Remarks at the Financial Stability Board Roundtable

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Thank you for having me here today, Chairman Quarles and other public members.

The GFOA represents over 20,000 state and local governmental issuer members across the United States. On behalf of our members, the GFOA is very interested in helping to ensure the issuer community is prepared to address the cessation of LIBOR. Our participation on the ARRC is especially important to the public markets where we promote transparency to ensure that investors have appropriate material information about municipal securities. GFOA estimates that the municipal bond has financed approximately 75% of this nations infrastructure and that just underscores how important efficient markets are for the benefit of taxpayers.

Our communication with government and nonprofit issuers across the country has emphasized that the work of the ARRC to ensure that issuers and end users have comprehensive guidance. Said simply, the ARRC has consistently provided a benefit to issuers by providing them with more information than less.

The Metropolitan Transportation Authority of New York where I serve as the Director of Finance has a large and diverse portfolio of $40 billion of tax-exempt bonds outstanding. This portfolio is predominantly comprised of fixed-rate obligations — but also includes natural variable rate bonds and synthetic fixed-rate debt structured with derivative contracts. We issued the first tax-exempt bonds keyed to a percentage of SOFR in a one- and two- year tenor FRN to a receptive market.

Variable rate debt tied to indices such as SIFMA or LIBOR has historically and continues to be a reliable issuance choice for a low-cost method of financing as compared to issuing fixed-rate bonds. Because of this, GFOA has undertaken significant efforts to educate our members of the efforts to reform major interest rate benchmarks. Governmental issuers have relied on the SIFMA swap index or a percentage of LIBOR to issue floating rate notes to provide critical exposure to the short end of the yield curve.

While comparably smaller than the for-profit sector, LIBOR exposure in the tax-exempt space penetrates at a variety of levels. Floating rate notes are issued by larger public issuers and are sometimes comparably longer duration than our private-sector counterparts. Additionally, commercial banks provide smaller entities with the option to borrow through privately placed debt – often based on a percentage of LIBOR.

The GFOA has a long history of creating and maintaining industry best practices. GFOA has published best practice guidance on the use of variable rate debt to ensure that it is used appropriately. Accordingly, the GFOA supports efforts to ensure that robust fallback provisions are in place and are accessible to all issuers participating in the cash markets. In principal, we know that the market will prefer as much *clarity at the time of issuance* of any new LIBOR or SIFMA based FRN as possible. Clarity and process for both the issuer and the investor is very important.

To the municipal issuer, legacy contracts must be addressed. ISDA is currently pursuing a consultation that would amend the ISDA Master Agreement, a process which GFOA supports; and ideally, the amendment will reflect a fallback to SOFR. This articulated transition would allow for issuers to engage with their advisors to determine the best course of action. We have recognized throughout this process the range of disruption this may have to issuers who have different types and tenors of LIBOR exposure – and it is in our mutual best interest to ensure the market is prepared. GFOA is committed to our role as the communicator (and best practice originator) to the municipal bond market issuer community. We will continue to have these discussions among our peers on the ARRC and with our GFOA members.

Regarding private placements, we consistently highlight the potential cessation of LIBOR and, in particular, the looming December 31, 2021 date. We encourage issuers who have privately-placed debt to discuss any LIBOR placed agreements extending beyond 2021 with their advisors and counsel. We encourage our members to evaluate pricing variable rate products based on different indices including LIBOR (until 2021), SIFMA and SOFR.

The issuer community needs clear language and a framework that highlights a clearly defined, orderly process with limited “unknowns”. Doing so would help both the issuer and investor efficiently price new LIBOR based contracts and effectively manage the transition from LIBOR to SOFR.

I want to thank you Chairman Quarles and other distinguished representatives here for the opportunity to address this important topic. Thank you.