Municipal Securities
Rulemaking Board (MSRB)

REQUEST FOR INFORMATION ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRACTICES IN THE MUNICIPAL SECURITIES MARKET
March 8, 2022

MSRB
Via online submission: MSRB Comment Form

To Whom It May Concern:

On behalf of Sperry Capital Inc. (Sperry), we appreciate the opportunity to submit to the Municipal Securities Rulemaking Board (MSRB) in response to the Request for Information (RFI) on environmental, social and governance (ESG) practices in the municipal market. If you have any questions, please contact me.

Sincerely,

Bryant Jenkins, Principal
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Municipal Advisor Specific Question Responses

1) Does the formulation and delivery of advice regarding ESG-Labeled Bonds raise any novel compliance issues for firms, such as challenges related to recommendations, pricing, suitability or other related legal obligations?

No. To the extent that a municipal advisor makes a recommendation on a specific method of ESG-Labeled Bonds, it is tantamount to all other marketing and informational recommendations that are made to clients within the same compliance regime.

2) Does the formulation and delivery of advice regarding ESG-Related Disclosures raise any novel compliance issues for firms, such as challenges related to recommendations, pricing, suitability or other related legal obligations?

Yes. There is a question of materiality for certain ESG-Related Disclosures. For example, a wastewater issuer that does not have an appropriate governance structure to deal with equity issues in prior remediation events. Should that disclosure be provided? If so, how detailed would the risk disclosure be? We think that there is significant uncertainty on dealing with ESG-Related Disclosures (e.g., Climate Change and its Effects Globally, US, and/or Locally) and providing appropriate level of disclosure.

All Municipal Market Participants Question Responses

1) Are there any ESG-related factors that could pose a systemic risk to the municipal securities market? If so, how might the MSRB approach such systemic risks from a regulatory perspective? Are there non-regulatory approaches the MSRB could take that would advance issuer protection, investor protection, and the overall fairness and efficiency of the market?

There are several ESG-related factors from global warming, societal unrest, income inequality to name a few that may pose systemic risk to the United States and by extension, the U.S. municipal securities market. As a regulatory entity, MSRB should focus more on localized ESG-related factors that have historical basis such as wildfire risk in the Western United States and how those risks are disclosed. It is almost impossible and somewhat nebulous for the MSRB to review every issue for appropriate systemic risk disclosure. From a non-regulatory perspective, MSRB may consider either providing general language to be considered for those systemic risks or at least general guidance on how risk disclosure should be characterized.

2) There are a number of organizations establishing voluntary standards for the issuance of ESG-Labeled Bonds, such as the ICMA and CBI. 17 Does the availability of these voluntary, market based standards provide adequate guidance for issuers and transparency for investors in the municipal securities market? If not, what additional guidance or transparency do you believe are warranted with respect to ESG-Labeled Bonds?

These standards provide some comfort to investors, but the market will be better once we have coalesced to a universal standard as opposed to the current spectrum of self-identified green, sustainability and social bonds, third party verified to ICMA or CBI standards or whatever new marketing term gets invented next week.
3) There are a number of industry-led initiatives underway intended to improve the quality of ESG-related information available in the municipal securities market. Does the availability of these voluntary, market-based initiatives enhance the ability of investors and other market participants to make informed decisions in the municipal securities market?

The U.S. municipal securities market is at the early stages of using ESG related information. The information currently available is an improvement for investors from the past. Nonetheless, it is more helpful for near term unification, if ESG information and disclosure has a baseline standard for ESG information available (e.g., greenhouse gas emission reduction per product) along with identified best practices such as comparative ESG statistics for the project/issuer going back through several years. At the current stage, investors understand if projects have ESG-features. However, investors do not know the extent of the ESG in the project (i.e., how green is it compared to other projects in the sector, compared to other sectors).

4) There are numerous vendors providing ESG data for the municipal securities market. Does unequal access to ESG data result in disparate impacts to investors and other market participants? Does competing ESG data create investor confusion? How could the MSRB use the EMMA website to reduce information asymmetry or investor confusion?

As indicated in our response to question 3, there is a variety of nonstandard ESG data for market participants to utilize. We cannot say for certain that unequal access to ESG data leads to disparate impacts to investors because municipal market investors have a variety of preferences and a variety of ESG preferences as well as host of data providers. It would be helpful for the MSRB to link to appropriate ESG data such as ICE data or CBI post issuance verifications.

5) Does the availability of ESG-related information (or lack thereof) in other financial markets directly or indirectly influence the functioning of the municipal market? If so, how? For example, when evaluating competing investment opportunities, do taxable ESG investors expect the same timeliness and quality of ESG related information for a municipal issuer as for a corporate issuer? And how might the differing expectations of different classes of investors (e.g., foreign versus domestic; retail versus institutional; or tax-exempt versus taxable) regarding ESG-related information affect pricing, underwriting, trading, and other market activities?

Yes. ESG investors based in foreign markets are used to obtaining more robust ESG data in Europe and Asia than in the U.S. municipal securities market. It does not necessarily mean that they are less likely to participate in the U.S. municipal securities market, but it does make it more difficult to have enough buyers to generate a compelling greenium/premium to issuers which would incent more issuers to provide ESG information to investors. Retail investors are still relatively unsophisticated compared to institutional investors on ESG information. In the taxable market, issuers need significant size (in excess of $250 million) to be eligible for taxable indices and more attractive to taxable buyers. This is a higher bar than for most tax-exempt ESG investors who may be interested in smaller size transactions.
6) The MSRB recently incorporated an ESG indicator from an independent data vendor, IHS Markit, into the New Issue Calendar shown on the EMMA website. This ESG indicator denotes when an issuer has self-labeled a bond issue as green, social, or sustainable, or if the issuer includes an independent ESG certification as part of the offering document. Does making this ESG indicator available on the EMMA website enhance market transparency regarding ESG-Labeled Bonds? Specifically, is it valuable to investors, municipal issuers or other market participants? Yes. More information is better than less. MSRB should consider providing guidance to differentiate between the ESG labels.

7) What improvements could the MSRB make to the EMMA website regarding ESG-Related Disclosures, ESG-Labeled Bonds and other ESG-related information? Which improvements to the EMMA website would most enhance access for investors and other market participants to ESG-related information? Which improvements to the EMMA website would most enhance the fairness and efficiency of the municipal market? It would be helpful to market participants, if MSRB could utilize word search technology as shown in EMMA labs to link to the ESG-Related Disclosures and other ESG-related information. EMMA website would be enhanced with additional information regarding the four pillars of ESG – use of proceeds, selection of ESG projects, management of proceeds, and reporting linked for all market participants to review.

8) Is there any additional information that you would like to share with the MSRB regarding any other ESG-related activities or trends in the municipal securities market? N/A