

RECENT CREDIT UPGRADES AND DISCLOSURE OBLIGATIONS

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To better reflect the position of municipal credits compared to corporate credits, earlier this year Moody's implemented its global rating system. This action caused upgrades of many municipal issuer's underlying credit ratings, in some cases without the issuer's knowledge or participation. Fitch also recalibrated its rating system which also caused upgrades on many municipal issuer's underlying credit ratings. To date, Moody's has recalibrated over 3,000 California municipal credits and state ratings as part of their global scale recalibration.

There are several reasons for the rating upgrades, ranging from quantitative to political in origin. These reasons could be the topic of a separate discussion but the rating upgrades do lead to several questions.

One of the questions created is: Do these unrequested surprise rating upgrades on already outstanding issues require a material event notice? Many bond counsels believe the answer is yes. Rule 15c2-12 that governs disclosure provides that issuers must give notice, as a material event, of rating changes. This includes rating upgrades. Therefore, notice is required. In order to determine whether an issuer received an upgrade, issuers should have received a notification from a rating agency or should contact the applicable rating agency to find out if they have received an upgrade.

The Municipal Securities Rulemaking Board ("MSRB") has recently filed a request to the SEC to allow it to post these credit rating upgrades directly to the MSRB's Electronic Municipal Market Access site ("EMMA"). This would eliminate the need for issuers to provide individual material event notices on such rating upgrades. In order to allow for the direct posting of credit rating changes to EMMA, the MSRB needs to reach agreement with each major rating agency. However, until the SEC makes a ruling, issuers should prepare and file material event notices with EMMA based on these upgrades. ♦

SUMMARY OF CREDIT RATINGS*

AAA	Extremely strong capacity to meet financial commitments. Highest rating.
AA	Very strong capacity to meet financial commitments.
A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
BBB-	Considered lowest investment grade by market participants.
BB+	Considered highest speculative grade by market participants.
BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
B	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.
CC	Currently highly vulnerable.
C	Currently highly vulnerable obligations and other defined circumstances.
D	Payment default on financial commitments.

**based on Standard and Poor's rating criteria*

**The information in this newsletter is intended to be general in nature. The facts and circumstances of each agency are different. Seek specific advice before implementing any recommendation. For reprint permission contact Tom Johnsen at (949) 660-7311.*