



# Six Things to Know When Issuing Municipal Bonds

State and local governments rely on the municipal securities market to raise money to finance projects for their citizens. Issuing bonds, whether done once a decade or many times a year, generally requires municipal governments to hire financial professionals to help.

The Municipal Securities Rulemaking Board (MSRB) plays an important role in defining the relationship that municipal governments have with financial professionals. It also plays a role in helping state and local governments communicate with investors. These activities are closely linked to how much it costs a state or local government to borrow money.

This document will explain six key things for state and local governments to know about issuing municipal bonds.

*Check if an underwriter or municipal advisor is registered with the MSRB at [msrb.org](http://msrb.org).*

## **MSRB registration is required for underwriters and municipal advisors.**

When a state or local government issues a bond, an underwriter may help bring the bonds to market. A state or local government may also hire a municipal advisor, sometimes called a financial advisor, to provide advice before and during the issuance of a bond. Both underwriters and municipal advisors are required to be registered with the MSRB and are subject to MSRB rules. State or local government issuers can check if their underwriters and municipal advisors are registered by visiting the MSRB's website, at [msrb.org](http://msrb.org) and clicking on the "Disclosures and Data" tab. To view rules that apply to underwriters and municipal advisors, go to the "Rules" section of the MSRB's website.

## **Underwriters and municipal advisors must provide accurate information related to the sale of bonds.**

State and local governments should expect a high level of professional conduct from both underwriters and municipal advisors. These financial professionals are required by federal law to act in ways that ensure state and local governments are not taken advantage of, defrauded or otherwise treated unfairly. MSRB rules require both underwriters and municipal advisors to deal fairly with state or local government issuers. These financial professionals are required to provide accurate information when giving advice or information related to the sale of bonds. They also cannot omit important information that is relevant for decision-making.



**Subscribe to issuer education and EMMA email updates from the MSRB.**

Underwriters must deal fairly with state or local government issuers in connection with all aspects of the underwriting of their municipal securities. This includes honoring commitments made to state or local government issuers regarding distribution of the issuer's securities. MSRB rules also prohibit conflicts of interest that can harm state or local government issuers. For example, underwriters cannot act as a municipal advisor to a state and local government issuing a bond, and then become an underwriter on the same transaction.

*The MSRB operates the EMMA website as a centralized platform for state and local governments to communicate important information to investors.*

### **Municipal advisors owe a fiduciary duty to their state or local government issuer clients.**

State and local government issuers should also know that municipal advisors are required by federal law to act in the best interests of their state and local government clients without regard to their own financial or other interests. This is called a "fiduciary duty." Municipal advisors must not let any financial relationships or interests they have prevent them from acting in the best interests of state or local government issuers that want to raise money at the lowest possible cost. Underwriters do not have a fiduciary duty to their state or local government issuer clients, but they must act fairly and not deceive state or local government issuers.

### **State and local governments can use different approaches to financing capital projects to borrow at the lowest possible cost.**

In a competitive sale, underwriters submit bids to the issuers and the bonds are awarded to the underwriter that offers to pay the issuer the lowest interest cost. In a negotiated transaction, a state or local government issuer hires an underwriter that helps it find investors for the bonds.

During the pricing process, state and local government issuers have the right to assign underwriting liabilities. State and local government issuers are involved in determining which customer orders receive priority and defining what constitutes a retail order. Also, state and local government issuers have the right to determine how the bonds are distributed among investors. Underwriters are required to act in good faith with state and local governments and to honor primary offering practices as defined by the MSRB.

### **State or local government issuers can use the EMMA system to communicate important information directly to investors.**

Issuing bonds also generally requires municipal governments to take certain steps to keep their investors informed, at the time of issuance and afterwards. These steps can reduce the overall cost of borrowing to the state or local government issuer. The MSRB operates the EMMA website as a centralized platform for state and local government issuers to communicate important information about themselves and their securities to municipal bond investors.



**Subscribe to issuer education and EMMA email updates from the MSRB.**

In addition to required disclosures, the MSRB allows state and local government issuers to voluntarily submit other categories of investment-related information, such as annual budgets. The MSRB also allows state and local government issuers to submit information about the timing and accounting standard used to prepare the annual financials. It is up to the state or local government issuer to decide whether or not to submit more information than what is minimally required although investors report that issuers with strong disclosure practices receive favorable pricing in the market.

### **State or local government issuers can use EMMA to track bond trading.**

After a bond is issued, state and local government issuers will be able to easily track their bonds on EMMA by entering a CUSIP number or state or local government issuer name and selecting the "Trade Activity" tab. State or local government issuers can review the trading of their bonds and view the trade data available on EMMA for over one million outstanding bonds. On a typical trading day, the MSRB collects and disseminates information on an average of 40,000 trades.



[Subscribe to issuer education and EMMA email updates from the MSRB.](#)