CHEFA Connecticut Health and Educational Facilities Authority

TO: **Securities and Exchange Commission**

FROM: **Connecticut Health and Educational Facilities Authority**

DATE: **September 4, 2009**

SUBJECT: **Request for Comment – Release No. 34-60332; File No. S7-15-09**
Proposed Amendment to Municipal Securities Disclosure

The Connecticut Health and Educational Facilities Authority ("CHEFA" or the "Authority") is pleased to have this opportunity to provide comment on the Security and Exchange Commission's proposed amendments to Rule 15c2-12 under the Securities Exchange Act of 1934 relating to municipal securities disclosure. The municipal market has undergone unprecedented disruption over the past several months and the Authority believes that good disclosure practices by market participants will play a key role in restoring stability.

CHEFA is a quasi public agency established by state statute as a public instrumentality and political subdivision of the State of Connecticut. The Authority is a "conduit" issuer of tax-exempt bonds sold on behalf of qualified institutions including health care institutions, higher educational institutions, independent schools, child care facilities, long term care facilities, cultural institutions and various other institutions qualified under Section 501(c)(3) of the Internal Revenue Code. Proceeds of debt issued by the Authority are loaned to the underlying borrowers and the debt is payable from the revenues received by the Authority from the underlying borrowers in repayment of their loans and is generally not the obligation of the Authority or the State of Connecticut. As of June 30, 2009, the Authority had approximately $6.8 billion of bonds outstanding ($3.2 billion fixed rate and $3.6 billion variable rate) for 145 borrowers. We are providing our comments on your Proposed Amendment to Municipal Securities Disclosure from the perspective of CHEFA as the issuer and of CHEFA borrowers as the ultimate obligors on the debt. The borrowers, rather than the Authority, are obligated under the Continuing Disclosure Agreement in most instances.

Our comments are in the areas of: 1) the modification of the exemption for demand securities, 2) the time frame for submitting event notices, 3) the addition of events to be disclosed, and 4) effective date and transition.

10 Columbus Boulevard ◆ Hartford, CT 06106-1978
Tel: 860-520-4700 Fax: 860-520-4706

Modification of the Exemption for Demand Securities

CHEFA supports the SEC's proposal to eliminate the exemption for demand securities included in Rule 15c2-12. Variable rate demand obligations (VRDOs) currently represent approximately 52% of the Authority's outstanding debt. We believe that investors should be provided with information on the underlying obligor and we have a longstanding practice of requiring disclosure by the underlying obligor on these transactions despite the existing 15c2-12 exemption. Our Official Statements for VRDOs include an Appendix A describing the borrower and also borrower financial information, and the borrower is required to sign a Continuing Disclosure Agreement. It is our view that having these types of additional disclosure requirements served investors well during the recent turmoil in the financial markets when the ratings on many credit enhancement providers were being downgraded by the rating agencies. SEC elimination of the exemption would support our existing practice.

Time Frame for Submitting Event Notices

The Authority has two concerns regarding the proposal to modify Rule 15c2-12 to require submission of notices not in excess of 10 business days after the occurrence of the event. First, we believe that 10 business days is not enough time for obligors to respond. While some of CHEFA's borrowers are frequent and sophisticated market participants, many others are small entities with relatively little debt outstanding—as is often the case with independent schools, cultural organizations, and child care facilities. These smaller borrowers have limited staff resources and those resources are focused on maintaining the entity's operations. We believe that imposing a ten business day requirement would be burdensome to these borrowers. We propose a time frame of 45 calendar days as an alternative. We believe that a 45 day time frame will foster the availability of up-to-date information, while providing the obligor with enough flexibility to be able to comply.

Our second concern is that the proposed time frame is triggered by the occurrence of the event. We believe that the trigger should be the point at which the obligor has actual knowledge of the event. An "actual knowledge" trigger point is particularly important with respect to the notice requirement for rating changes, particularly when the rating is based on the rating of a credit enhancer, rather than the underlying obligor. Many CHEFA borrowers have issued debt with credit enhancement. In the recent months of turmoil in the municipal market when bond insurer ratings were repeatedly being downgraded, it became very challenging for our borrowers to be continually aware of credit enhancer rating changes and the implications for the actual rating on their bonds. We believe that it is difficult for borrowers to take responsibility for providing notice of rating changes because they may not have full knowledge or understanding of the changes taking place. While we acknowledge that regulatory oversight of the rating agencies is outside the scope of this request, we believe that the best way to ensure timely disclosure to investors of rating changes would be for the rating agencies to provide notification of rating changes directly to EMMA.

Addition of Events to be Disclosed under a Continuing Disclosure Agreement

We also wish to comment on your proposed requirement that the obligor provide notice of the appointment of a successor trustee, additional trustee, or change of name of trustee, if material. While we acknowledge the importance of the role of the trustee and the need for investors to be able to identify the trustee, we believe that it would be burdensome for the obligor to be responsible for reporting on these events. We are concerned, particularly in the case of the small less sophisticated borrower, that obligors do not have the resources available to track and report on changes in the trustee on a timely basis or to determine the materiality of a name change. We believe that this type of information will be most accurate if it can be provided by the source, i.e. the trustee, although we recognize that such a requirement is outside the scope of the Rule. Concern for this notice requirement would be further heightened if the time frame for providing notice is based on the date of occurrence of the event. We believe that an "actual knowledge" trigger point will be particularly important if this proposed amendment is implemented.

Effective Date and Transition

From our perspective as an issuer, we do not believe that the proposed effective date of no earlier than three months after any final adoption of the proposed amendments is problematic. With regard to the impact of having the revised rule only apply to transactions completed after the effective date--- we do not believe that proposal will significantly affect outstanding Authority transactions. As we issue new debt for a borrower, once disclosure is provided in accordance with the amended rules, all investors, including holders of previously issued debt, will be able to access that information. With regard to the change requiring disclosure on VRDOs, as previously stated, the Authority already has a practice of requiring continuing disclosure on all offerings, including VRDOs.

We appreciate the opportunity to provide comment on your proposed rule changes and if the Authority can be of further assistance, please do not hesitate to contact us.