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SEC Attempts to Calm Muni Market Over FDTA Implementation.

As the timeline for implementing the Financial Data Transparency Act grows shorter, the Securities and Exchange Commission is teaming up with other federal regulators in an attempt to allay fears about implementation.

“There’s no new disclosure requirements, standards or timelines, it’s just about structured data,” said Dave Sanchez, director of the SEC’s Office of Municipal Securities.

The comments came during a panel discussion produced by XBRL US on Thursday. The FDTA was passed last year as a remedy for providing more transparency to the financial markets by introducing machine-readable formats into the Municipal Securities Rulemaking Board’s EMMA system, which tracks the muni market.

The SEC is in charge of developing the standards for how the data will be submitted to the MSRB. The upcoming deadlines include publishing proposed rules by June 2024, which will kick off the public comment period. Determining the standards is set for December 2024, with specific rulemaking to be in place by 2026.

Sanchez is especially interested in hearing from industry stakeholders. “We’re happy to hear from anybody who thinks they have a good idea about how this should work,” he said. “We really encourage people to come in and talk. We’ve had a lot of conversations with various stakeholders, and we really appreciated the input.”

Detractors to the mandated changeover point to the widely divergent nature of the muni market, a point not lost on the MSRB. “Creating a unified database of all the issuers, all the obligors in the muni market, is much harder than it sounds,” said Liz Sweeney, president of Nutshell Associates, and board member of the MSRB. “There are roughly 40,000 issuers.”

Sweeney revealed that the current system has limitations on accuracy. “Everybody in the muni market who does research knows exactly what I’m talking about. Having a unified database that says, ‘nope, all these fourteen iterations of the same entity is one entity’ is really important.”

Issuer representatives have largely been opposed to the FDTA including the Government Finance Officers Association which believes the implementation will impose financial hardship and require additional labor to implement the system while not offering any new data.

Emily Brock, director of the GFOA’s federal liaison center, was cheered by the call for input by the regulators.

“Both Joel Black, chair Government Accounting Standards Board, and Dave Sanchez said several times, ‘you need to send in your comments’ and I don’t think that was necessarily aimed at the technology providers. I think they are saying it especially to the issuers,” she said.

The regulators are wrestling with a number of issues including which machine-readable language will replace the PDFs currently serving as EMMA's backbone. Which data gets converted is another sticking point. "The muni market has thousands of nonprofit issuers, hospitals, charter schools, and universities," said Sweeney. "It's a very large, heterogenous market so you really want to think about that breadth of information submitted to the MSRB."

Entities that do not follow Generally Accepted Accounting Principles, including the state of New Jersey, provide another wrinkle to the plan. "We know there are a number of non-GAAP accounting states," said Sanchez. "To figure out exactly what portion of those are actually issuers is something that's actually useful to do."

The tech industry is already jockeying for support positions, but the SEC is advising patience.

"A lot of messaging for us has been 'Wait until the standards are out,' because unfortunately a lot of people will be scared into spending money and taking steps that were way too soon," said Sanchez.

By Scott Sowers

BY SOURCEMEDIA | MUNICIPAL | 11/10/23

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