contact me at [REDACTED] or [REDACTED] if you have any questions on or would like to discuss any of the information provided in this letter.

Sincerely,

Handwritten signature of Emily S. Brock in cursive script.

Emily Swenson Brock  
Director, Federal Liaison Center