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Municipal Securities Disclosure Will Be Subject To New Data Standards.

The Financial Data Transparency Act of 2022 (the "Act"), which was included as part of the National Defense Authorization Act, was signed into law on December 23, 2022. The Act requires that various federal regulatory agencies jointly issue proposed rules within eighteen (18) months, which establish data standards for financial disclosure. Final rules must then be enacted no later than two (2) years from passage of the Act after public comment is received.

Within two (2) years after promulgation of these final rules, the Securities and Exchange Commission (the "SEC") must then issue compatible rules that apply to information submitted to the Municipal Securities Rulemaking Board by issuers and obligors of municipal securities. With this two-step process for promulgation of rules, the final rules that will govern disclosure for municipal securities may not become effective for four (4) years.

The Act requires that the SEC consult with market participants in establishing these data standards. The SEC "may scale those data standards in order to reduce any unjustified burden on smaller regulated entities." The Act also mandates that the SEC "seek to minimize disruptive changes to the persons affected by those rules."

The Act sets forth certain requirements for the data standards adopted by the SEC such that the rules must, to the extent practicable:

1. render data fully searchable and machine-readable;
2. enable high quality data through schemas, with accompanying metadata documented in machine-readable taxonomy or ontology models, which clearly define the semantic meaning of the data;
3. ensure that a data element or data asset be consistently identified in associated machine-readable metadata;
4. be nonproprietary or made available under an open license;
5. incorporate standards developed and maintained by voluntary consensus standards bodies; and
6. use, be consistent with, and implement applicable accounting and reporting principles.

It is anticipated that the rules will adopt a structured data format similar to extendable business reporting language (XBRL), which is currently required by the SEC for private companies.

The new data standards will likely increase the costs of municipal disclosure for issuers and obligors who may need outside services or software to ensure compliance. A full assessment of any additional costs and burdens will not be possible until the rules, and any exceptions, are promulgated and finalized by the SEC, though the Act makes clear that some new mandates will be imposed in the coming years.

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December 30, 2022

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