February 7, 2022
Ronald W. Smith, Corporate Secretary
Municipal Securities Rulemaking Board
1300 I St. NW
Washington, D.C. 20005

Comments re: MSRB Notice 2021-17

Dear Mr. Smith,

On behalf of Breckinridge Capital Advisors, Inc. (Breckinridge), I am pleased to offer the following comments re: the MSRB's "Request for Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market" (MSRB Notice 2021-17). Breckinridge is an investment grade fixed income investment advisor with over ten years of experience integrating ESG analysis in its municipal investments.

Breckinridge believes that the MSRB should promote standardized, sector-based disclosure of material ESG information in municipal primary offerings and continuing disclosure materials. Doing so is consistent with the MSRB's mission to protect investors, issuers, and promote an efficient municipal market. Disclosure issues related to the emerging labeled bond market likely require less of the MSRB's attention, in our view.

As an initial matter, to protect retail investors, the MSRB should strive to ensure that substantially similar ESG information is clearly communicated to ordinary and professional investors, alike. There is little question that municipal investment professionals believe ESG data can help them price risk. All three major rating agencies incorporate sector-based, standardized ESG methodologies into their credit opinions, and investors now routinely purchase ESG data from private vendors to help them make investment decisions.

Ordinary municipal investors especially need better, standardized information concerning physical- and transition-related climate risks. Municipal bonds typically finance infrastructure assets that are immobile and must be maintained. Protecting these assets from physical risks like increased flooding, stronger storms, or more frequent wildfires will be costly in some cases. Likewise, the greenhouse gas (GHG) transition threatens municipal credit quality in certain sectors. Some some coal-reliant electric utilities may struggle under the weight of more stringent renewable power standards. Some motor fuel tax-backed bonds may suffer from weaker tax collections if electric car sales reach an inflection point.

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Some examples of material, sector-specific, climate-related disclosures that might be standardized include:

- In the local GO sector: issuers often have access to information like the date of their last building code update or land use plan revision. Many also have access to information regarding their greenhouse gas emissions (GHGs), either through a state agency or their own GHG inventory.

- In the water and sewer sector: relevant information about water loss rates, drought conditions, and water quality.

- Across sectors: information regarding whether capital plans account for climate related risks, and if so, how the issuer intends to fund these risks.

The above information is typically not reported, reported in lengthy documents, or communicated in boilerplate language in official statements. However, with some legwork, this kind of information can be reduced to a table format, sorted into ranges, and/or communicated in a binary way (y/n).

In Breckinridge's experience, standardizing material climate or ESG information is a time-intensive and iterative process. Any marketwide municipal ESG standardization effort will likely require collaboration from a broad swath of municipal market stakeholders. It will also require consistent revision and proactive data dissemination from owners of public databases. The municipal market's thousands of small issuers will need ready access to public databases to keep the time and expense of disclosure costs to a minimum.

Nonetheless, the success of the Sustainable Accounting Standards Board (SASB) hints that sector-based municipal ESG standardization is achievable. SASB standards were developed for 77 industries "each of which includes disclosure topics and performance metrics for sustainability risks and opportunities" that could materially affect the financial condition or overall risk profile of a company (see SASB's May 19, 2021 public comment letter to the SEC regarding climate-related disclosures). Of note, organizations like CDP and the U.S. Green Building Council have developed SASB-like frameworks for municipal governments.

Importantly, promoting standardized, sector-based material ESG disclosures is likely to help issuers. Again, using climate risk as an example, some small New Jersey shore communities with significant exposure to sea level rise may increasingly find fewer buyers of their debt if investors are poorly informed about their adaptation efforts or state laws that require conformance with climate conscious building codes. Evidence for this proposition is presently unclear from pricing data. However, that likely reflects confounding variables such as the state-of-issuance, limited trading, the tax exemption and, quite likely, *poor disclosure* itself.

Standardized ESG disclosures would also promote a more efficient municipal market. While climate risk is largely unpriced in the municipal market today, it's clear that professional investors are preparing for a different pricing paradigm. Better disclosure of material ESG information should help assist with intermediation.

Labeled bonds require less attention from the MSRB as compared to ESG disclosure. Third-party verification providers and the securities law's existing anti-fraud provisions are likely adequate to meet the regulatory challenge posed by labeled bonds. Consider the following example: In May 2019, Standard & Poor's downgraded Trinity Public Utility District's (CA) series 2017 green bonds from AA- to A- based on "the district's exposure to claims relating to [existing and] future wildfire liability…". Had this wildfire risk been better disclosed, a reasonable investor, especially one interested in ESG factors, may have avoided the bond despite its green label. The crux of the disclosure problem is not in the green bond's shortcomings. It was in the issuer's lack of disclosure of wildfire risk. To the degree that the buyer of the green bond felt misled, the traditional anti-fraud provisions seem sufficient to the task.

Thank you for the opportunity to offer thoughts and recommendations on this important topic for our market.

Sincerely,
Adam Stern

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